

**ADDIS ABABA UNIVERSITY SCHOOL OF  
GRADUATE STUDIES  
INSTITUTE OF REGIONAL AND LOCAL DEVELOPMENT  
STUDIES  
(RLDS)**

**AN ASSESSMENT OF LOCAL REVENUE MOBILAZTION  
AND EXPENDITURE MANAGEMENT EFFORTS: WITH  
PARTICULAR EMPHASIS TO CITY ADMINISTRATION  
OF ADAMA**

**BY TESHOME DEGEFA**

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## **Acronym and Abbreviations**

ADLI	Agricultural Led Development Industrialization
BoFED	Bureau of Finance & Economic Development
CBO	Community Based Organizations
CSA	Central Statistical Authority
DSA	Decentralized Support Activities
EEA	Ethiopian Economic Association
EEE	Efficiency, Economy & Effective
EPRI	Economic Policy Research Institute
FDRE	Federal Democratic Republic of Ethiopia
GTZ	German Technical Co-operation
MDF	Municipal Development Fund
MoFA	Ministry of Federal Affairs
MoFED	Ministry of Finance and Economic Development
NGO	Non Governmental Organization
NRGO	National Regional Government of Oromia
OECD	Organization for Economic Co-operation and Development
PPP	Public Private Partnership
RLDS	Regional and Local Development Studies
SNNPRS	Southern Nation and Nationalities Peoples Regional State
TGE	Transitional Government of Ethiopia
UDA	Urban Dwellers Association
UDCBO	Urban Development Capacity Building Office
UDSS	Urban Development Support Service

## ***Abstract***

This study examines the local revenue mobilization and expenditure management efforts of City Administration of Adama using municipal revenue and expenditure analysis to identify the magnitude of the problem of urban finance. Qualitative and quantitative data were collected from secondary and primary sources. Revenue and expenditure reports, plan and budget documents both from Regional and City Administration level, interviews and questionnaires are major sources of the data.

The evidence in the study leads to conclusion that the city Administration of Adama is short of efforts to mobilize its local revenue potential and the expenditure management appears to be in-appropriate. The expenditure management is faced by problems of capital budget under spending, low level of municipal services provision and the existence of huge surplus fund. Paradoxically enough, the City Administration Adama is characterized by low level of urban services provision at the presence of huge surplus fund accumulated over a decade. Further, the findings of the study revealed that the existence of fiscal gap in City Administration's finance. Revenue enhancement plan based on improvement of tax administration system, municipal borrowing for capital financing, public-private partnership options in providing services, intergovernmental transfer restructured in urban setting, revision of user charges and fees and introduction of new municipal taxes are the alternatives recommended to fill the fiscal gap.

# Chapter 1 Introduction

## 1.1. Background

Lack of resources to provide an adequate service is almost unanimously similar both in industrialized countries and developing countries. (Bahl & Linn, 1992). The quest for adequate services felt more seriously in urban areas rather rural counterparts. The most likely reason forever growing need for services in urban areas is emanated primarily from rapid urban population growth. This rapid growth in population will ultimately lead to increases in demand for urban public services (Bahl & Linn, 1992:472).

Nowadays, industrialization has brought about rapid urbanization that makes cities become the ideal place to locate factories and their employees (Urbanization of the world, 2004). As a result, in the year 2000, for instance about 47 percent of the world population that is about 2.8 billion people lived in urban areas and there were 411 cities with over 1 million residents. (US population Reference Bureau). Rapid population growth is the stimulant, among other things, for expenditure growth in the cities. It is observed both in developing and developed countries that local governments budget tend to increase with urbanization. The increase in expenditure or growth in budgets however, had not yet reflected in commensurate increase in revenues of cities and towns. Usually, expenditure response overrides or overwhelms that of revenue response. As a result, since the pressure on expenditures is usually greater, increased urbanization is perceived as synonymous with increased fiscal gap (Bahl & Linn, 1992:65). The presence of the increased fiscal gap necessities to draw possible options to fill the gap and studies on urban finance will assume, as result, significant place in local government studies.

The question naturally arises whether the local governments are important in fiscal terms to assume significant place in regional and national finance to warrant further study. In this regard, Bahl and Linn (1992:47) brought the evidence that indicate sub national government in developing countries

contribute on average 15 percent of total government spending and on average about one-third of all urban area expenditure is made to be financed by local government budgets. Added to this locally raised revenue constitutes the median share of 70 percent local expenditure in developing countries (Bahl & Linn, 1992:32 & 47). Besides, at present, local governments have got a wider discretion in taxing power and expenditures responsibilities which may substantiate the fiscal role of local governments. In effect, the share of local governments expenditure in total government spending, the share of locally raised revenue in local governments budget coupled with increased developmental functions contribute a lot to significant role of local government finance.

## **1.2. Statement of the Problem**

The departure from centralized planning as an approach of economic management has shifted the emphasis of economic management from national to regional and local governments. This change in emphasis has institutionalized fiscal decentralization in many developing countries; and local governments assumed a new role as an actor of local economic development.

Hence, local governments' responsibility in provision of services has widened from provision of core services such as road, water electricity, sanitation etc to social infrastructure provision and environmental management. This emerging role requires additional financial resources as well as a greater role of planning and management of resources. Additional financial resources could be secured by enhanced efforts in local revenue mobilization or through external finance such as intergovernmental transfer and grants. A greater role in planning and management of resources can be maximized through efficiency in expenditure management. However, efforts in revenue mobilization and efficiency in expenditure management has never been shown significant result in many developing countries (Bahl & Linn, 1992: 48).

Ethiopia has been characterized by centralized administration until 1991, since 1991 a series of reform measures were introduced in the country to undertake a decentralized system. Increased provision of public services is one of the factors among many well thought-out factors to institute decentralization at local level. However, delivering basic service is still posing great challenge. Besides, Population pressure exacerbates the problem of low level of services delivery.

A number of reasons can be cited for such low level delivery of services, but many of the discussions revolve around lack of financial resources and inefficiency in use of resource at hand. In this regard Meheret, (1998:7) states that the problem of decentralized government is exacerbated by limited financial resources and inadequate man power capacity. Similarly, Golola (2003:254) argues that an important impediment to decentralization is lack of financial and human resources. Tegenge and Kassahun (2004:45) state that absence of locally adopted planning and budgeting system and financial problems are among the factors that constrained the performance of Woreda decentralization in Tigray, Amhara, Oromia and Southern Nation and nationalities Regional States.

On the other hand, the resource that makes the services available are limited. Local governments should strive for higher locally raised revenue either by expansion of revenue base or increase in rate. The experience at hand reveals, however, that, in most of cities of developing countries the revenue growth has been curtailed by insufficient taxing authority and lagging revenue efforts (Bahl & Linn, 1992:68). The difference between perceived needs for services and financial resources, thus, created a fiscal gap (Bahl and Linn, 1992: 52). The existence of this gap defines the financing problem of local governments. In view of this the study assess the local revenue mobilization and expenditure management efforts and the major constraints encountered in undertaking such efforts in the study area-City Administration of Adama.

### **1.3. Objective of the Study**

The over all objective this research is to assess the own revenue mobilization efforts of City administration of Adama and make recommendation on its improvements; review and analyze the expenditure management and make recommendations on its improvement

The Specific objectives are:

1. To analyze the tax structure, growth trend, and identify problems associated with inefficiency in revenue collection
2. To analyze and identify the revenue base of the city Administration
3. To analyze municipal expenditure
4. To review expenditure planning and resource allocation
5. To analyze the fiscal gap of city Administration
6. To analyze the importance of intergovernmental transfer and municipal borrowing.

The research questions of the study are:

1. TO what extent the revenue base can be further expanded? What are the mechanisms available for revenue base expansion?
2. What is the level of overall resource balance? How the resource gap is closed?
3. What is the suitable design for inetr governmental transfer in urban setting?
4. How the revenue base expansion or tax rate increases is administered? jointly or one should precede the other?
5. What are the short comings of taxing authority and expenditure responsibilities of City Administration of Adama?
6. What are the short comings of expenditure management in the city?
7. What are the mechanisms for strengthening and improvement of city Administration's financial management?

### **1.4. Research Methodology**

This research was designed and based on two sources: the primary data and secondary data.

### 1.4.1. Primary Data Source, Selection and Sampling Technique

The primary data collection is based on survey method. The survey is used to analyze the opinion of residents and business community. The survey employed structured questionnaires designed for residents and business community separately. The interviews with residents emphasizes issues of urban services and participation in local decision making such as budget whereas the interview with business community stresses issues of taxes and provision of urban services.

The selection of respondents is based on available stakeholders of city administration. Among the available stakeholders, the Regional Government, the City Administration, the residents and the business community are selected as a key stakeholders based on their contribution or the degree of influence on urban finance. The Regional Government is represented by concerned bureaus i.e. Bureau of Works and Urban Development, Bureau of Finance and Economic Development and Bureau of Revenue. These selected stake holders represent the sampling frame. Table 1 describes sampling frame and its samples.

Table 1 Sampling frame and Sample of the Study

Key stake holders	Population	Sample
Regional Government	130	12
City Administration	26	8
Business community	7,461	50
Resident	228,605	56

The first two stakeholders i.e. the Regional Government and City Administration are administered by semi-structured interviews and in depth interview for officials and officers of the respective regional bureaus and City Administration. The total population of officials and experts at the regional level is 130 and 26 at the City Administration. Out of these 12 officials and experts at the regional level and 8 officials and experts at city Administration are interviewed.

To track responses from business community out of the total population 7461 registered and licensed business community members a total 50 respondents from five categories or sectors of business activities were selected purposively. These include 14 whole sellers 15 Retail traders, 5 industry men, 2 urban agriculture traders and 14 service providers. For residents *Kebele's* were taken as a cluster and from each *Keble* 4 residents were selected purposively. The following two tables summarized the selection and the sample size of the study.

Table 2 Household/resident selected for the study

No	Occupation	Sample size
1.	Civil Servant	14
2.	Business Man	14
3.	Veteran Resident	14
4	Female Headed Household	14

Table 3 Business community member selected for the study

No	Sector	Sample size
1.	Wholesale	14
2.	Service Delivery	14
3	Industry	5
4	Retail sale	15
5	Urban Agriculture	2
	Total	50

The sampling technique employed is purposive, non-proportional quota sampling technique. From point of view of the subject under study the whole populations of the resident and business community are the target of the study. However, owing to broad category of the population that the study comprises, it is difficult and time consuming to have complete list of the population. At the same time proportionality does not add significantly to this

type of study. As a result, the study was based on purposive, non-proportional quota sampling technique.

#### **1.4.2. Methods of Data Collection and Data Analysis**

The methods or tools employed in collecting data were both qualitative and quantitative from both primary and secondary sources. Primary data was collected through structured questionnaire, semi-structure interviews and in-depth interview. The secondary data was collected from annual/periodic reports, different legislations, expenditure, budget and strategic plan documents.

The analysis of the data is descriptive that constitutes both qualitative and quantitative data. Data collected in qualitative and quantitative forms organized in such a way to reflect the problem identified by respondents and the performance City Administration in revenue collection and expenditure is analyzed by using simple average, percentages, rates and marginal growth rates. The data utilized for municipal revenue and expenditure analysis is the data that covers the years 1989 E.C to 1998 E.C.

#### **1.5. Significance of the Study**

The approaches of development of these days are moving towards decentralized decision making both in resource allocation and management of localities. Although there are a good number of initiatives in favor of decentralized decision making and it is an agenda of the day the experience of developing countries like Ethiopia is not commensurate with the demand for it. From this point of view it can be concluded that it is widely important to study the revenue raising efforts and expenditure management of urban local government like City Administration of Adama. Besides, this study is helpful to enrich policy making process in urban finance and thereby for sound implementation of local economic development.

## **1.6. Scope and Limitation of the Study**

At present, the City Administration of Adama is restructured with status of urban local government that consists of municipal function and state function. With exception of some brief explanation about state function when situation requires, this study does not consider state function. As a result the scope of this study is limited to municipal function's expenditure and revenue analysis. Besides, whenever "City Administration of Adama" is cited in this study it is to mean the whole urban administration, but the analysis, facts and figures refers to the municipal function.

Analysis of local government revenue and expenditure management is difficult in countries like Ethiopia where in organized data is in short supply. Lack of organized information is highly pronounced in City Administration of Adama especially data on expenditure is hard to find and sometimes it is difficult to make inferences from available data owing to problems of reliability.

## **1.7. Organization of the Study**

Including the introductory part, the research is organized in to six chapters. The introductory part presents the back ground, statement of the problem, objectives and research methodology of the study. Chapter two covers literature review that is related to local government finance, revenue mobilization efforts and expenditure management. Towards the end this chapter discusses the conceptual framework of urban finance. Chapter three discusses the Ethiopian experience. Urbanization in Ethiopia, Institutional and legal framework of local government with emphasis to Oromia region and municipal finance are widely reviewed in this chapter. Chapter four describes the profile of the research area-the City Administration of Adama. Chapter five is devoted to empirical data analysis that consist of municipal revenue and expenditure analysis. Towards the end, this chapter deals with the fiscal gap or revenue expenditure balance of the city administration. Finally, Chapter six presents the conclusion and possible recommendation of the study.

## **Chapter Two**

### **Literature Review**

#### **2.1. Fiscal Role of Local Government**

The importance of Public Finance has been growing with change in governmental structure and management of the economy. The ever-growing population and the economy activities both in urban and rural areas naturally demand the growth in Public Finance. Revenue of cities and government has to increase to meet the expenditure needs of governmental activities and the services delivered to public at large.

Sustainable development of the economy both in rural and urban areas depends on adequate provision of Social Services and infrastructure. However, these services are scarce both in magnitude and coverage. Although a number of factors can be attributed to inadequate delivery of these services, the major factor is shortage of financial resources. According to Smoke (1994) in addition to lack of financial resources the existence of insufficient human capital largely affects the local government of developing countries to effectively generate revenue and provide an array of services.

The involvement of private operator or privatization of local public services may increase the efficiency in providing public services. However, taking into account factors like efficiency gains obtained from privatization, the ability of local governments to monitor the out put/performance and the introduction of innovation and competition by privatization, it is reasonable to adopt some sort of public private partnership rather than full scale privatization (Smoke, 1994: 37). The line of argument is that, since the level of private sector in developing countries is as weak as local government and the simple transfer of monopoly from public sector to private sector may not secure the benefits aspired; thus, wise and conscious adaptation of privatization is a likely alternative at lower government level.

The mainstream public Finance theory justifies in such a way that government intervention is necessary on allocations grounds where market failures occur. Government intervention may help in regulating the economy so as to mitigate the under production and over pricing of goods and services (Smoke, 1994:25). According to Samuelson (1954, 1955) cited in Smoke, (1994) government intervention is to affect the income distribution. Government intervention in the economy is largely justified in provision of public goods whose optimal provision hampered by failure of markets. In such a case a public sector delivery is required. Another argument that justifies government intervention is the stabilization role required from the government. Since the market economies are not self regulating, public management of monetary and fiscal policy is required for stabilization purposes.

In general, government intervention is justified for efficient allocation of resources when market fails; and the fair distribution of national resources necessitates government intervention in distribution of income. Besides, stabilization of the economy demands governmental intervention in areas of fiscal and monetary policy. The need for optimal allocation of resources, income distribution and stabilization purposes are the basic foundation for local public finance theory (Smoke, 1994:26-27).

In appropriate structure finance always follow functions, not precede them. The functions assigned to each level of governments should naturally be mapped to appropriate revenue and expenditure assignments. The fiscal federalism theories assigned the primary responsibilities of stabilization and distribution to central governments. The third function of the government i.e. allocation function is primarily assigned to local and state governments (Smoke 1994 & 2001) (Bird 1993). Musgrave has originally identified the fiscal role of governments (Fisher, 1987). According to Musgrave R. (1959:5) the three traditional economic functions of governments are:

- 1) Maintain economic stabilization
- 2) Altering the distribution of resource

### 3) Attaining efficient allocation of resources

Stabilization policy refers to the role of government in maintaining employment, price stability and economic growth using fiscal and monetary policy. As Smoke (1994:26) puts it, the prime responsibility for stabilization is assigned to the central government owing to the fact that such activities are macro economic in nature. Thus, it might be difficult to be handled by state and local governments. Instruments of stabilization function such as monetary and fiscal policy are beyond the reach of local governments; and assigning such a policy to local governments might be counter-productive to stabilization. The question arises whether the collective fiscal decisions do have impact on macro economic conditions. In this regard Fisher (1987:21) argues, although sub national governments do not influence the aggregate demand in their locality, their collective decisions do have an impact on macro economic conditions. However, aggregate fiscal impact of all local governments might alter the position of local government in determining the stabilization policy in a situation where there is high degree of financial autonomy, developed local tax structure and relative importance of decentralized governments in the national economy. In other words, the enhanced role of local governments in stabilization policy will depend in variety of factors, which may not be attainable easily (Smoke, 1994:32).

According to Fisher (1987:22), Distribution policy refers to the role of government in obtaining and maintaining a fair income or resource distribution. Conceptually, the distributional policy very much related to stabilization policy. The other line of argument is that the central function of government is not simply to provide services but also to manage conflicts through redistribute policy. This task can be best handled by central government. Many explanations can be identified for this argument. First it is only the central government that can best redistributive resources from wealthier to poorer jurisdictions. Secondly, differential local redistribution programs could create problems if factors of production are mobile; Third, local

governments tend to have access to the revenue sources that may be difficult to levy progressively with respect to income (Smoke, 2001 cited in Inanga, E & Osei-Wusu 2004).

Local governments are not in a position to affect redistributive policy owing to their local command position of the general economic conditions. Besides, a distributive policy adapted by certain local government or city may induce a tax exporting i.e. those who taxed heavily might move to other cities or towns where such redistributive tax may not exist, and at the same time those who seek incentive from lower taxes might move to a city that adopt a redistributive tax. Thus, finally it can be argued that the intended purpose of redistributive policy may not produce significant impact at the local level (Smoke, 1994:33; Fisher, 1987:25).

The allocation role or policy is largely assigned to state and local governments. The rationale for assignment of allocation role to local governments emerged where failure of markets occur in efficiently allocate goods and services. At macro level usually markets efficiently allocate resources. In absence of market the role of providing goods and services and thereby to allocate resources efficiently rests on government. The question arises as to what level or types of government – federal, state or local that should take such responsibility. In words of Fisher (1987:22) “It is not surprising that the focus of economic analysis and research has been on allocation role of sub national governments their role, method and effectiveness in directly providing goods and services”.

The resource allocation function has an appropriate role, if it is assigned to lower government level. The allocative task of local government is crucial in that, since the demand for public services is not likely to be uniform spatially, local governments are best level of government to provide service to its residents with what they want and are willing to pay i.e. ensuring allocative efficiency. This implies that, there may be misallocation of resources if services

are provided uniformly across wide geographic areas. Welfare gains could also be enhanced in decentralized level of government, since residents in different jurisdictions could choose different mixes of goods, services and taxes that best suit their preferences .(Smoke, 1994:28; Inanga, E & Osei-Wusu, 2004:74).

## **2.2. Fiscal Decentralization**

Decentralization becomes the agenda both in developed and developing countries nowadays. The forces behind the urge for decentralization are many and complex. The process of decentralization results in shift of significant, administrative and political authority to states and local governments. National governments are increasingly shifting many functions to local governments in expectation of additional resources can be mobilized. Thus, the local revenues and local expenditures are likely to constitute an increasingly important component of total public sector activity. According to Bird & Vaillancourt (1998), many developing countries are turning to various forms of decentralization as one possible means of overcoming ineffective and inefficient governance, macroeconomic instability and inadequate economic growth.

At the local level three varieties of fiscal decentralization may be identified which may correspond to independent decision making exercised. First, decentralization means the dispersion of responsibilities from central government to regional branch offices or local administrative units. Second, delegation refers to a situation where local government acts as an agent for central government. Third, devolution refers to a situation in which not only implementation but also the authority to decide what is done is in the hands of local government (Bird & Vaillancourt, 1998:3). Decentralization could occur in three forms mentioned above; however, the true not formal decentralization more likely rests on devolution. Decentralization can be viewed from top down or bottom up perspectives. The bottom-up approach emphasizes political values such as improved governance in the sense of responsiveness and political participation, and allocative efficiency in terms of improving welfare.

Whereas, in top down perspective the rationale for decentralization is to ease the burden of the central government or to achieve the goals of central government (Bird & Vaillancourt, 1998:3)

### **2.2.1. Revenue Assignment**

Revenue assignment is the central aspect of fiscal decentralization. The theories of public finance suggested that government functions in finance is expressed in such a way that in one hand it collects revenue and in other hand it spends what it collects i.e. expenditure. The expenditure role of the government is the derivative of revenue collection. Revenue collection emanates from the authority obtained by the law. Thus, in assigning revenue a proper care should be followed. Nonetheless, it is not an easy business. Bird & Vaillancourt (1998:5) argue that the risk is greatest when revenues are decentralized without adequate steps being taken to ensure both that local revenue mobilization is maintained and that local authorities are capable of carrying the corresponding expenditure responsibilities. International experience reveals that if countries decentralize more revenues than expenditure responsibilities local revenue mobilization effort will decline and in addition macro economic imbalances may occur. On the other hand, if more expenditure responsibilities are decentralized rather than revenue, the local governments may compete for more inter-governmental transfers or more loans or both. Russian Federation often cited as an example of more expenditure responsibilities decentralization and countries such as Colombia, Argentina and Brazil are frequently cited as examples of heavy revenue resources decentralization (Bird & Vaillancourt 1998:5-6; Bird, 1999). Heavy or excessive revenue decentralization is often cited as poor examples of decentralization. In such cases decentralization not only fail to improve local service delivery, it may even risk national destabilization (Bird, 1999:23).

The above discussion forces us to question as to what type taxes and revenue should be assigned to multi level government structure. The correct revenue assignment may not be an easy task; it is rather controversial in practice. The

theories of fiscal decentralization however, suggest two basic principles of assigning revenues to sub-national governments. They are:

- 1) "Own sources" of revenue should finance, at least for richest sub-national governments, all locally provided services, which primarily benefited local residents.
- 2) To greatest extent possible the sub-national revenues should be collected from local residents only in relation to the benefits they receive from local services.

The question of which level of government should tax what has not yet fully resolved in practice. However, theories of fiscal decentralization suggest that the local governments/municipalities should be assigned to those taxes collected or levied on immobile bases and whose burden cannot be exported outside the municipal jurisdiction. On the other hand taxes that are collected on mobile bases and taxes that are unevenly distributed over space should be assigned to the higher levels of government. Other ideal attributes to local taxes includes:

- 1) Local taxes should be adequate to local needs and sufficiently buoyant over time
- 2) Local taxes should be predictable and stable over time.
- 3) The tax should be easy to administer it efficiently and effectively
- 4) The tax base should be visible to ensure accountability.

(Bird & Vaillancourt, 1998:11; Bird 1999:15; Bahl & Linn, 1992:71-73)

### **2.2.2. Expenditure Assignment**

The clear picture of functional jurisdiction of each level of government should be the prime motive in determining the financial requirements of local governments. Functions assigned to Federal, intermediate/regional and local governments not only determine the financial requirements but also revenue

assignment, revenue sharing and intergovernmental transfers. Expenditure responsibilities are classified in two major widely accepted principles:

They are:

- 1) The dimension of benefits derived
- 2) The spill over effect

In the former principle expenditure responsibilities whose benefits are confined to local jurisdictions and for which there is a preferential scale of preference should be assigned to local governments. On the other hand, expenditures whose benefits extended to a larger jurisdiction and for which preferences are largely uniform should be assigned to higher levels of government. In the latter principle i.e. the spill over effect, expenditure responsibilities with negligible spill over beyond local levels considered as local. Likewise, those with spillovers from local to regional levels considered as intermediate or regional; and those with significant inter-regional spill over considered as national or federal (Break G, 1992; Mathur P., 2001).

In reality the major role assigned to local governments especially that of municipal governments, is to provide goods and services whose benefits are geographically limited. Nowadays, municipalities are made to assume greater functional role that at earlier times assigned to higher level of government, which implies that the benefits of some of these responsibilities may not be confined to boundaries of municipalities alone. With changing expenditure assignments the ideal functions of municipalities looks like:

### **Core Functions**

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

### **Welfare Functions**

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

### **Developmental Functions**

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

(Mathur P.2001:65)

As described above, finance should follow functions not precede them.; the expenditure assignments should consider the revenue assignments, revenue sharing and other financing mechanisms of urban local government. Indeed, the law gives power for expenditure responsibilities as revenue assignments. However, as experience of many developed and developing countries reveal expenditure responsibilities are not binding as those of revenue assignments. In other words, the revenues of decentralized level of governments must be collected accordingly. But, the resource allocated to meet the expenditure responsibilities may not meet or fulfill the tasks decentralized to each lower levels of government. The out come of which is higher vertical imbalance (Bird & Vaillancourt, 1998:11; World Bank, 2001:13).

In some countries higher levels of governments transferred their function or responsibilities without commensurate increase in grants or inter governmental fiscal transfers. This is one of inappropriate designs of expenditure assignments. The classical example in this regard is Russian Federation. Municipalities/Local governments in Russian Federation spend almost half of

their time carrying out the functions of higher level of government with no funds to finance them coming from state and federal governments (*so-called unfunded federal mandates*) (Chernivaskii A. & Vartapetov K, 2005).

### **2.2.3. Inter-Governmental Fiscal Transfer**

Inter-governmental fiscal transfers remains to be the important element of local government finance as long there is a gap between expenditure requirements and revenue-generation capacities. Countries implementing decentralization from perspectives of devolution, deconcentration and delegation utilized inter-governmental transfer to determine their inter-governmental fiscal relations. Transfer could be seen in broader context, it is the part and parcel of complex political, economic and administrative system. Thus, its design, role and effects can be understood in the specific institutional context in which it operates (World Bank, 1996; Bird, 1999:1-4). Inter governmental fiscal transfers could be used:

- 1) To fill the gap between own source revenue and expenditure responsibilities of local government i.e. to cover the fiscal imbalance.
- 2) To offset or fill the gap of fiscal capacity differences among local governments i.e. to meet national redistribution objectives-transfers may be designed to equalize revenue efforts, expenditure level or outcomes in terms of service provided
- 3) To encourage local expenditure on goods and services that may have positive externalities i.e. pricing externalities.

(Bird, 1999:15-18; Inanga, E & Osei-Wasu 2004:91; Bird & Vaillancoart, 1998: 15).

Inter governmental fiscal transfer, can be seen from what it serves, it is largely a function of central or regional governments. This implies that it is a distributive role of fiscal decentralization i.e. functions that involves securing adjustments in distribution of income and wealth. In other words, the principal responsibilities for distribution that was assigned to central governments is shouldered by inter governmental fiscal transfers.

The first task of fiscal transfers is to fill the gap of fiscal imbalance. As long as difference exists in elasticity of expenditure and revenues assigned to different government levels, there always re-emerges the problem of vertical fiscal imbalances. This situation holds true even for richest localities where own revenue can be expanded as level of expenditures. The gap between expenditure and revenues might be closed by increasing revenue, reducing expenditure, transferring expenditure function up to the level with more revenue or down to the level with more expenditures and lastly by transferring centrally collected revenues to local governments. In almost all countries that undertook fiscal decentralization the alternative of transferring portions of centrally collected revenue dominates in inter governmental fiscal transfers (Bahl & Linn, 1992:472; Bird, 1999:16; Bird & Vaillancort: 28-29).

The other task of fiscal transfer is achieving horizontal fiscal balance or equalization. It is assumed that the gap filling aspect of equalization might be handled by equalizing revenues to actual expenditures at each local government. The equalization task ignores differences in local preferences and capacities both in revenue generation and expenditure implementation. On other hand, equalization of expenditures discourages both local revenue raising effort and local expenditure reduction programs. For instance, equalization may not be compatible with "hard constraint budget" approach of local governments' expenditure management.

In intergovernmental fiscal transfers the important issue is its design. There are three aspects of intergovernmental transfers i.e. the amount of

distributable resource, the bases for distributing transfers and conditionality. A good system of inter governmental transfer is one that has the characteristics of stability and flexibility. The better way of achieving stability for local governments and flexibility for central governments can be obtained when the total amount of money to be transferred is designed as a fixed percentage of central government revenues. Once the pool of resource is determined the important question to be raised is the basis for transfers. In most of the cases, how much to be transferred to lower level of government is determined by need, capacity and effort. Capacity and efforts are difficult to determine but always taken account by a formula, whereas population and type or category of local government used as adequate proxies to determine needs. Conditionality in transfer many not be raised in approach of devolved decentralization. However, some degree of conditionality is required to increase meeting some degree of nationally determined goals such as education and health (Bird, 1986; Bird, 1993:216; Ahmad, E., 1997).

### **2.3. Local Government Borrowing**

Local governments borrow money primarily to finance capital projects such as schools, roads, water electricity and sewerage system. The possible sources of loan finance could be bond markets or financial institutions. In Developing countries like Ethiopia where there is no bond markets the likely sources would be private investor and financial institutions. In a developed county where there exists a sound institutional and legal framework, municipal borrowing constitutes a good part of local government finance.

According to Fisher (1987:234) in 1985 alone state-local governments in USA spent 80 billion USD on Capital goods. The outstanding debt figure on the same year was close to 659 billion USD, which amounts to about 2700 USD per person. Such amount of outstanding debt raised the question of easy and immediate applicability of local government borrowing in developing counties. Viewed from perspectives of macro economic stabilization, the limit to sub national borrowing has been favored by theories of fiscal decentralization.

Some further argued that since macro stabilization is the function of national government, policy instruments such as borrowing should be assigned and kept under strict control of national governments (Bird & Vailancourt, 1998:6&167; Pola Giancarlo et al, 1996:237). Countries like Switzerland puts local governments/ *Communes* borrowing under strict control of *Cantons*/regional governments by adopting balanced local budget policy. This implies that local governments must conduct their fiscal affairs under a more restrictive budget constraint than higher levels. Borrowing is restricted to amount of project out lays for investment items in the capital budget (Pola Giancarlo et al, 1996:234).

If the local finance system is well-designed the higher level of governments may not appear to require specific controls on debt. But, such a system is lacking in developing countries. Besides, the experience of local governments raising loans had not been happy one. Most of the loan taken by local governments when there is a failure to repay had been bailed out by state and national government. Bankruptcy of local government has never been an easy task. The experience of sub national governments borrowing, as result, is at variance with market principles (Word Bank, 1988; Fisher, 1987:239).

However, with growing functions of local governments and with increase in demand for public services especially that requires capital investment, the role of borrowing in local government finance has to be revisited. Public services such as road, water, electricity education and health require huge investment that necessitates a mix of funding schemes including local borrowings. On the other hand, institutional and legal framework arrangement, enhancing the credit worthiness of local government through strong own-revenue mobilization effort and guideline on the strict use of borrowed fund are the measures that have to be undertaken to use borrowed fund financing. The institutional and legal framework arrangements should lay a ground for collateral, repayment terms, interest charges, credit rating mechanisms and risk assignment (Inanga, E & Osei-Wusu 2004:102). These are the most important variables that could

be considered in fund raising through loans. The magnitude of own source revenue is a prerequisite for collateral whereas credit ratings are the factors to assess the local governments ability to repay the loans on maturity.

A well developed capital markets are lacking in developing countries. In face of this reality it is advisable to establish local government credit institutions. The institutions would facilitate local government borrowing. One way of enhancing the availability of loan to local government finance is to create municipal development fund (MDF). The MDFs can help in raising additional funds for public investment and improve the use of resources by adopting strict appraisal criteria of funding requests and monitoring and evaluations on the use of funds (World Bank, 1988:164). A debt threshold and credit limits are among the regulatory environment that should be adopted for financial health of local governments.

With regards to the development of municipal capital market aspect, as the experience of developed countries reveals *general obligation bond* and *revenue bonds* are more appropriate for implementation in developing countries. Thus, based on merits of such types of bonds and on their importance meeting policy objectives for instance general obligation bond could be used for financing education and health; and revenue bonds could be sold to finance revenue generating projects (Fisher, 1987:238; Inanga, E & Osei-Wusu 2004:104).

#### **2.4. Revenue Mobilization**

Revenue mobilization is a problematic function for most of local government in many developing countries (Smoke, 1994:182). Smoke further argues that: Even when a basic revenue expenditure correspondence seems to exist there is no guarantee that sufficient revenue will be generated to cover boosts of services provision. In practice a good correspondence require that tax rates, license fees and user charges be set on rational bases and regularly revised which is not the case in Kenyan authorities.

It is said that taxes are the costs of services. However, close examination of local authority finance reveals that there is a loose correspondence between

service delivery and user fees and charges. According to Smoke (1994:51-55) the reasons why there is deficit in providing services are:

1. Charges are set too low to cover services owing to poor planning and lack of guidelines and standards
2. Costs to some of services are excessively high due to poor production over supply of workers and un planned salary increase.
3. Surplus revenues generated by some services over the years were applied to offset the general account deficient while expansion and maintenance of services are largely neglected.
4. Deficiency in revenue collection.

Revenue diversification and efficiency in revenue administration /tax collection have diverse experience but dominated by lack of meaningful practice in great many developing countries. But, local governments which are often under utilized may have significant untapped revenue potential that can make an important contribution to national resource mobilization (Bahl & Linn, 1992:47; World Bank, 1988:81-83; Smoke, 1994 51-55).

According to Price W. Coopers (2000) there are large differences in the financial autonomy of local governments expressed in own revenues. Some local governments in OECD countries raise between 70 to 80 percent from own sources, while others are highly depend on central government allocation.

Sources of own revenue for most local government in OECD countries are:

- Property taxes on buildings and land (mostly in Anglo-Saxon and south European countries)
- Personal income tax (in Scandinavian countries and Germany)
- Corporate Income tax (in Germany and some of other European Countries (Price W. Coopers 2000)

Local government revenue in African Countries is raised from government allocations and locally raised revenues. Inter-governmental transfers or allocation from central government accounts for 72% of local authority budget in Tanzania, 78.6% for Uganda, 11% for South Africa and 26% for Kenya (Common Wealth Local Government Forum 2003 (b) (c) (d) & (e) ;Lewa and Devas, 2004). The best experience in major share of locally raised revenue in African local government finance is South Africa. In South Africa local governments raise 92% of their revenue locally. There are large differences between local governments ranging from 67% in smaller authorities to 87 in metropolitan authorities major sources of revenue were (based on fiscal year 2002/03).

- Utility fees 45.5%
- Property tax 20%
- Intergovernmental transfers 11%
- Service council levies 7%
- Others including, service charges fees & fines. 16.5%

(Common Wealth local Government Forum, 2003c)

The experience of other African countries is largely where transfer of funds from central or Federal government dominates the local government finance. The Botswana and Ugandan experience reveal some facts on experience of rest of African countries. In Botswana, local Authorities own source revenue is extremely limited; they depend largely on central government support grants. Although the recurrent expenditure of local government has been growing steadily, their own independent sources of revenue are limited. The support grant represents two-thirds of the recurrent budget of urban councils and more than 90% of districts council (Sharma, 2002: Common Wealth Local Government Forum, 2003a). Similarly, Ugandan local Authorities income is generated from government allocations and locally raised revenues. In urban areas, municipalities set their own taxes. In Uganda, local governments only levy taxes and non-tax revenue source prescribed by the parliament. Main sources of revenue were (based on fiscal year 2000/01)

- Intergovernmental grants 78.6%

- Property tax 1.3%
- User charges 0.3%
- Other 8.3%
- International donors 7.5%

(Common Wealth, Local Government Forum 2003 e)

In Africa, despite recent and major central government tax reform, local government taxes have remained unchanged. (Smoke and Bahal, 2003) (Wunsch, 2000) (Olowu, 2001). Recent studies show that many local taxes have distorting effects on resource allocation decision and inhibiting effects on the start up of new enterprises. In addition the levels and types of taxes often result in the tax burden falling more on the poor than on the relatively better off in local communities.

A widely found characteristic of local government revenue system in Africa is the huge number of revenue instrument in use. The complicated and non-transparent local government tax is costly to administrate and it facilitate miss-management. Owing to lack of capacity at all levels of government there is little or no co-ordination with respect to taxation. Widespread tax resistance is observed in many local governments. As a result, local government resorted to heavy physical coercions to ensure compliance. Tax literacy and transparency in tax system is a recent phenomenon in many African countries. Roadblocks manned by local militia or police village-by-village invasions are frequently used as means of tax enforcement (World Bank, 1988:100).

What can be learned from local government finance in Africa are:

- In most African Countries with exception of South African local governments are heavily dependent on central government allocations.
- Revenue sources for local governments constitute the minimum percentage of local finance. Besides, narrow tax base and outdated means of levy are prevalent in great many local governments.
- Common known problems in tax and revenue administration exists all over,

In Ethiopia Urban local governments generated their income from the sources: “block grants” for state functions and own revenue generated from taxes, local services and charges. The inclusion of state functions in Ethiopia urban local government system is the recent origin in the history of the country. Block grants accounts for 55.3 % of the total budget of 17 municipalities surveyed for Bench marking purpose in the year 2005 (MoFED & GTZ, 2005). Table 4 shows sources of revenue for selected urban local governments.

Table 4 Sources of Actual Revenue of Selected Municipalities (in million of birr).

Municipality Name	Total Revenue	Block grant	Own revenue	Loans/Grants
Bahr Dar	22.58	9.82	12.68	
Dessie	21.66	13.58	8.08	
Nekemt	8.97	1.64	7.33	
Weliso	6.14	2.73	3.40	
Mekele	34.14	0.46	33.68	
Adwa	9.82	5.17	4.65	

Source: BoFED & GTZ, 2005, Page 93

The current composition of local government revenue is explained by local practices rather than legal regulations. There is no much difference among regions in this revenue composition.

Revenues from land both land tax and lease income is the major sources of revenue in most of local government in Tigray, Amhara and Southern Nation and Nationalities Peoples Regional States (UDCBO & GTZ- IS, 2005). There is difference in regions regarding land based revenues. For instance, municipalities in SNNPRS rely very much on land base revenue while the state of land tax in Oromia municipalities is lower. Land based revenues (land rent land lease & building tax) accounts for 50% of SNNPRS total municipal revenue (UDCBO & GTZ- IS, 2005:15)

Land lease is a new form of land use fee that appears as the main source of revenue for local governments. Land leasing is administered by land lease holding proclamation. Lease payments are typically stretched out over 40 to 70 years. However, it is highly volatile source of revenue. This type of revenue is characterized by temporary surge and a declining trend as the time goes by. As a result, the revenue collected from land lease has been allocated for long term development projects rather than using it for recurrent expenditures (UDCBO & GTZ- IS, 2005:15; Peterson E.George, The urban Institute, 2005).

Business license fee and different service fees and charges are other important sources of income for urban local governments in Ethiopia. The highest contribution in this category comes from business license fee and technical services user charge. Technical services include technical inspection, building plan approvals, house plan permits and building approvals. Technical services are the most flexible revenue titles to market prices. Table 5 summarizes the pattern of municipal own sources of revenue for selected municipalities in Tigray and Amhara Regional States.

Table 5 Total Municipal Revenue & Selected Sources, 2003/04 (in Birr & %)

Sources of revenue/ Name of Municipalities	Mekelle	Aidgrat	Bahir Dar	Gondar
Total revenue	20.82	4.45	13.24	11.25
Land lease %	24..2%	21.5%	45.3%	42.3%
Land rent %	27.3%	18.5%	9.4%	18.9%
Business license %	6.0%	7.3%	7.9%	6.9%
Technical service %	24.4%	11.7%	6.6%	4.7%
Live stock charges %	0.2%	0.5%	0.5%	0.6%

Source: Peterson E.George, The urban Institute, 2005, page 7-8.

In Ethiopia the system of land rents and building tax which is commonly known as wall and roof tax has been taken as one common form of property taxation. For effective property taxation the market oriented valuation are the necessary requirements. However, market oriented valuation and fiscal

cadastre are lacking in the history of property taxation in Ethiopia. The major problem of property tax is valuation. Ethiopia is no exception in this regard. Specifically, the problem valuation is highly manifested in building tax. Since its implementation the building tax has not been contributed significantly to municipal revenue owing to the difficult task of implementing proper valuation. Lack of practical cadastre is also another factor that hampers efficient property taxation. For instance, Mekelle and Bahir Dar have been attempting cadastral development for many years but can not produce cadastre that could be utilized for property taxation purpose (Peterson E.George, The urban Institute, 2005:19).

The level of own revenue generation of municipalities in Ethiopia is by far the minimum even by African standard. For instance, on average the annual per capita revenue collected in Gambella Municipality is US \$ 2.00, US \$ 3.00 In Dire Dawa, US \$ 5.00 in Awassa and US \$ 7.00 in Bahir Dar. These figures are significantly lower than the average per. Capita revenue for Africa (i.e. US\$ 15). The comparison of Ethiopian municipalities' average per capita revenue collection with Asia Pacific region (US \$248.00 per capita) and Latin American Region (US\$252.00) reveals that dramatically the lowest position of Ethiopian local government's tax collection status (World Bank, 2002 :12). The local revenue generation in Ethiopia faces the problems of:

- 1) The tax base for important source such as property tax and business tax is small
- 2) The fees and tax rates tend to be obsolete and difficult to administer.
- 3) The collection rates are poor and vary from time to time.
- 4) Tax enforcement mechanisms are poor and the legal procedures to support enforcement is very weak
- 5) Weak human resource capacity and incentive for enhancing performance (World Bank, 2002 :18)

The low level of revenue generation of Ethiopian municipalities can be further explained by magnitude of revenue collected. For instance, the data collected from 299 municipalities in nine regional states shows that only 26 (9 %) of them collected annual revenue more than one million Birr (Shewaye Tesfaye & Wandimagegn G., 2003:10). Table 6 briefly describes the situation.

Table 6 Ethiopian Municipalities by Revenue Category (2002/03)

Revenue Category (Birr)	Somali	Southern Region	Dire Dawa	Amhara	Afar (2002)	Tigray	Harari	Benishangul Gumuz (2002)	Oromiya	Gambela (2002)	Total	%
Less than 100,000	-	2	-	11	1	4	-	1	62	-	81	27
100,001-200,000	-	6	-	20	-	10	-	1	37	-	74	25
200,001-500,000	-	8	-	18	2	11	-	-	41	2	82	28
500,001-700,000	-	2	-	4	-	5	-	-	5	-	16	5
700,001-999,999	-	6	-	-	-	1	-	-	12	-	19	6
Over 1,000,000	1	5	1	6	-	7	1	-	6	-	27	9
Total	1	29	1	59	3	38	1	2	163	2	299	100

Source: Shewaye Tesfaye & Wandimegegn G., 2003, page16

As the above table indicates, Ethiopian municipalities are not capacitated in terms of adequate revenue. Accordingly, out of the total 299 municipalities 52 % or 155 in number collect annual revenue less than Birr 200 thousand, whereas the large majority i.e., 237 or 80% collects annual revenue below Birr 500 thousand. These show that particularly, smaller municipalities could not generate adequate revenue and therefore are unable to finance high costs of infrastructure and service provision.

Per capita revenue and expenditure reflect the share of services that the resident expects from the by municipalities. Seen from this perspective, based on data collected from 17 municipalities the average per capital revenue is stand at 14 USD or birr 131 whereas per capita expenditure is standing at 44

birr or 5 USD. The average per capita revenue and expenditure is the lowest when compared with African cities. Table 7 describes this situation.

Table 7 Per Capita Revenue and Expenditure of Municipalities (Birr)

Municipalities	Population (2004)	Revenue	Expenditure	Per Capita Revenue (Birr)	Per Capita Expenditure (Birr)
Bahir Dar	159,793	22,582,675	8,991,674	141	56
Dessie	161,554	21,666,762	6,689,530	134	41
Lalibella	14,451	534,000	293,109	37	20
Woreta	25,141	443,196	443,196	18	18
Nekemt	80,620	8,976,016	2,800,144	111	35
Weliso	43,443	6,138,128	1,633,522	141	38
Adama	218,110	16,472,016	8,780,154	76	40
Ambo	47,148	5,786,593	1,859,242	123	39
Mekelle	161,738	34,145,238	9,128,767	211	56
Rama	7,479	1,016,012	547,212	136	73
Wukro	27,322	6,871,014	1,598,704	251	58
Adwa	40,789	9,826,049	3,459,689	241	85
Alamata	43,619	5,088,147	1,524,118	117	35
Dilla	58,337	3,318,000	2,566,049	57	44
Durame	12,266	2,873,467	632,204	234	52
Yirgalem	41,824	2,314,472	1,245,805	55	30
Alaba Kuiltto	26,117	3,660,759	736,155	140	28
Average	68,809	8,924,256	3,113,604	131	44

Source: MoFED & GTZ, 2005 and City Administration of Adama, Page 93 & 105

## 2.5. Expenditure Management

The resource at hand is always scarce compared with the needs of the economy. Therefore, judicious use of resource becomes mandatory while making public expenditure decisions. These decisions should take utmost care to avoid wasteful usage of public funds. With increases in structures of government expenditure, it is more likely that inappropriate use of public funds may tend to increase in time. This calls for a detailed scrutiny of expenditure requirements and a scientific approach towards assessment of required expenditure (Bhatia, 2003).

In developing countries where financial resource is highly limited and ever expanding needs for public service call for efficient and effective public expenditure management. The public expenditure has to be effective owing to the fact that it has to produce the maximum out put –services expected from governmental activities. Efficient because it has to address the question of maximum out put –services out of inputs (limited resource) at hand.

The need for local governments' expenditure management should emphasize expenditure planning, financial resource allocation (budgeting) and its implementation, proper accounting and the propriety of government funds execution.

The main roles of public expenditure management are:

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

(Premchand, 1983)

The important aspect of public expenditure management is fiscal planning especially that of multi-year fiscal planning and its integration with budgeting. The integration of the development planning processes with budget processes is a significant issue for many countries. It is very common for countries to have development plans and fiscal objectives that do not actually drive the outcomes of budgetary processes. Many developing countries have budgetary and development planning cycles that are not well coordinated or are even in conflict with each other (World Bank, 1988:120-121). In principle, there is no reason why development planning should be separate from the budget process. Indeed, there are many theoretical reasons for combining the two processes, including the need to meet the requirements of financiers, who see such a combined process as a way of influencing priorities, earmarking and keeping track of funds.

A good or proper budgeting is that relies on multi-year planning. However, the practices of budgeting in many developing countries, as mentioned above, including Ethiopia are largely at variance with planning. Beautiful plans are prepared as a customary practices but for several reasons the plan is often disregarded, when budget is prepared i.e., plan does not serve as guidance for resource allocation (World Bank, 1988:123). It is expected that the budget authorizing bodies i.e. the supreme offices of the government should approve the indicative planning figures for the next year before the fourth quarter of the present fiscal year in order to approve the next year's budget. However, this experience does not exist in many African countries including Ethiopia. Budget remains to be one of the tools for effective financial management and control; and for the budget to serve as a tool for effective financial management and control; it has to relate resource allocation with planning, budget execution reports and audit out puts.

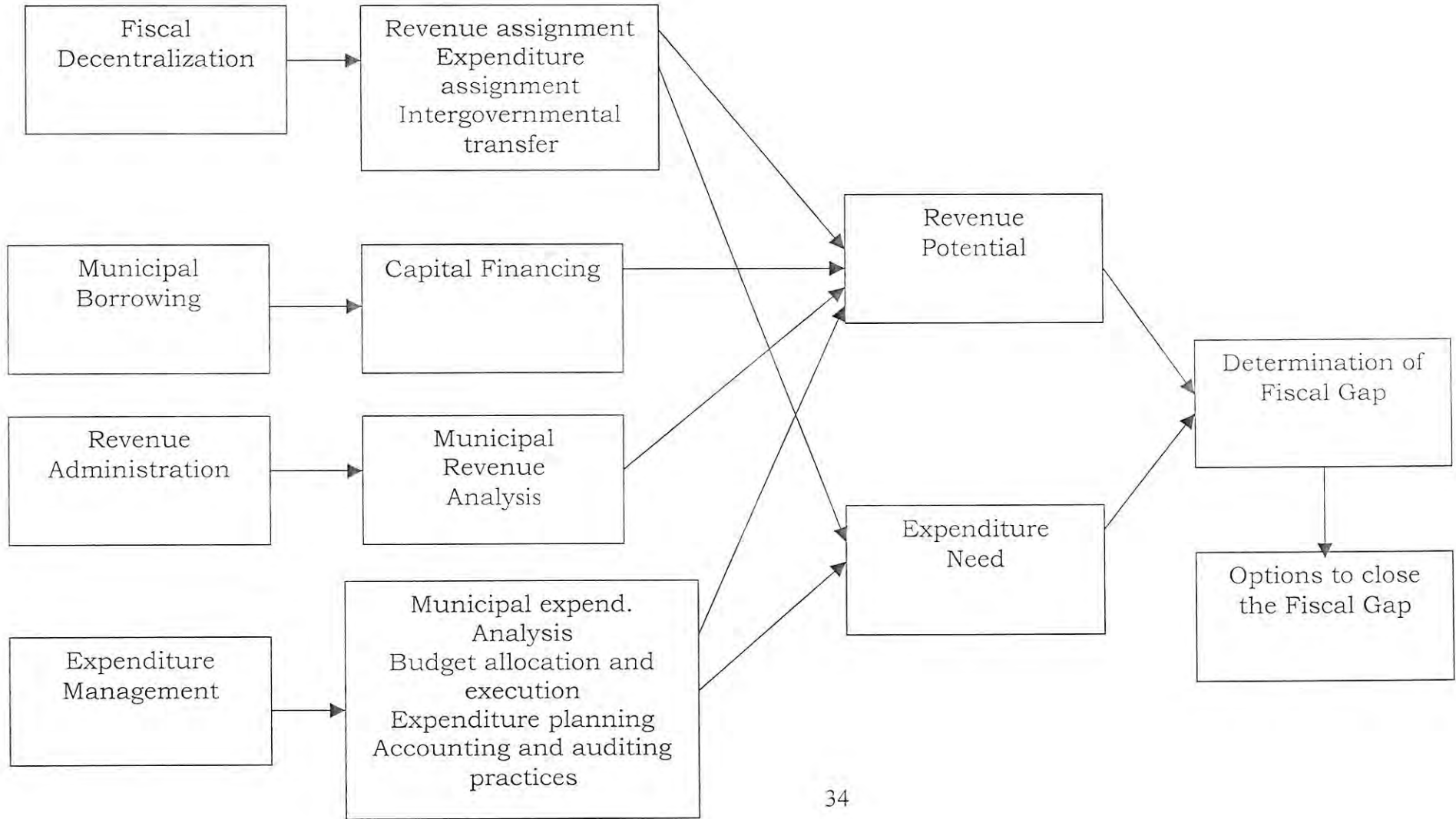
Public expenditure reviews yearly conducted by World Bank on Ethiopian public expenditures have identified that there is weakness in planning and management both in Regions and in Federal Government (World Bank, 2001b). Expenditure reporting system is oriented towards control rather than management. Besides, these financial reports do not serve their function since; they cannot produce timely information for decision-making purpose. Financial report or accounts are often so late or so unreliable that they cannot serve as rational public expenditure planning or monitoring. The account closure lags behind the time allotted for it. As a result, auditing on final accounts lags behind the time fixed by legislation. For instance, in Oromia Regional Government the delay in producing audited reports on government's final account took 3 years (World Bank, 2001b:93). Besides it is identified that the internal audit serves as additional layer of control rather than analysis that reveals a non -value added function performed by internal audit system.

Conceptually public finance at the local government's level consists of two sub sectors i.e. urban finance and rural finance. The rural finance is not the scope of this study. The urban finance is composed of revenue and expenditure components. The urban finance is relatively wider and more complex consisting of four major blocks known as fiscal decentralization, expenditure management, municipal borrowing and revenue Administration. Each block is made up of various components that determine its functional importance.

The fiscal decentralization block contains revenue assignment, expenditure assignment and intergovernmental transfer that determine the functional responsibilities and the taxing authority and level of revenue generation of urban local governments. The Municipal borrowing is destined to capital finance which eventually enriches the revenue potential of urban local governments.

The Revenue administration and Expenditure management blocks are the curial elements of urban finance. The revenue Administration block consists of municipal revenue analysis coupled with outputs of expenditure management used to determine the revenue potential. On other hand, the expenditure management block consists of municipal expenditure analysis and expenditure management. The Expenditure need is largely determined by expenditure assignment and the out put of expenditure planning and municipal expenditure analysis. The determination of both revenue potential and expenditure needs will eventually determine the fiscal gap or the overall resource balance of a given urban local government. A conceptual frame work or urban Finance is illustrated in figure 1 presented below.

Figure 1 Conceptual Framework of Urban Finance



## Chapter 3

### Decentralization and Local Government in Ethiopia

#### 3.1. Urbanization in Ethiopia

Literature has traced the origin of urbanization in Ethiopia back to the period of Aksumite Kingdom, but the country remains to be among the least urbanized country in Africa (Tibebu, 2003). Ethiopia is experiencing a high rate of urban growth that is increasing with time. The annual population growth in urban centers is 6.58% and 6.5% for the period 1967-1984 and for the period 1984-93 respectively (Tegegne and Solomon 1994 cited in Tibebu 2003).

The urbanization rate has also been increasing rapidly from 11.8% in 1987 to 13.4% in 1995 and is projected to be 18.9% in 2020 (CSA analytical report cited in Tibebu 2003). Besides, the process of urbanization in Ethiopia has a primate city pattern. According to Tibebu (2003) Addis Ababa alone accommodates more than  $\frac{1}{4}$  of the total urban population and almost 14 times greater than the population size of the next largest town of Ethiopia, Dire Dawa. The population size of secondary towns such as Adama, Gondar, Dessie, Mekelle, Bahir Dar, and Jimma reaches from one to two hundred thousand. The rest 42 towns out of top 50 towns have an average population of 38 thousand (CSA, analytical report, 2004).

Based on 1994 population and housing census result, the population of the Oromia region is projected to be 2692 millions in year 2006, of which 13.02% dwells in urban areas.

About 52.65 percent of the total population in the region is economically active population (15-64 years old) while those above 64 accounts for 2.8 percent and the rest assumed to be under 15 years which implies high dependency ratio on economically active population(BoFED,2004).

The nature and pace of the process of urbanization is directly and indirectly influenced by many factors such as geographical factors, internal and international market forces, macro economic policies, legal frameworks, policy environment etc. The effect of these factors in turn tends to be different for different countries. In Ethiopia the provision of medical services, the decline of agricultural and land productivity, environmental degradation, disasters and civil war have pushed people to towns and increase the rate of urbanization unlike the case in developed countries.

The regional distribution of urban centers, besides to the primate city phenomenon, demonstrates wide inter regional and intra regional disparities (MOFED & GTZ, 2005). For instance, Gambela and Benishangul Gumuz don't have adequate urban centers both in terms of population size and number. Wereda-City governments benchmarking survey conducted by MOFED& GTZ shows some the general features of Ethiopian urban centers mentioned above. Table 3 describes this situation.

Table 8 Population, land size and accessibility of selected municipalities (2004)

Municipalities Name	population	Land Size(Sq.Km)	Population Density
Bahrdar	159,793	21	7609.2
Dessie	161,554	20	8077.7
Lalibela	14,451	10	1445.1
Woreta	25,141	4	6285.25
Mean	90,235	14	5,854
Nekemt	80650	32	2520.31
Weliso	43343	11	3940.27
Adama	218110	43	5072.33
Ambo	47148	16	2946.75
Mean	97,313	26	3,620
Mekele	161,738	24	6739.08
Rama	7,479	5	1495.8
Wukro	27,322	7	3903.14
Adwa	40,789	7	5827
Alemta	43,619	7	6231.28
Mean	56,189	10	4,839
Dilla	58,337	11	5303.36
Durame	12266	16	766.62
Yirgalam	41,824	11	3802.18
Alaba kulito	26,117	8.9	2934.49
Mean	33,971	10	3,368

Source: MOFED & GTZ, 2005, Page 88

These inter regional and intra regional disparities have been served as urban development opportunities for the present government. The current government has undertaken economic reforms, justice and civil service reforms and implementing decentralization at different levels to attain sustainable development and reduce poverty (MoFED, 2002).

### 3.2. Institutional and Legal Framework of Local Government

Regionalization in the form of devolution of power is a recent attempt in the history of the country. Development plan of the past regimes were basically comprehensive or centralized multi sectoral plans prepared at the national

level. Investment expenditure allocations to projects and programs were made on the basis of national and sectoral development efforts.

The establishment of new government following the fall of dergue régime in 1991 has brought about some basic shift in Ethiopia's system of rule. The constitution provides the national regional governments to have legislative, executive and judicial powers. For instance, in fiscal decentralization, regions are authorized to collect taxes, share revenue with federal government, and fully utilize in budget expenditure covered from finance by the regional government (MoFED, 2002:7). With the aim of empowering the community at lower levels and mobilize resources for development, devolution of power and responsibility has been further extended to district (wereda) level. However as the government seeks to implement district level of decentralization in relatively short period of time it faces immense fiscal and institutional challenge (MoFED, 2002:140).

The Regional Government of Oromia emerged with enactment of the self-rule proclamation of No.7/1992 and proclamation No. 33/1992 that provides the taxing power and revenue sharing for regional governments. For realization of self -rule, taxing power and tax administration the region has passed a number of proclamations, regulations and guidelines. However, from perspectives fiscal decentralization within the region the major breakthrough was not come into being until 1995EC. The taxing power and financial administration were further decentralized to Wereda (*Aanaa*) since 1995EC. Besides; the region provided a proclamation to establish urban local government with full taxing power and financial administration since 1996EC. Following with this decentralization the budget recipient entity of the region is divided into three. The following table shows the budget recipient entities of the region.

Table 9 Budget Recipient Entities in Regional Government of Oromia

Year(EC)	Regional	Wereda	Urban Administration
1995	40-Bureaux, Commissions Offices, etc	197	
1996	“ “	197	
1997	25-Bureaux, Commissions Offices, etc	197	20
1998	25-Bureaux, Commissions Offices, etc	200	36
1999	25-Bureaux, Commissions Offices, etc	248	36

Source: Adopted from reports of BoFED of Oromia

With regards to power, functions and responsibilities, the regional level has major power and functions to deliver responsibilities. To formulate, and execute development policies and strategies; to administer land and other natural resources based on Federal laws and to enact and execute state constitution and other laws are among the power and functions of regional level. Zonal administrations in the region are not a decentralized unit, they are considered as zonal arms to regional government to provide technical assistance to Weredas'. Their *duties and responsibilities* are mainly coordinating the activities of Wereda. On other hand, Wereda and urban administrations are decentralized units. Weredas have powers and functions to deliberate upon and approve plan and budgets of their respective Wereda; to ensure the collection of agricultural income tax and land use tax and other taxes and fees as empowered by the law. Besides, Weredas are also empowered to utilize revenues other than those that fall within the domain of regional state (BoFED, 2005).

The revenue assignment and expenditure responsibilities in the region are characterized by low own revenue and higher expenditure responsibilities. The

standard theory of decentralization, however, suggests expenditure responsibilities and taxes should be decentralized jointly. But, the experience reveals that responsibilities are more decentralized than taxes. Ethiopia in general and Oromia in particular is not an exception to this phenomenon (BoFED, 2002). The following table shows the feature and level of own revenue and expenditure responsibilities of the region.

Table 10 Share of financing sources of regional Budget in Percent  
(1997/98-2006/07)

Budget Year	Own Revenue	Central Government Transfer			Others	Total Budget
		Treasury	External Assistance & loan	Total		
1997/98	25.6	61.5	6.2	67.6	6.7	100.0
1998/99	24.1	64.5	5.7	70.2	5.7	100.0
1999/00	28.7	44.7	16.9	61.5	9.7	100.0
2000/01	22.8	55.5	16.4	71.9	5.3	100.0
2001/02	23.5	50.8	13.3	70.1	6.5	100.0
2002/03	19.2	56.2	16.7	73	7.9	100.0
2003/04	22.4	66.6	7.8	74.3	3.3	100.0
2004/05	20.8	61.2	7.2	68.4	10.8	100.0
2005/06	17.5	74.9	5.2	80.0	2.5	100.0
2006/07	15.8	78.2	4.02	82.23	1.99	100.0
Average	22.04	62.01	9.94	71.92	6.04	100.0

Source: Compiled from Annual Budget reports of BoFED(1990-1999 E.C.)

As can be seen from the above table the major share of regional budget is financed by the Federal Government transfer. In effect, what goes to Wereda depends on this significant source of regional budget which indirectly implies that Districts or Weredas are not immune to fiscal gap-Vertical imbalance.

The legal basis of own sources or revenue of the region are two basic legislations mentioned above i.e. Proclamation No. 7/1992 and proclamation No. 33/1992. According to these laws the sources of income for region are:

- a) Revenues collected by taxing power provided
- b) Grants from Federal Government

- c) Domestic borrowing
- d) Other sources of income

The taxing power empowered by these proclamations also includes:

- a) Income taxes on the employees of the state and private employees
- b) Fees for land use rights
- c) Taxes on incomes of private farmers and farmers incorporated in - cooperative associations.
- d) Profit and sales tax on individual traders carrying out a business within their territories
- e) Taxes on income derived from private houses and other properties within the state
- f) Profit sales, excise and personal income taxes on income of enterprises owned by state.
- g) Fees and charges relating to licenses issued and services rendered by state organs. (BOFED, 2005:3).

The above mentioned taxing power of the region have been decentralized to Wereda and urban administrations based on criterion of ownership of taxes, character of the tax base, distribution of revenue sources and level of development; and effort and efficiency required to collect the revenue from the given tax base (BOFED, 2005:4).The taxing power or revenue assignment, expenditure responsibilities assigned to Weredas coupled with inter governmental transfer system to Wereda constitute the Wereda fiscal decentralization in Oromia regional state.

The decentralization process within the country presupposes the transfer system to the Districts/Wereda should fulfill the requirements as having adequate legislature, executive and judiciary powers . So that, the forms of transfer resembles a block grant transfer system. In Oromia, the region tried to exercise the allocation of block grant to Weredas since 1995 E.C.:and for Urban Administrations since 1997E.C. based on formula largely derived from

the Federal Grant Formula. The following table shows weights given to formula used to allocate regional intergovernmental transfer to Weredas and urban administration.

Table 11 Weights given to Formula Indicators

Indicators	Weights (%)		
	2002/3	2003/04	2004/5
Population	60	60	60
Development level	25	30	30
Own Revenue	15	10	10
Total	100	100	100

Source: Bureau of Finance & Economic Development of Oromia

The weights are indices of population, development level and own revenue raising capacity. The Regional Cabinet approved the weights and based on this approved weights BOFED allocates budgets to Weredas and urban administrations (since 2004/05). Table 12 shows the block grant share of Weredas since decentralization.

Table 12 Percentage share of Regional and Wereda Administration Budget from regional Treasury

Year	Regional Share	Wereda Share	Total	Wereda's Share of own Revenue from block grant
2002/03	44.4	55.6	100	39.2
2003/04	41.2	58.8	100	25.5
2004/05	40	60.0	100	23.2
2005/06	42	58.0	100	17.54
2006/07	40	60.0	100	17.84

Source: Computed from BoFED Annual Budget Documents.

As can be seen from the above table the share of Weredas budget that is financed from regional treasury has been increasing from 55.6% in 2002/03 to 60% for the year 2006/07. On other hand, the share of own revenue of Weredas from their block grant has decreased sharply. The reason for this decline is the altering of revenue assignments and changes in taxation.

### **3.3. Municipal Finance in Ethiopia**

Municipalities present in Ethiopia were established in 1940s during the imperial regime. The basic revenue source of municipalities or local governments defined primarily in proclamation no. 74 of 1945; and the rates, dues and fees regulation of 1971 is also another legal framework that defines local government's revenue (World Bank, 2002:7). The basic revenue sources assigned to municipalities or local governments by legislation are:

- Property tax-collected in the form of land rents lease income and Building taxes
- Business income tax
- Market fee
- Fees for municipal services including sanitary serves down to mortuary & burial services.

At times of the Dergue Regime, the urban centers administration was preoccupied with politics that made UDAs not to undertake the functions of municipalities seriously. The fiscal initiatives undertaken at that time were:

- 1) Urban Land Rent and Urban House Tax Proclamation No.80/1976
- 2) Legal Notice No.64/1979
- 3) Proclamation No.206/1981

(World Bank, 2002:7; Jemal Abagissa, 2000:24-25)

The first proclamation was issued to determine land rent and house tax. Legal Notice No.64/1979 was issued to fix urban land rent and house tax based on 4 categories created in accordance with the level of development of urban centers. This legal notice contains rent of urban land payable on business building, residential houses, industrial and agricultural users as well as rate of tax payable on urban houses.

Proclamation No.206/1981 empowered authority to levy and collect tax and rentals for Chartered Urban Centers subject to approval of Council of Ministers. At that time Addis Ababa was the only Charter City. Accordingly, it

was meant to legalize the taxing power of Addis Ababa. Besides, it gives mandate for non-chartered urban centers to submit land rent, house tax and service charges proposals to the then Ministry of Urban Development and Housing (Jemal Abagissa, 2000:24).

At times of Dergue, since the regime favors highly centralized controls the question of financial autonomy was unthinkable. Although there were town council and appointed administrators, municipalities were controlled from above. Accordingly they were required to submit their budget proposals and financial reports to sub-national offices of Urban Development and Housing. Expenditure management is lacking in almost all of municipalities. Municipalities are forced to pay unauthorized expenses, which are not reflected in their budget appropriations. Officials in sub-national administration including Wereda offices used municipalities as an easy out let to finance expenses like sport, Perdiem of officials and the like.

Under present regime, although the country is embarked on decentralized governance since 1991, as mentioned above, the government did not seriously consider the issue of municipalities. As a result, until year 2002 Ethiopian decentralization is considered as mid level or intermediate decentralization. This truth can be explained by what the countries legislations said about municipalities. The 1995 constitution of the current regime did not deal with municipalities; as a result they are operating without clear legal status in the context of broader decentralization. However, some Regions have taken their initiative to make municipalities operate as one organ of regional government with their Constitution, institutional set up and legislations.

The fiscal decentralization aspect was emphasized in the recent proclamations of regions i.e. “The City Proclamation of Tigray National Regional State”, “The Amhara Municipalities Proclamation No. 43/2000”, “The City Administration Proclamation of Southern Nations, Nationalities and Peoples Regional State No.

51/2002", "The Urban Local Government Proclamation of Oromia National Regional State No. 65/2003" and the Federal Proclamation No. 311/2002 and The Amended Addis Ababa City Government Charter" (Shewaye Tesfaye & Wandimagegn G.,2003). A review made on this proclamations whether comparable autonomy in raising revenue is devolved to cities /towns like that of the Wereda revealed that municipalities are provided with similar authorities to levy taxes, fees and charges and administer their revenues .These proclamations also list similar sources of revenue, which among others include, transfer of revenue from the regional states by revenue sharing mechanism, the provision of grant and loans in addition to those common traditional municipal taxes, fees and charges. The common features indicated in the proclamations are the authority to create new sources of revenue, set the rate system and approve as well as administer their budget (Shewaye Tesfaye & Wandimagegn G., 2003:16).

The important issue in determining the municipal finance in Ethiopia is municipal tariff regulation. As mentioned earlier Ethiopian municipalities have more than half a century history. It has been noted that proclamation no.74/1945 and legal Notice of 1971 are basic legislations to determine municipal finance in Ethiopia. The former recognizes tariff rates, dues and fees as source of revenue for municipalities. Whereas, the latter one served as fixed rates, dues and fees applied to municipalities in different part of the country.

It is worth to mention that this municipal tariff regulation, with exception of some regional states those who revised the tariff, served three regimes with different political system. The change in tax base, the growth in population and changing economic realities observed in three decades should naturally be reflected in comprehensive change in municipal tariff regulations. However, there has been no comprehensive reform undertaken on municipal tariff regulation. The rates, dues and fees fixed in the Tariff Regulation of 1971 were not only very low but also insensitive to changes in the tax-base and the

increase in costs of delivering services by municipalities. Apart from not being buoyant revenue bases, they have not also responded to monetary policy adjustments such as the devaluation of Birr and upward adjustment of interest rates.

Better initiative is observed under the present regime. However, the attempts to revise the tariff are limited to Tigray, Amhara, and SNNPRS & Oromia regional states. Among those attempted a better way of application is exhibited in Tigray and Amhara regional state. But, even if applied the process is encountered with problems such as:

- 1) The revised tariffs do not reflect the economic situation of all towns
- 2) Lack of clear methodology for their logical conclusions
- 3) No rooms for flexibility to develop local tariffs that better reflect the economic situation municipalities.

(Shewaye Tesfaye & Wandimagegn G., 2003:30).

In general, tariff revisions of municipalities encountered with the problems of approach, lack of guiding principles or parameter and lack of controlling instruments or mechanisms. Therefore, there is a need to undertake comprehensive tariff reforms to ensure that tariffs are in line with cost of service considerations.

Generally, Urbanization in Ethiopia is characterized by primate city pattern and wide intra regional and inter regional disparities. Wereda level decentralization including establishment of urban local government in reforming towns and cities has a recent origin. Despite long experience in establishment, municipal finance in Ethiopia has not shown remarkable development owing to out dated tariff regulation and lack of concern and neglect in policy making process of higher level of government

## Chapter 4

### Profile of the Adama City

Oromia is one of the regional states that constitute the Federal Democratic Republic of Ethiopia. It is located in tropical zone and endowed with a wide range of climatic and physio-geographic conditions that are mostly conducive for human settlement. Taking into consideration the concentration of population settlement in particular area as urban, Oromia has more than 375 towns under its administration. The rate of urbanization in the region is very low (12.3%) in 1994 Ethiopian census and annually increasing at the rate of 5.3%, which is below the national average of 6% (NRGO 2003b). Urban population growth of the region is mainly attributed to natural growth, rural-urban migration and in migrants from other regions. Among the urban centers in the region, 276 have a population size more than 2,000 of which only 163 have municipal status (NRGO 2003b : 85).

Adama, one of the largest towns in the country, is the largest city in Oromia region. It was established in 1917 along with the construction of railway line from Djibouti to Addis Ababa. It is found in the rift valley system in the upper Awash River basin at about 99 kilometers to the Southeast of Addis Ababa in central Oromia.

Adama lies at an altitude of about 1600 meters above sea level. The city is situated in a basin like flat land surrounded by sloping hills on all sides except the one facing the south. Climatically, the town has the sub-tropical type of weather condition and falls within the *kola zone* / low land zone/ with an average temperature of about 20°C with maximum temperature slightly exceeding 30-32°C during the month of May. Its annual rainfall ranges between 700-900 mm.

Since its establishment, Adama has been serving as a center for political, economic and social services. It served decades back as center for Yerer and Karrayu Awraja and for East Shoa Administrative Region. Adama has now been honored the status of City Administration (Adama Special Zone). Presently, the city administration is administered by a committee named “mayor committee” led by mayor of the city directly reporting to the Oromia National Regional Government (ONRG)).

Adama is a potential urban center, which has an average growth rate of population nearly 5 percent annually. The total population of the city was 228,605 in 2006 with almost equal ratio of males to females (table **13**)

Table 13 Population of Adama City, 1997-2006

Year G.C.	Male	Female	Total	% Growth rate
1997	73,691	73,987	147,678	-
1998	77,546	77,858	155,402	5.2
1999	81,564	81,969	163,533	5.2
2000	85,919	85,922	171,841	5.08
2001	90,403	90,134	180,537	5.06
2002	94,822	94,540	189,362	4.89
2003	99,307	99,206	198,513	4.83
2004	104,051	104,065	208,116	4.84
2005	109,120	108,990	218,110	4.80
2006	114,530	114,045	228,605	4.81
Percentage	50.01	49.99	100	4.96

Source: CSA, Statistical Abstracts of 1999-2004

Adama is bordered by seven peasant associations namely, Daka Adi to the North, Dibibisa Wachu Lata to the Northeast, Soloke Kurfa to the East, Dobe Dongore Tenku to the Southeast, Lugo Dabe Bokku to the South, Shekila Fabrika to the west and Kechema to the Northwest (Map1). On the basis of the current border demarcation, the land area of the Adama city is estimated to be 43-kilometer square or 4325.5 hectares (Table 14).

Table 14 Existing Land Use of Adama City

Description	Area (hectare)
Social service	283
Environment	2.8
Agriculture and open space	24.6
Expansion area	1922
Built up area	158
Total area	4325.5

Source: Adama Master Plan Revision, Environment Study, 2004

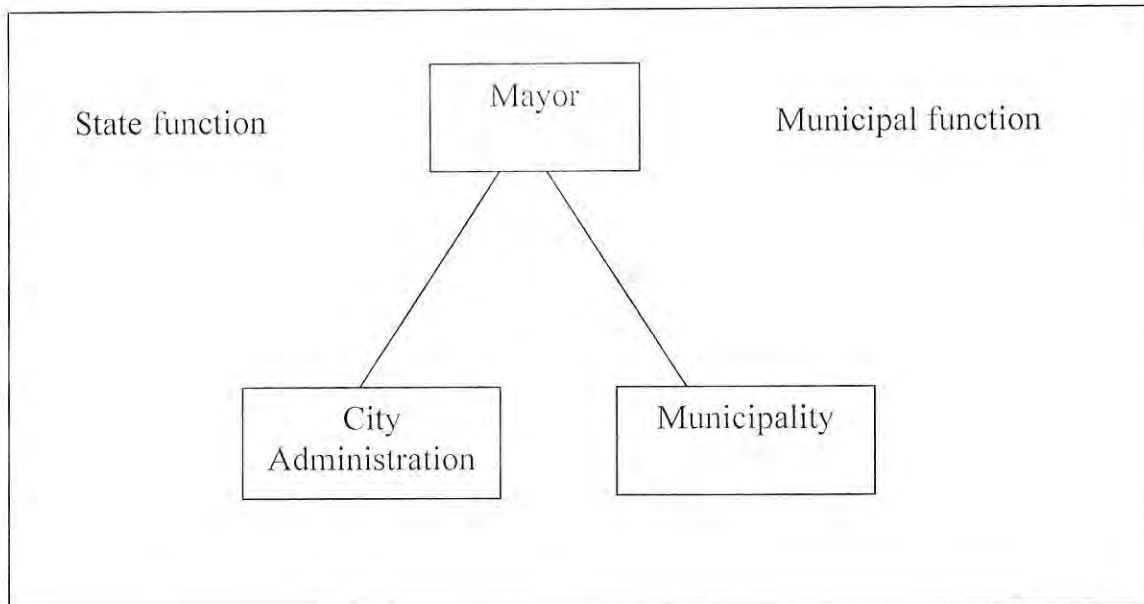
Adama is strategically located at the junction of Eastern and Southern part of the country. It is laying on the Djibouti-Addis Ababa railway line and the major trunk road traffic routes for trucks and buses from the Eastern and Southern parts of the region and serves as transit to other part of the country. It is also on the main tourist route to Rift Valley Lakes and hunting places of Oromia Region. With in the town there are social and economic bases such as light manufacturing and processing industries, storehouses, service establishments, and educational and research institutions. This location advantage and potential services of the city created favorable environment for the development of trade and commerce. Despite the fact that the city has potential condition for the industrial development, the sector is at an infant stage due to backward technological use.

The city administration has organized in different sector offices responsible for providing basic human services for the dwellers. The major services are education, health, water supply, urban transport, land administration, housing, road, micro enterprise development, security, liquid waste disposal and drainage, sewerage and toilet facilities etc.

The legal status of Adama city has got a wider discretions starting from 1999 on words. In 1999 the Oromia Regional Government took the initiative to strengthen cities so that cities able to provide full social and economical services to their residents. Consequently, Adama was designated as a special zone, which reports to Oromia Regional Government. New legislations proclamation no.26/1999 & no.65/2003 have been approved to make Adama an autonomous city administration. For the past several years the city was run by administration appointed by Oromia regional government.

The administration of the city of Adama is divided in to the city administration and the municipality undertaking different tasks of state function and municipal function. However, both administrative bodies form together under the mayor. The executive body of the city is the Mayor Committee, which is appointed by the Regional Government of Oromia. Although both the state function and municipality brought under one administration each of these two bodies has different characteristics. The municipality has to finance its operations from taxes, user charges and fees it collected where as, the state function is funded by block grant provided by Regional Government of Oromia. As a result, both of them have their own personnel administration and finance unit (UDCBO& GTZ - IS, 2006:11).

The state function of the city is under five-mayor committee and municipal service manager who report to mayor heads the municipal service function. The following organigrame illustrates the state and municipal function.



Source: Adopted from UDCBO & GTZ-IS, 2006, page 11

The city administration has different sector offices responsible for providing a number of services to the residents. These are education (primary and secondary schools), health, water supply, urban transport, trade and industry, micro enterprises development and urban agriculture. Besides, the city administration has 14 urban *Kebeles*. Initially Adama had twenty urban *Kebeles*. However, the new arrangement of city administration restructured the *Kebeles* to 14. The classification of *Kebeles* is based on population and size. The new Kebele structure follows the organizational structure of city administration. Accordingly, each *Kebele* has 14 staffs out of which five are executives and the rest are supporting staffs.

According to urban local government proclamation of the Oromia national regional government (ONRG) No.65/2003, the city council shall have among others the specific powers to determine the basic structure of urban local government and approve the organizational and operational system of executive organs. Civil Service Commission of Oromia, however, imposes the current

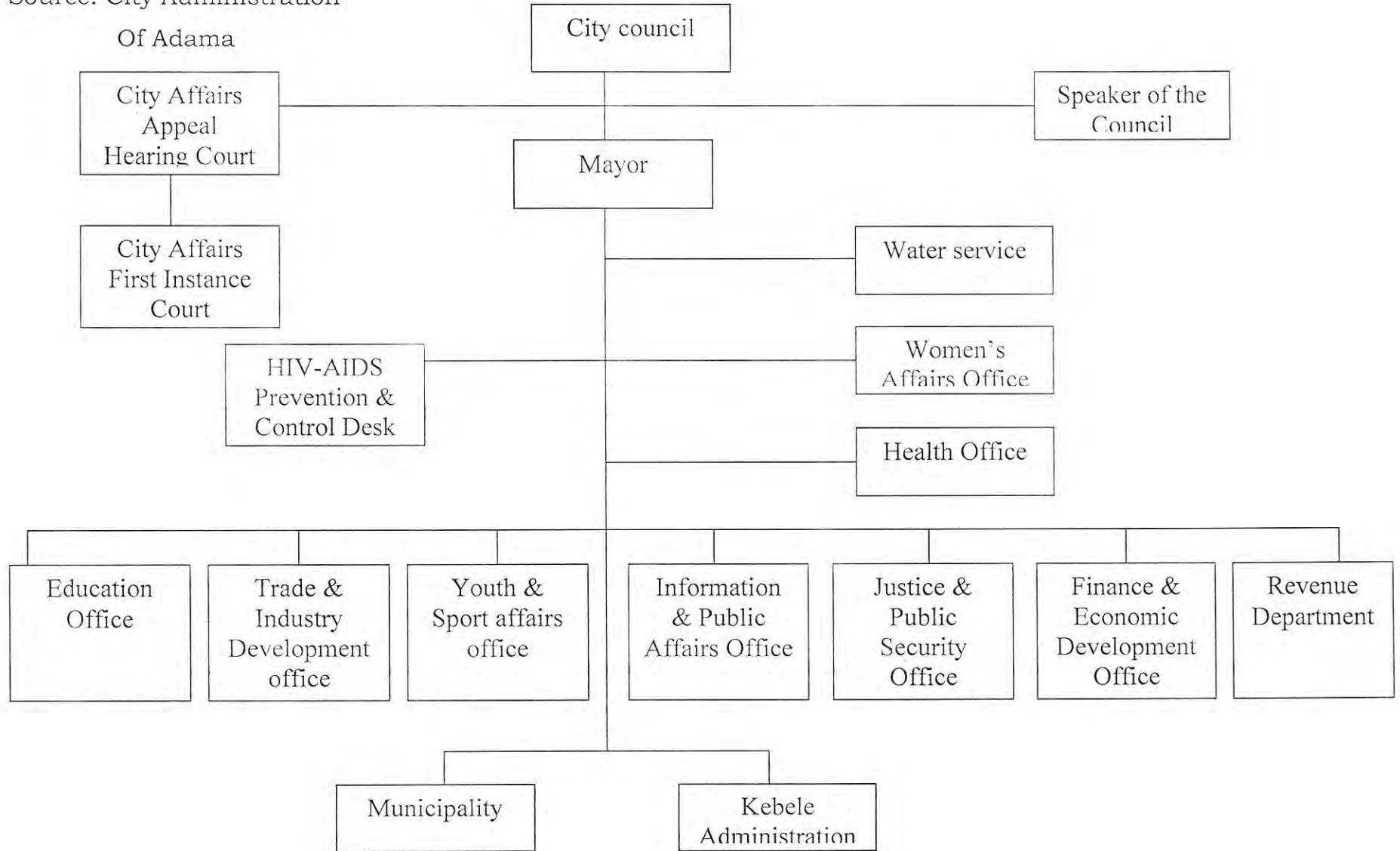
organizational structure by specifying the exact amount of personnel per department (UDCBO& GTZ-IS, 2006: 13)

The municipality function, as noted above, is headed by city manger that is appointed by Mayor of City Administration. The municipality function is not a new development in Ethiopian city administration. But, the delineation of its power and duty and the inclusion of state functions is a new initiative undertaken in Ethiopian urban local government administration. At times of Imperial and Dergue regimes and the present regime until recently, there is no clearly defined rules and regulation that show the legal status of municipality. It is only after 2002 that the present regime started to consider the problems related to urbanization in general and municipality in particular.

The regional proclamation no.65/2003 has granted the legal status for municipality in regional state from which the city administration of Adama has benefited a lot. According to this proclamation municipalities will be granted legal autonomy to manage their affairs. However, this proclamation is not backed by rules and regulation, which impaired the successful implementation of duties and responsibilities stipulated in the law. The above-mentioned proclamation empowers the municipality of Adama to improve and implement the new organizational structure.

## Organizational structure of the City Administration of Adama

Source: City Administration



According to new organizational structure of City Administration the total number of staffs needed for the municipality function is 211 but presently 167 staffs are working in the organization. The following table shows the staff of the municipality function by educational status.

Table 15 Manpower of Municipality Function

Qualification	Quantity	Percentage (%)
MSc/second degree	2	1.2
First Degree	16	9.6
Diploma	38	22.7
12+ Certificate	13	7.8
9-12 grade	42	25.2
Elementary + reading and writing	56	33.5
Total	167	100

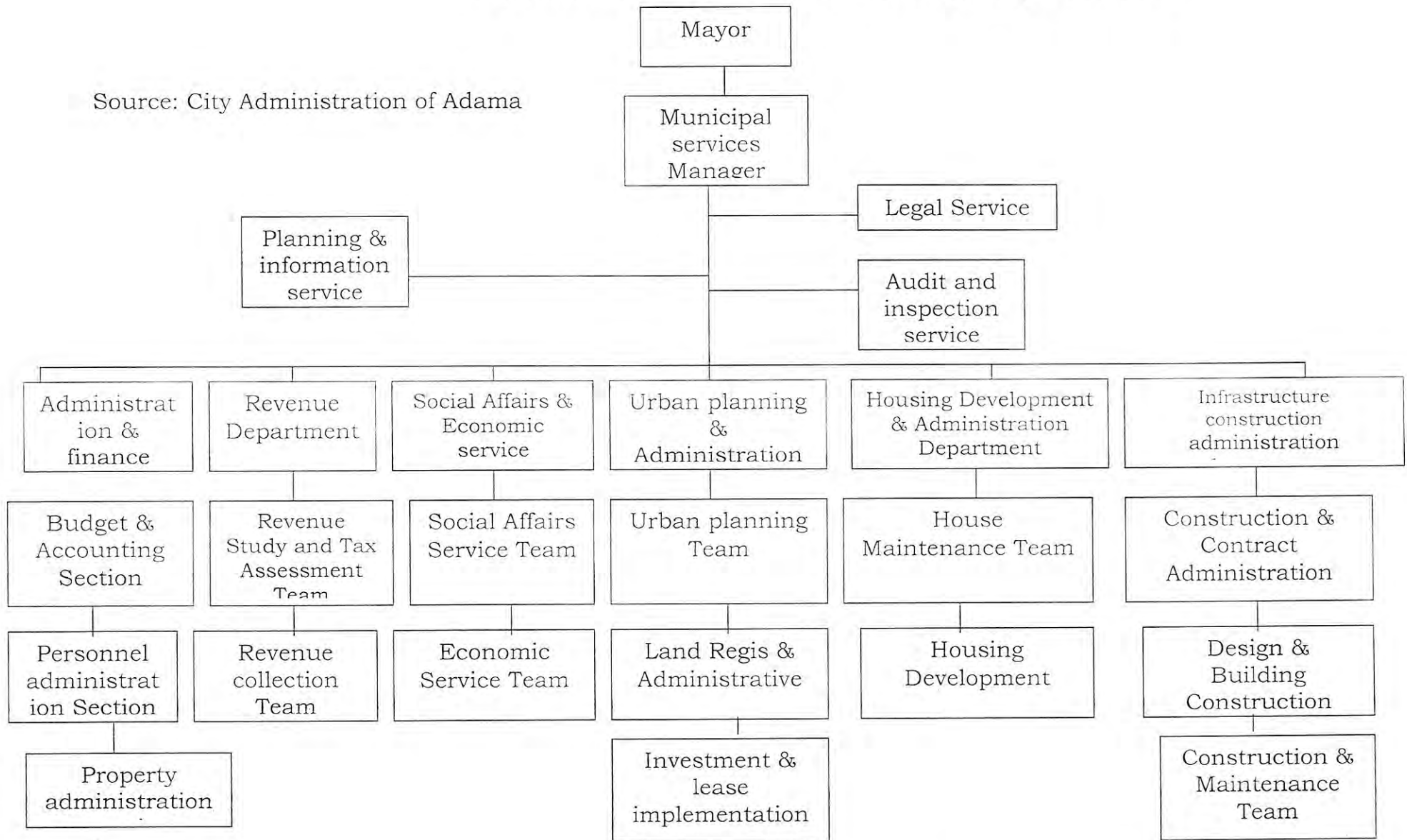
Source: City administration of Adama, report of Administration & Finance Service (1998E.C)

In addition to staff the municipality function has 301 contract employee and 80 temporary workers. The above figure shows that there is a large number of unskilled workers and a shortage of qualified staff in the City Administration and this greatly affects the day-to-day performance of the organization.

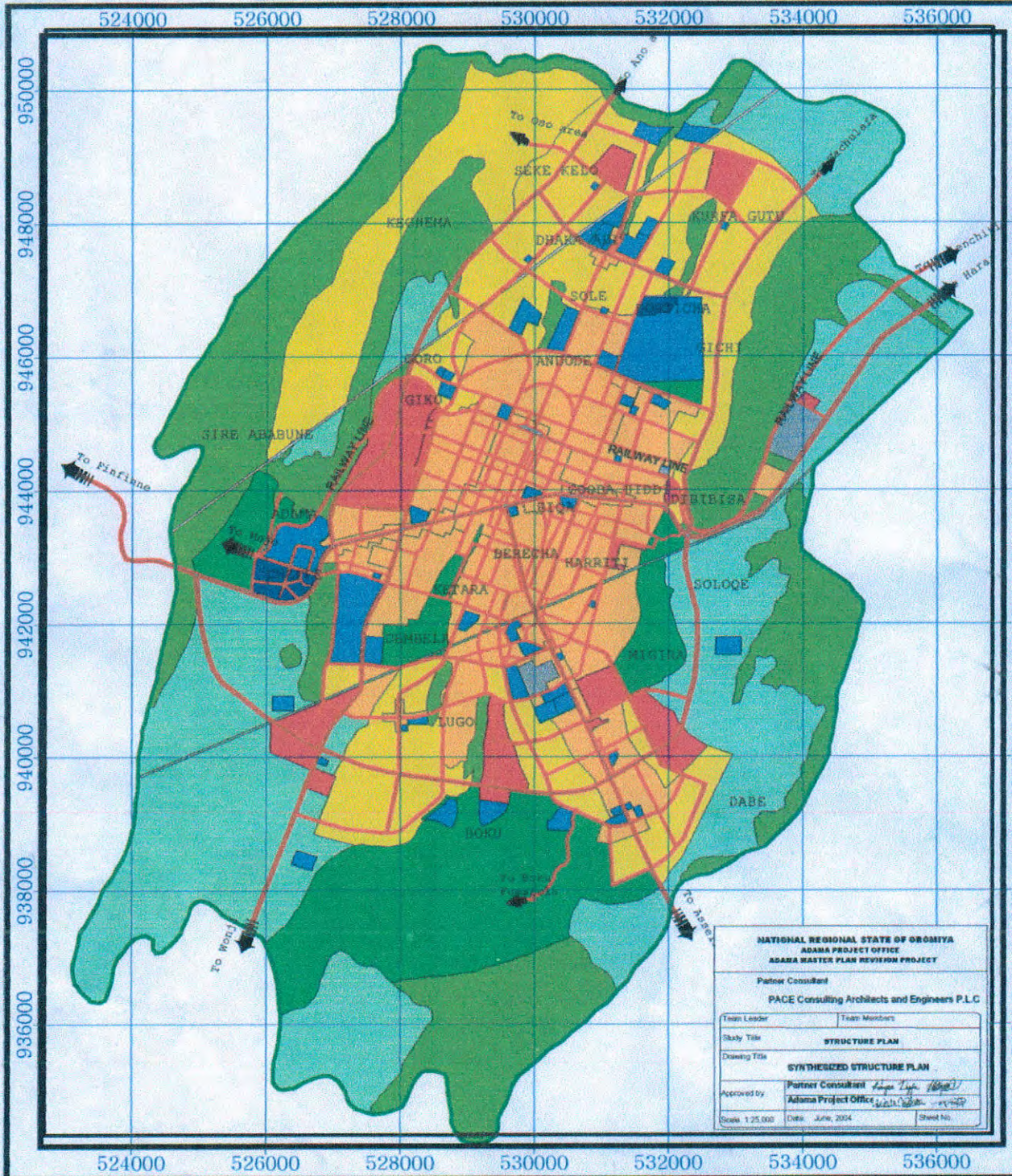
In summary, the city Administration of Adama is located in strategic center of the country which has meaningful contribution for its developments. Recently the change in governance of the City has instituted the municipal function and state function. The state function takes over the activities within the city so far handled by Eastern Shewa Administration and Adama wereda administration. The revitalization of municipal function has helped to strengthen the municipal activities so far handled by Adama municipality with wider authority and responsibilities.

## Organizational structure of Municipality Function

Source: City Administration of Adama



# SYNTHESIZED STRUCTURE PLAN



NATIONAL REGIONAL STATE OF OROMIYA	
ADAMA PROJECT OFFICE	
ADAMA MASTER PLAN REVISION PROJECT	
Partner Consultant	
PACE Consulting Architects and Engineers P.L.C	
Team Leader	Team Members
Sticky Title	STRUCTURE PLAN
Drawing Title	SYNTHESIZED STRUCTURE PLAN
Approved by	Partner Consultant <i>[Signature]</i>
	Adama Project Office <i>[Signature]</i>
Scale 1:25,000	Date: June, 2004
	Sheet No.

## LEGEND

- |                           |                               |
|---------------------------|-------------------------------|
| Social Services           | Housing Expansion Area        |
| Centers and Market Places | Manufacturing and Storage     |
| Built Up Area             | Special Administration Center |
| Farm                      | Transport                     |
| Forest                    | Administration                |
| Formal Green              |                               |



scale 1: 80,000

## CHAPTER 5

### Empirical Data Analysis

#### 5.1. Municipal Revenue Analysis

##### 5.1.1 Legal Basis of Sources of Revenue

The types of revenue that the city administration is entitled to collect are fixed by the regional government of Oromia. The regional government empowers city administration to collect certain type of revenues.

The major legislations governing the current municipal sources of revenues are those issued at times of Imperial rule and the Dergue military regime. Among those, proclamation No.74/1945 ,“The Nazareth municipality rates and regulations, 1986” that authorized the municipality of Adama to collect tax dues charge and fees from the local community. The major revenue sources explained in this proclamation were categorized into 12 broad revenue titles consist of 234 revenue items (Legal Notice, No.161/1971).

#### Sources of Revenue Entitled to Municipalities

1. Trade and professional service license
  - ◆ Annual license fee
  - ◆ New business permit license
  - ◆ Business license renewal
2. Market place tax & user fee
  - ◆ Monthly market stall fee
  - ◆ Monthly vehicles parking lot fee
  - ◆ Cattle market place taxation
  - ◆ Loading and an loading fee for use of municipal road and area
  - ◆ Municipal market shade rent

3. Non- stationary trade license
4. Municipal services
  - ◆ Refuse collection and disposal fee
  - ◆ Sanitation services
  - ◆ Fee for electric light and power (per kilowatt)
  - ◆ Service charge for valuation of property /technical service charge
  - Charges for new title deed
    - Charges to issue building permit
    - Charges to issue fence permit
    - Charge to issue a copy of title deeds etc.
  - ◆ Control registration fee
  - ◆ Other municipal services
5. Immovable property taxation
  - ◆ Municipal immovable property taxation
    - Based on rented land (as % of rent)
    - Based on not rented land (as% of presumed rental value)
    - Based on rented building (as% of rent)
6. Fees for posting of public notice
7. Registration
  - ◆ Fees for marriage registration
  - ◆ Fees for divorce registration
  - ◆ Fees for burial permit
  - ◆ Fees for use of municipal funeral car
8. Weapons control
  - ◆ Fees for permit to keep weapons
  - ◆ Fee for transfer of title to all
  - ◆ Fee to any weapons
9. Permits for vehicles and vehicles operation
  - ◆ Fee for driving permit
  - ◆ Fee for driving license

- ◆ Fee for renewal of license
- ◆ Fee for driving license of cart
- 10. Management and control of stray animal
  - ◆ Protection of animals from wild beasts (based on type of animal)
  - ◆ Service charge for taking care of stray animals
- 11. Foreigners registration permit
- 12. Water service charge and fees
  - ◆ Public tap (per volume)
  - ◆ Water meter (per cubic meter)
  - ◆ Annual water meter tax

As mentioned earlier there were no substantial change made to municipal taxes, dues, charges and fees adjustment from the Imperial regime. However, the self-government status given to Adama municipality around 1980 E.C. initiated the city council to take action in making some adjustments in tax rates and fees based on 1971 municipal taxes, dues and charges. This adjusted tariff and fees was approved by the then Ministry of Urban Development and Housing.

The adjustment was constrained by its lack of buoyancy and justification. The basic reason for adjustment could not be understood. The justification could not indicate the change in population, service price and income. It did not mention whether it is an expansion of revenue base or an increase in rates. There is no implementation guideline associated with target adjustment. Besides there is no clear structure of revenue sources categorization as tax revenue, non-tax revenue, Service charge fees and other sources of local revenue.

Tariff revisions and adjustments could be meaningful, if it is based on changing socio- economic dynamics of the city. A change in price, personal

income and population growth should be a basis for tariff revisions and adjustments. However, after removal of Dergue regime except for urban land holding proclamation the Federal Government of Ethiopia has not yet issued any legislation pertinent to municipal revenue that would help to reform, adjust and update the outdated tariffs.

Based on Federal Government proclamation, the Oromia Regional State has revised and issued a new urban land lease holding system proclamation No. 1/1995 which updated the house tax and urban and rent proclamation of 1979. This newly introduced urban land lease holding proclamation was revised and amended more than four times since its application. The rest of municipal taxes rates, dues charges and fees totally remained unchanged since the issuance of proclamation no. 64 of 1979. Currently, the regional state of Oromia issued a new municipal legal and institutional framework i.e. proclamation No 65/2003. According to this proclamation municipalities are empowered to act as autonomous local government. The issuance of this proclamation fulfills long awaited empowerment of municipalities to develop or mobilize their own revenue sources by updating the existing tax and tariff rates and introducing new taxes and service charges.

Based on this proclamation the city administration of Adama has under went tariffs adjustment on certain items of revenue sources starting from 1997 E.C. on wards. But, it was obvious that with exception of some adjustments in 1986 E.C. and 1997 E.C., the city administration collects revenue on tariffs regulations of 1971 and proclamation of 1979. This implies that before enactment of the new municipal law, proclamation no. 65/2003 the legal documents were the 1979 proclamation and urban land lease proclamation of 1995. Thus, any adjustment of tariff and tax not referring to the above mentioned two proclamations have no proper legal binding.

### **5.1.2. The Existing Local Sources of Revenue**

The existing local sources of revenue categorized in to 4 major titles and 21 revenue titles (NRGOa, 2003). It is described as follows.

#### **1. Tax revenue**

- ◆ Business permit tax
- ◆ Cattle market place taxation
- ◆ Urban land rent
- ◆ Urban house taxation
- ◆ Vehicle ownership license fee
- ◆ Miscellaneous taxation
- ◆ Contract and mortgaging service payment

#### **2. Municipal service charge and fees**

- ◆ Slaughter house service fee
- ◆ Sanitary service charges
- ◆ Technical service charge
- ◆ Electric power service charge
- ◆ Marriage death and birth certification service fee
- ◆ Burial service fee
- ◆ Miscellaneous income
- ◆ Bus services
- ◆ Invoice duplication service income

#### **3. Rent or sales of municipal property**

- ◆ House rent business and residential
- ◆ Sales of fixed asset
- ◆ Rent of municipal machinery and equipment
- ◆ Sales of bicycle
- ◆ Wind fall income

#### **5. Urban land lease income**

Despite some adjustments in 1997 E.C., the existing revenue sources of the city still face the problem of reflection of the economic reality of the city. The adjustment is not commensurate with a change in price of commodities, population growth and personal income. This implies tax or tariff adjustment does not have any reference to a tax base, since the tax base is explained by socio-economic dynamics i.e. population growth, a change in price and personal income.

Apart from not relating to tax base, the taxes and tariffs of the city administration are said to be too many and difficult to administer. According to the information obtained from the Revenue Department of City Administration, out of 12 revenue titles that consisted 234 revenue items about 36% of them have not been operational while 24 % of them have been partially operational. Besides some of the revenue items have lost their legal basis on introduction of new proclamations. This situation calls for stream lining of some of the revenue items. In addition to this, avoiding or omitting some of the revenue items whose administrative cost overrides or overwhelms the revenue collected can also be the option that should be given due consideration.

### **5.1.3. Revenue collection performance**

The factors that determine collection performance are usually appropriateness of valuation and assessment, timely billing, collection efficiency and enforcement mechanisms. On other hand collection performance can either be measured by comparison of different municipalities or within a single municipality by examining tax assessed, levied, billed and collection by each category of revenue sources. However, comparison within one municipality as mentioned above has been impaired by absence of appropriate and adequate data. As a result we are forced to use comparison on per capita basis, actual versus planned revenue and focus on the major constraints faced by the municipality in collecting the local revenue.

Per capita revenue collected is one the key indicators that measures the revenue yield of the City. Determining and comparing the per capita revenue collection of the city with other similar cities would help to identify how much revenue municipality could collect by utilizing unused potentials.

Table 16 Average Per Capita revenue collection of different cities

No.	Cities	Population	Own sources of revenue	Per capital own sources of revenue in birr (USD)
1	Adama	189,362	7,122,000	37 (4)
2	Dire Dawa	287,254	7,414,000	26 (3)
3	Awassa	112,031	4,697,000	42 (5)
4	Bahir Dar	175,910	9,640,000	55 (6)
5	Mekele	118,264	8,988,000	76 (8)
6	Other African Cities			(15)
7	Arab states Cities			(1582)
8	Asia Pacific Cities			(249)
9	Industrialized Cities			(2763)
10	Latin America Cities			(253)

Sources: Adama city Administration (1988-1994) average and other local Cities (1990-1992 average) and over seas data from (UDSS.2002).

As can be seen from the above table the per capita revenue collected in Adama is lower than in Awassa, Bahir Dar and Mekele. The per capita revenue receipts of all regional capital cities indicated in the table are significantly lower than the average Per Capita revenue of African municipalities and it is lower than those of Latin America Cities. This implies that Adama municipality is characterized by low mobilization of revenue potential.

Collection efficiency analysis consists of two different measures. The first one is actual collection efficiency which is defined as the percentage the total amount planned (billed) against actual collection; and the second measure is billing efficiency which can be explained by the proportion of total taxable property

assessed against that actually billed (Bahl & Linn,1992:102). The second measure is inapplicable owing to absence of periodic valuation, assessment and billing exercises in Adama City. The following table describes comparison of planned and actual revenue of regional capital cities

Table 17 Comparison of planned and actual revenue

No.	Cities	Own sources of revenue		Collection performance in %
		Planned	Actual	
	Adama (1988 -94)	7,239,000	7,122,000	98
	Dire Dawa (1999-00)	7,843,000	7,414,000	95
	Awassa (1999-00)	7,297,000	4,697,000	64
	Bahir Dar (1999-00)	1.3,369,000	9,646,000	64
	Mekele (1999-00)	14,897,000	11,357,000	76

Source: City Administration of Adama and UDSS (2002)

As can be seen from the above table the collection rate of Adama as compared to other Cities seems very strong. However, measuring collection efficiency against plan is usually defective when the plan is underestimated. The City administration of Adama always plan and collects revenue based on certain percentage increment of the previous year's actual collection. This is the practices of the whole country (MoFED, 2003). Revenue planning in the country including the general state revenue based it self on incremental approach.

This practice does not reveal the revenue potential of the city. The information obtained form the City Administration Revenue Department reveled that there are a number of defaulters with a considerable accumulation of arrears. Besides, these defaulters are not properly identified and registered. There is no systematic way of identification and differentiation of the actual tax payers and defaulters. Thus, the collection performance of Adama may not significantly show the real image of the potential revenue that the City Administration can

generate. The following table shows the trend of annual collection rates of the municipal revenue of City Administration of Adama.

Table 18 Local revenue collection (1989-1998 E.C.)

Year	Plan	Actual	Collection rate in %
1989	4,532,840	6,108,510	135
1990	4,812,840	5,315,161	110
1991	6,644,680	6,215,988	94
1992	10,358,680	7,638,491	71
1993	11,110,000	8,421,507	76
1994	13,371,412	8,817,981	68
1995	13,553,425	11,451,505	84
1996	28,064,422	16,472,016	58
1997	38,880,000	26,874,893	69
1998	41,708,000	40,077,064	94

Source: Computed from various reports of City Administration Adama (1989-1998)

As can be seen from the above table the annual collection rate exhibits a declining trend. The reason for the irregularity of the declining trend can be either change in economic situations or inconsistency of tax collection performance of the city administration. The magnitude of tax arrears is one of the factors that show the tax collection efficiency of the city administration. The following table shows the magnitude of tax arrears.

Table 19 Tax arrears as percentage of actual collection (1998) E.C.

No	Type of tax revenue	Cumulative arrears	Total revenue collected	%
1	Trade license	2,993,409	2,075,392	144
2	Advert. plate tax	692,005	-	-
3	Taxi and Cart	563,688	-	-
4	Lease income	8,129,278	4,058,685	200
5	Urban land rent	4,327,618	3,540,183	122
6	Diff. house rent	1,571,323	1,709,183	92
7	Urban house Tax	384,993	528,146	73
Total		18,662,314	11,912,289	156

Source: City Administration of Adama, Revenue Department, 1998 E.C

The above table reveals that there is a serious problem of tax administration. There is as low as 384,993 Birr and as high as 8,129,278 Birr cumulative

arrears. The cumulative arrears as percentage of annual collection range from 73 to 200 percent in urban house tax and lease income respectively. This high magnitude of tax arrears is attributed to inefficiency in billing system and low enforcement mechanisms. This implies that the city administration should take urgent measures in tax administration. The magnitude of tax arrears may be high if all liabilities of tax payers properly accounted for. For instance, if the property tax is fully assessed and valued the amount of tax arrear could be higher than what we observed now.

Unlike, the general state revenue tax assessment method of municipality does not have the representation from business community. The tax assessment committee is organized only from staffs of municipality. This approach may influence the fairness of the tax levy. Respondents of business community on issues of fairness and representation in tax assessment committee have similar response. The following table describes this situation.

Table 20 Fairness of tax assessment as perceived by respondents

Question /response	No	%
<i>Question</i> Does the tax assessment is based on fairness principle?		
<i>Response</i>		
a) yes	20	40
b) No	29	58
c) No comment	1	2
Total	50	100

Source: Survey Data

The question of fairness may affect the ability and willingness to pay. If the tax assessment fails to be fair it may impose higher pay for lower income at the same time it might ease the burden for higher income group with less pay. As discussion with tax officers of the city administration reveals that the tax assessment is mostly based on estimate of property and income. Thus, the ability to pay may not be realized with tax assessment that basis it self on

estimation. The response from business community on tax imposition and ability to pay is presented in the following table.

Table 21 Tax imposition and ability to pay as perceived by respondents

Question /response	No	%
<i>Question</i> Does the tax imposition is based on the ability to pay?		
<i>Response</i>		
a) yes	15	30
b) No	34	68
c) No comment	1	2
Total	50	100

Source: Survey Data

The major problems of revenue collection performance can be explained by enforcement problems, tax payment procedures and capacity constraints. Problems such as delays in legal system, absence of tax court, absence of billing system and lack of transparency and awareness of defaulters are the problems that could be mentioned as enforcement problems. Besides, Shortage of skilled man power and lack of staff training program, high manpower turn-over, absence of computer assisted tax payer's registration, and record keeping system are the problems that could be cited as capacity constraints.

#### **5.1.4. Composition of Municipal Revenue**

Municipal revenue consists of locally raised and external source of revenue. There are three categories of local revenue; namely, locally collected taxes, user charges and fees and other locally raised revenues, such as penalties, arrears and the like. The external sources of municipal finance are transfers (grants or shored revenues from regional government, assistance from local and external sources and borrowings.

The distinction between locally raised revenue and external sources of revenue is important because it describes the degree to which the city economy could finance its expenditure by its own sources. Moreover it is presumed that cities those with higher level of locally raised revenue has more discretion in managing their local sources of finance than those have more share of external sources of finance. As can be seen from the table below the percentage contribution of own source of revenue is very high as compared to externally provided sources of revenue. The average revenue for the years 1989-1997 shows that the share of own sources of revenue is 87% of the total municipal revenue, in which tax revenue accounts for 40%, non tax revenue 30% and lease income accounts for 17 % .

Tax revenue has constituted not the major share of municipal revenue over the past ten years under consideration. An average revenue for the years 1989-1997 shows that tax contributes on average about 40 % of the total municipal revenue and 46 % of the total locally collected revenue of which 38 % is from property tax, 24 % is from business permit tax and 25% from various local sources while 13% is from market places and market stall charges.

A close examination of tax revenue reveals that, the major sources of tax revenue are 1) property tax (urban land rent and house tax 2) business permit tax 3) cattle market 4) Other local taxes including vehicle registration , road use tax, loading and unloading tax etc.. Detailed presentation by each major revenue category is presented below.

**1) Property tax** (urban land rent and house tax) is one of the major local revenue sources contributing to a range of urban services as means financing particularly to physical infrastructure such as road, drainage, refuse collection and so forth. Building tax and land rent fee are the two major component of property taxation. It is well known that urban land is owned by government; therefore, taxing the urban land is may not be an option rather leasing or

renting the land will be used in lieu of taxation. As a result, individuals and organizations who acquired land on lease basis are not supposed to pay land rent and all individuals who own dwelling houses or any other building are required to pay building tax.

The current contribution of property tax to total municipal revenue is 4.058 million birr or 10% (1998) E.C. which is very low as compared with other developing countries cities. In other developing countries with similar experiences property taxes contribute not lower than 40% of the total municipal revenue (Bahl & Linn.1992:33). This low yield of property tax reflects failures in administrative and policy aspects of the property tax. A large proportion of properties are missing from the tax rolls (close to 10,000 houses or 30 %) and those on tax rolls are inaccurately valued. Besides, collection efficiency of this tax is extremely low (less than 30%). In addition to this construction of a considerable number of informal houses (close to 1000 units per annum) which in most cases do not pay taxes on building exacerbates the problems of property taxation. This calls for comprehensive reform in areas of tax administration i.e. tax coverage broadening and collection and policy measures i.e. reasonable improvement and adjustment in tax rate and periodic valuations of properties.

## **2. Business permit tax**

Revenue from business permit tax is the most important category of tax revenue sources after property tax. This revenue sources is generated form trade activity permit to operate within the jurisdiction of the municipality. As can be seen from average of (1989-1997) tax revenue, it accounts for 27% total tax revenue. The revenue generated from this tax in Adama is roughly twice as high as that of Dire Dawa and almost thrice as that of Bahir Dar while roughly proportionate with that of Awassa(UDSS,2003). This implies that in Adama business activity is higher than that of other cities.

However, there is a large number of informal traders who do not pay business permit tax. If these illegal traders paid their obligations total municipal revenue will be higher than what we see now.

### **3. Cattle market place tax**

Adama has a large potential with regards to cattle market revenue. A large number of cattle Goats, Ships, Donkeys etc arrive at the market place for sale during the market days. These animals come from Bale, Borana, Awassa, Aselea, Methara etc. However, it was observed that a large number of animals are sold out of boundary fence of the market place and due to a single entrance and exit gate to the market place there is a mal administration of the market place and some of these seen leaving out with out settling the required payment.

### **4. Other Local Taxes**

This category includes loading & unloading, road use tax and other miscellaneous tax and rent. The highest portion of this category goes for loading and unloading fee while vehicles road use tax takes the minimum share. The major problems that curtail their contribution to the total revenue are under valuation of goods that minimize the base for loading and unloading tax, off working hours (especially at night) undertakings of loading and unloading business and negligence on the parts of drivers.

#### **Non tax revenue**

This category includes all other sources of revenue of the municipality other than taxes. The list includes user charge and fees, rent or sales of municipal assets, miscellaneous windfall income market shade rent etc. The distribution of non tax revenue, explained by average of (1989-1997) non-tax revenue collection reveals that the large amount of the tax revenue is contributed by service charge and fees which is followed by the sale and rent of municipal asset. Windfall income/gains constitute the least share of the total non- tax revenue.

### 5.1.5 Development Trend of Municipal Revenue

Revenue trend and growth rate analysis represents the change in financial status of municipality which refers to revenue development of a certain organizational entity. The following table shows the trend of revenue development and the growth rate of City Administration of Adama.

**Table 22** Development Trend and Growth Rate of Municipal Revenue in millions of birr and % (1989-1998 E.C.)

Year	Type of Municipal Revenue				
	Tax Revenue	Non tax Revenue	Lease Income	External Sources	Total Municipal Revenue
1989	4.31	1.80			6.11
1990	3.41(-20.8)	1.90(5.8)			5.32(13.0)
1991	3.81(11.5)	2.41(26.7)	1.97	1.63	9.82(84.7)
1992	3.71(-2.4)	2.23(-7.5)	1.43(-27.5)	1.06(-34.8)	8.43(-14.13)
1993	4.07(9.7)	2.90((30.6)	1.45(1.7)	1.39(30.2)	9.81(16.3)
1994	4.68(15.1)	2.83(-2.5)	1.31(-9.8)	1.87(34.9)	10.69(8.9)
1995	4.94(5.4)	4.38(54.8)	2.13(62.6)	2.96(58.4)	14.40(34.8)
1996	6.67(34.9)	6.38(45.8)	2,22(4.2)	1.27(-59.2)	16.47(14.3)
1997	8.96(34.4)	13.66(113.9)	4.26(92.3)	1.37(13.8)	28.25(63.1)
1998	16.30(81.9)	18.34(33.5)	5.44(27.6)	4.62(128.5)	44.70(49.1)
Average	(18.8)	(33.5)	(21.6)	(20.3)	(27.1)

Source: - Computed from various reports City Administration Adama (1989-1998)

As can be seen from Table 22 the total municipal revenue shows an increasing trend from 6.1 million in 1989 E.C. to 44.70million in 1998 E.C. The large amount of revenue collection has been registered in the year 1991, 1995, 1997 and 1998 E.C. In 1991 E.C. the introduction new urban Land policy and improvement attained in user changes and fees and population growth contributed for up ward trend of revenue collection of the city administration. However, the land lease implementation problems and the introduction of high lease price have their own influence on declining trend of land lease income. Cognizant of these problems the regional government Oromia has taken corrective measure by amending the lease value by proclamation urban land lease proclamation no. 86/1994 issued in 1995. This proclamation has

reduced the lease rate by 4 times from that of 1991. Since then the lease income has shown a continuous trend of improvement.

The tax revenue has never shown a reasonable increase till 1996 E.C. As can be seen from the above table the tax revenue shows a declining trend from 4.3 million in 1989 E.C. to 3.7 million in 1992. An increasing trend has been witnessed from 1993 to 1998. A major increase in tax revenue was exhibited from the year 1997 E.C. onwards. The major problem related to this issue is the non responsiveness of the tax rate and base to the price increase, population growth and increase in income. In addition to this, problems like lack of up-to-date registration of taxable properties, poor revenue administration which is explained by absence of periodic assessment, valuation, billing and enforcement problems can be cited as problems that curtail efficient performance of revenue collection in the city. The reluctance of tax payers to fulfill their tax obligation and inadequate institutional capacity of the city administration can be added to problems mentioned above.

Unlike tax revenue non-tax revenue shows substantial change both in its size and structure. It has increased from 1.8 million in 1989 E.C. to 18.3 million in 1998 E.C. Non tax revenue has increased on average of 33.5 % per annum. There is a steady increase in non-tax revenue from 1989 to 1998 with the exception of the year 1992 E.C. The increment in non tax revenue is attributed to consumption of municipal services and sales and rents of municipal rents. The development trend can also be shown by growth rate trend of municipal revenue.

The municipal revenue has registered an annual average growth rate of 27.1% percent. However, if we take into consideration the buoyancy of municipal revenue as expressed by increase both in tax rate and base in relation to changing circumstances population, price and incomes, the growth is superficial rather than real growth. As it is described in table 22 the total revenue growth is not constant over the years, it rather fluctuates over the years. During the years under consideration there were years where the total municipal revenue exhibited negative growth rate. This indicates that the total municipal revenue is far from responsiveness to the changing socio economic realities i.e. increase in population, price and income. The highest increase in revenue was witnessed in the year 1991, 1997 and 1998 E.C. During the early period (1989-1992) the tax revenue showed an average declining trend of 47 % percent per year per annum. However, during 1993 to 1995 tax revenue has registered an average annual growth rate of 10 %. The period between 1996 and 1998 was the period of high average annual growth rate of tax revenue that the city administration had never been registered so far.

As can be seen from Table 22 tax and non tax revenue registered an annual average growth rate of 18.8 % and 33.5% respectively. However, there was some degree of fluctuations in growth of both sources of revenue. The close examination of the above table reveals that there is a steady increase in non tax revenue. Service charge and fees are registered an annual growth rate of 33.5 % percent. Service charge and fees are known for their buoyancy to changing circumstances owing to their applicability to "User pays" principle. Moreover, it is well understood that, service charge and fees are among the better administered revenue items at the local level. The marginal negative value of non tax revenue is not the result of service charges and fees fluctuation rather than one time windfall gains and rent or sale of municipal assets that can be absent in one or another year. However, efforts to increase the volume of services in accordance with increase in demand, is curtailed by

the institutional capacity limitations and largely because of lack of efforts of the City Administration.

Generally, it can be inferred from Table 22 that the ability to raise additional revenue in a sustainable manner is not as such clear, since both tax and non tax revenue show up and downs. This is because of inability to undertake periodic tariff revisions since the change of government. Charging rates have not been adjusted in accordance with changes in price fluctuation, income, and population growth. The tariff adjustment introduced by management of city administration form 1997 on wards is only a nominal increase. It does not show rational justification of tariff increase with its relation to change in price, population growth and income in the city administration. This implies that the revenue source of City Administration is not buoyant enough.

In practice, the key to financial strength is the buoyancy of municipal revenue base (World Bank, 1999:42). The municipal revenues should be buoyant enough to increase with change in population, price of commodity and per capita income. Unless and otherwise revenue collected from the community as well as from external sources is buoyant enough, it is impossible to cover the increasing demand and cost of producing urban services and infrastructural development.

## **5.2. Municipal Expenditure Analysis**

The main emphasis of municipal expenditure has to be to fulfill the provision of core municipal services, other public services that the City Administration is expected to provide by the law and other external obligations such as loan repayment if any. In general municipal expenditure refers to the expenses that City Administration incurs for its operation, welfare of the residents and for development activities of the City.

Municipal expenditure is a function of expenditure assignment or responsibility of local government or city administration. Accordingly, in practice the city administration of Adama has been given the following expenditures responsibilities (NRGOa, 2003).

- ◆ Administering the city
- ◆ Provision of market place and slaughter house service
- ◆ Fire protection and public notification
- ◆ Public libraries, public hall recreational places and cinema house
- ◆ Maintenance and construction of road, bridge, house, public space and street light
- ◆ Sanitary services disposal of waste, public toilet
- ◆ Trade licensing
- ◆ Licensing of vehicles and carts ;and provision of plate numbers
- ◆ Technical and engineering services
- ◆ Construction of rental houses
- ◆ Other social services such as sports and the like

Owing to lack of data it is difficult to know the actual type, frequency and volume of services provided by the municipality. As a result, it is difficult to calculate the quantity of services provided to the society although there is some data on total length of roads constructed, number of rental houses constructed or maintained.

As interview with city Administration and Finance Service reveals, the city Administration calculates its expenditure on lump sum bases. As a result, the existing structure of municipal expenditure is arranged as recurrent and capital expenditure. The structure and development of trend of this expenditure for the 10 years (1989 E.C to 1998 E.C.) is presented in the following section.

### **5.2.1. Structure and Development of Municipal Expenditure**

The current structure of municipal expenditures is composed of recurrent and capital expenditure. The recurrent expenditure is what the municipality incurs for regular operation of services and routine activities for the current budget year. It is recurrent in nature. The list includes expense on wage and salary, purchase of equipments, cost of routine repair and maintenance expenditure on social services, and loan repayments.

Recurrent expenditure is financed from resources mobilized through local and some times from external sources of municipal revenue. Managing these resources carefully and putting them to the optimum use is the basic condition to ensure the economic efficiency and increase the welfare of the society at the city administration level. The city administration's expenditure should take in to account both cost effectiveness of each public services and the most desirable mix of public services out put in order to ensure that maximum benefit is derived from public resources utilized for municipal expenditure. Thus, proper expenditure management of municipalities ensures provision of higher standard of services to the community and economic development of cities.

The level of total municipal expenditure might be showing the level of services provided that may have influence on level of economic development and social well being of the population. Generally it is assumed that the higher the per capita expenditure of the given city the higher the level of services provided.

The following table indicates the level of municipal expenditure of city administration of Adama in comparison with other regional cities.

Table 23 Per Capita Municipal Expenditure of Different Cities

Cities period	Total expend capita	Recurrent/ expend.	Capital/ total e
Adama (1990-1994)	40	57	43
Awassa (1990-1994)	46	53	47
Bahir Dar (1990-1994)	57	41	59
Average	38	50	50

Sources: - UDSS (2003) Adama City Administration and GTZ (2003)

As can be understood from Table 23, compared to other cities the per capita expenditure of Adama is lower in total expenditure and capital expenditure. The recurrent expenditure to total municipal expenditure ratio of Adama is higher than the other cities. This implies that the municipality is putting more emphasis on the recurrent expenditures in the period under consideration (1990 E.C to 1994 E.C)

As can be seen from table 24 and 25 the growth rate and development of the total municipal expenditure over the past 10 years indicates an increasing trend in monetary value from birr 4.8 million in 1989.to 25.7 million in 1998 E.C with average annual growth rate of 30.7 percent. The highest increase is registered in the year 1991, 1996, 1997 and 1998. The increase in the year 1991 was because of introduction of land lease policy and road fund.

The expenditure growth rate and development trend can be understood better by examining which expenditure component is growing faster than the other among capital and recurrent expenditure. The development trend indicates that both recurrent and capital expenditure show an increasing trend with recurrent expenditure growing faster than the capital expenditure. The recurrent expenditure has shown an increasing trend ranging from 1.9 millions in 1989 to 9.92 millions in 1998 E.c with average annual grow rate of 16.4 percent.

The capital expenditure has shown fluctuation with little incremental trend in monetary value ranging from 1.92 millions in 1989 E.c to Birr 15.78 millions in 1998 with average annual growth rate of 102.7 percent. Capital expenditure is generally considered as a fixed asset formation which in turn presumed to increase the city's service production capacity. Thus, it is presumed that the higher the capital expenditure the higher its contributions to economic development of the city.

As can be understood from capital expenditure composition, the share given to infrastructural development is very high. This initiative is commendable in that it promotes investment and employment opportunities to the residents. However, as can be observed from execution of capital budget that the city administration faces enormous problem of capital project implementation.

Generally, the trend discussed above indicates that there is a change in recurrent and capital expenditure in terms of monetary value. The details of the development trend of the municipal expenditure are presented in Table 24 and 25.

Table 24 Expenditure trend of City administration of Adama planned and actual  
Expenditures by Expenditure types (1989-1998 E.C.)

<i>Year (EC)</i>	<i>Planned/budgeted Expenditure</i>				<i>Executed/actual Expenditure</i>			
	<i>Salary</i>	<i>Operating Expense</i>	<i>Capital</i>	<i>Total</i>	<i>Salary</i>	<i>Operating Expense</i>	<i>Capital</i>	<i>Total</i>
1989	923,447.00	2,129,954.00	4,068,890.00	7,122,291.00	894,721.00	1,989,872.00	1,923,963.00	4,808,556.00
1990	935,123.00	2,842,797.00	6,075,000.00	9,852,920.00	937,448.00	1,792,082.00	593,449.00	3,322,979.00
1991	985,416.00	3,676,650.00	12,379,406.00	17,041,472.00	952,409.00	2,857,729.00	3,378,401.00	7,188,539.00
1992	985,416.00	4,172,000.00	13,533,959.00	18,691,375.00	958,743.00	3,723,117.00	5,558,774.00	10,240,634.00
1993	954,000.00	5,012,820.00	10,717,500.00	16,684,320.00	1,012,946.00	3,905,855.00	3,151,410.00	8,070,211.00
1994	1,532,536.00	5,832,899.00	12,824,027.00	20,189,462.00	3,057,435.00	2,602,523.00	3,744,905.00	9,404,863.00
1995	1,895,786.00	6,749,123.00	10,727,957.00	19,372,866.00	1,302,984.00	4,926,886.00	914,829.00	7,144,699.00
1996	2,120,000.00	6,444,224.00	14,178,542.00	22,742,766.00	1,612,295.00	4,884,088.00	2,283,771.00	8,780,154.00
1997	3,869,098.00	9,987,125.00	27,776,716.00	41,632,939.00	3,387,397.00	7,114,854.00	9,089,146.00	19,591,397.00
1998	4,688,814.00	7,066,474.00	39,141,940.00	50,897,228.00	3,977,406.00	5,947,010.00	15,789,582.00	25,713,998.00

Source: Compiled from various reports of City Administration of Adama

Table 25 Actual expenditure of City Administration of Adama (1989.1998E.C.)

Year	Actual expenditure by expenditure types				Total	Growth rate in %		
	Salary	Operating Expense	Recurrent	Capital		Recurrent	Capital	Total
1989	894,721.00	1,989,872.00	2,884,593.00	1,923,963.00	4,808,556.00			
1990	937,448.00	1,792,082.00	2,729,530.00	593,449.00	3,322,979.00	-5.4	-69.1	-30.9
1991	952,409.00	2,857,729.00	3,810,138.00	3,378,401.00	7,188,539.00	39.6	469	116.3
1992	958,743.00	3,723,117.00	4,681,860.00	5,558,774.00	10,240,634.00	22.9	64.5	42.4
1993	1,012,946.00	3,905,855.00	4,918,801.00	3,151,410.00	8,070,211.00	5.1	-4.3	-21.19
1994	3,057,435.00	2,602,523.00	5,659,958.00	3,744,905.00	9,404,863.00	15.1	18.83	16.5
1995	1,302,984.00	4,926,886.00	6,229,870.00	914,829.00	7,144,699.00	10.1	-75.6	-24
1996	1,612,295.00	4,884,088.00	6,496,383.00	2,283,771.00	8,780,154.00	4.3	149.6	22.9
1997	3,387,397.00	7,114,854.00	10,502,251.00	9,089,146.00	19,591,397.00	61.6	298	123.1
1998	3,977,406.00	5,947,010.00	9,924,416.00	15,789,582.00	25,713,998.00	-5.5	73.7	31.2
Average	1,809,378.40	3,974,401.60	5,783,780.00	4,642,823.00	10,426,603.00	16.42	102.74	30.70

Source: Computed from various reports City Administration of Adama

### **5.2.2. Structure and Growth Trend of Recurrent Expenditure**

Recurrent expenditure can be structured in to general operating and Administrative and municipal services. A close look at expenditure reports of the city administration reveals that, out of total expenditure general operating and administrative expense accounts for the highest portion of the total municipal expenditure. This implies that the resources allocated for expansion of services is minimal as compared to other categories of recurrent expenditure. General administrative expenditures shows an in creasing trend from 1.653 million in 1989 E.c to 7.958 millions in 1998 E.c with average annual growth rate of 24.8 Percent while the municipal expenditure shows an increasing trend from 1.23 millions in 1989 E.c to 1,96 millions in 1998 E.c at average annual growth rate of 13.3 percent. The details municipal expenditure by major expenditure categories is presented in Table 26.As can be seen from Table 26, the highest percentage of recurrent expenditure goes for general operating and administrative expenses. Out of this wages and salaries took the major share followed by office operations, supplies and utilities and the least share goes for office equipment (Annex 2). The highest proportion of the expenditure being allocated for wages and salaries may indicate that the municipality is spending more on labor intensive activities. Wages and salaries have been growing at an accelerating rate. The rest of recurrent expenditure also shows an increasing trend with some degree of fluctuations.

Table 26 Recurrent Expenditure of Adama City by Major Expenditure Category (1989-1998E.C.)

Year	Major Category of Recurrent Expenditures			Growth rate in %	
	General oper.& admini.	Municipal services	Total Recurrent	General oper.& admi.	Municipal services
1989	1,653,038.80	1,231,553.87	2,884,592.67		
1990	1,805,386.21	924,143.07	2,729,529.28	9.21	-25
1991	2,289,776.03	1,520,361.56	3,810,137.59	26.83	64.51
1992	2,429,594.69	2,252,264.98	4,681,859.67	6.12	48.14
1993	2,648,358.72	2,270,442.32	4,918,801.04	9	0.8
1994	4,210,226.74	1,449,731.72	5,659,958.46	59	-36.15
1995	3,737,283.09	2,492,586.93	6,229,870.02	-11.23	71.93
1996	3,901,827.91	2,594,555.51	6,496,383.42	4.4	4.09
1997	9,052,435.73	1,449,814.95	10,502,250.68	132	-44.12
1998	7,958,874.10	1,965,541.90	9,924,416.00	-12.08	35.57
Total	39,686,802.02	18,150,996.81	57,837,798.83	223.25	119.77
<i>Average</i>	<i>3,968,680.20</i>	<i>1,815,099.68</i>	<i>5,783,779.88</i>	<i>24.81</i>	<i>13.31</i>

Source: Computed from various reports of City Administration of Adama

Municipal services are very large in their structure. The list of municipal service includes sanitation services, fire and flood protection, sport services etc. However, owing to data constrains some times it is hard to find the expenditure of some specific services such as public registration, technical services and slaughter houses. Nevertheless, the rest of municipal services have shown a growing trend. For example, sports services expenditure is the one that grows at an accelerating rate. This implies that the municipality has shifted from focusing only on core services to social services.

On the other hand, the demand for municipal services is high. If we take into consideration the public response, over service provision, it can be said that the municipality hardly satisfies the demand for service provision both from residents and business community. Although, there might be constraints in improving service provision, it is reasonable to argue that the municipality is short of efforts to expand these services.

Residents' responsive over municipal service provision is critical. Some argues that the municipality is near to forgetting its responsibility as service provider. The other group further argues that the service provision is extremely low. The following table summarizes the respondents view over the level of provision of core urban services (water supply, dry waste collection, liquid waste management, road maintenance, fire brigade& street lighting).

Table 27 Significance of core urban services provision as perceived by Household/residents respondents

Question /response	No.	%
<i>Question</i> Does the service coverage of core urban services are significant?		
<i>Response</i>		
a) Yes ,the service coverage is substantial	-	-
b) Yes, the service coverage is moderate	2	3.6
c) Yes, but the service coverage is low	16	28.6
d) the service coverage is extremely low	38	67.8
e) Other Comments	-	-
Total	56	100.00

Source: Survey Data

Respondents from business community further question the charges they pay for sanitation services in absence of such a service. As discussion with tax officers reveals the municipalities adds the charges for sanitation on every payments be it taxes or non-taxes payments. The following table shows the business community's response over the adequacy of urban services provision.

Table 28 Adequacy of urban services provision as perceived by business community respondents

Question /response	No.	%
<i>Question</i> Do you get sufficient urban services such as water supply, road maintenance, sanitation services, etc?		
<i>Response</i>		
a) Yes	18	36
b) No	32	64
c) I don't know	-	-
Total	50	100.00

Source: Survey Data

### **5.3. Expenditure Management**

The expenditure management consists of expenditure planning, budget allocation and execution, accounting and auditing practices. Proper expenditure management will help to attain development objectives by promoting effective and efficient utilization of scarce resources. Besides, expenditure management relates the financial resources at hand to expenditure responsibilities of the City Administration

#### **5.3.1 Expenditure Planning**

The five year development plan prepared by City Administration of Adama revealed that, expenditure planning is based on annual incremental approach. This approach favors annual increment of a certain percent with out referring to changing socio-economic condition. The budget prepared annually did not have detailed description of expenditure categories. In addition to lack of detailed descriptions it does not show priority area of municipal expenditure. Expenditure planning is usually under estimated in fear of insufficient revenue generating capacity. However, what is observed in practice at city administration of Adama is that the revenue collected always surpassed the total expenditure with exception of the year 1992E.C. A close looks at the Table 29 indicates this scenario.

Table 29 Planned and actual local revenue and expenditure of City Administration of Adama (1989-1998 E.c)

Year	Revenue( in mln.Birr)			Expenditure( in mln.Birr )		
	Plan	Actual	Performan %	Plan	Actual	Performan. %
1989	4.53	6.11	135	5.21	4.81	92.3
1990	4.81	5.31	110	9.85	3.32	33.7
1991	6.64	6.21	94	17.04	7.19	42.2
1992	10.36	7.64	71	18.69	10.24	54.8
1993	11.11	8.30	76	16.68	8.07	48.4
1994	13.37	8.82	68	20.19	9.40	46.5
1995	13.55	11.45	84	19.37	7.14	36.8
1996	28.06	15.26	58	22.74	8.78	38.6
1997	38.88	26.87	69	41.63	19.59	47.1
1998	42.77	40.08	94	50.90	25.71	50.5
Average	17.40	13.60	79	22.23	10.42	46.8

Sources: computed from various reports of city Administration of Adama

As can be seen from the above table with the exception for the year 1992 E.C. annual total expenditure was able to be covered by annual revenue. Moreover, the comparison of average revenue collected and expenditure for year 1989 E.C. to 1998 E.C. shows that, the city administration has managed to have about  $3,180,000 \times 10 = 31,800,000$  Birr retained earnings or unspent fund after covering all expenditures.

This unspent fund can be utilized for refinancing by balance forward approach in each years budget allocation. However this was not the case in city administrations budget allocations of the period under consideration. This situation indicates the shortcomings or lack of expenditure planning.

Further, as can be seen from Table 29 the planning process emphasized only the expenditure side. Expenditure plans are always more than the revenue plan for the years under consideration. This implies that the city Administration plans to expend more than what it collects. In addition to this, it can be argued

that the expenditure planning is biased in favor of expenditure side by not looking in to the revenue side of planning process.

If we compare the actual expenditure of capital budget with that of approved one the executed budget is by far the lowest. The following table indicates this situation.

Table 30 Plan and actual expenditure of capital budget(1989 – 1998E.C.)

Year	Plan/ Budgeted mln. birr	Actual/executed min Birr	Differ. mln Birr	% actual/ budget
1989	4.07	1.92	2.15	47.2
1990	6.07	0.59	5.48	9.7
1991	12.38	3.38	9.0	27.3
1992	13.53	5.56	7.97	41.1
1993	10.72	3.15	7.57	29.4
1994	12.82	3.74	9.08	29.2
1995	10.73	0.91	9.82	8.5
1996	14.18	2.28	11.9	16.1
1997	27.78	9.09	18.7	32.7
1998	39.14	15.79	23.35	40.3
Average	15.14	4.64	10.50	28.2

Source: Computed form various reports of city Administration of Adama

As can be seen from the above table from 1989 E.C to 1998 E.C averagely only 28.2% of the total planned capital budget was executed or implemented. This clearly reveals that the City Administration is encountered with huge implementation problems of capital budget.

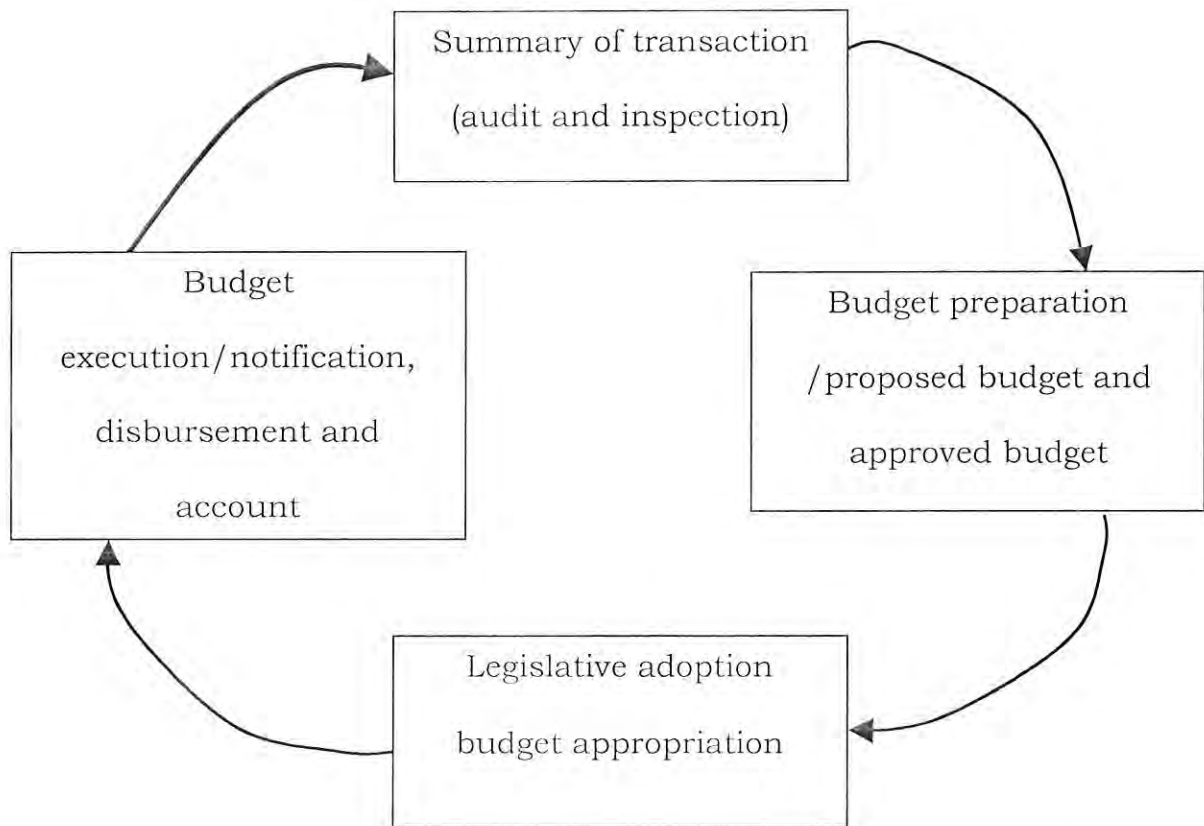
Medium term fiscal planning is an important tool in guiding annual plan in which framework the annual budget allocated to different budget requesting units. The financial strategic plan is said to be sound when it is based on forecast of resources. As interviews with Planning and Programming Service and Administration and Finance Service of the City Administration show that there is no practice of medium term fiscal planning. But, there was an attempt of expenditure and revenue forecasting on linear basis while preparing the city Administration, strategic plan and Adama master plan project.

### **5.3.2 Budget Allocation and Execution**

Budgeting has two phases. One is for planning and the other one is for budgeting. The budget process that covers until submitting the proposed budget constitutes the planning phase of budgeting. Likewise, the budget process that covers until notification of the appropriated budget including implementation of the proclaimed budget constitutes the budgeting phase (MEDAC, MOF & DSA 2000:97) Both planning and budgeting phases are not well organized in municipal budgeting of the city Administration of Adama particularly, it can be noted that the planning phase is the missing link in the budget system.

Development policies and plans have usually been realized in financial resource allocation i.e. annual budget. The resource is allocated through budget process. The purpose of budget process is not equating revenue to government spending alone; it is rather a complex process including policy of statement planning, monitoring and reporting process. Moreover, the budget and its process is also an important public document that ensures transparency accountability and good governance. The budget process can be better explained by a cyclical recurring nature of a set of activities to determine resource allocation and implementation i.e. budget cycles. The budget cycle has four main stages .The following figure illustrates the budget process /budget cycle.

Figure 2 The Budget Process



Source: Adopted from (MEDAC, MOF & DSA, 2000)

At the local level it is important to mention that the budget process is one of the mechanisms by which we may track the level and practice of public participation. Budget is an area where in people with their representatives and government with its executive bodies, policy makers and experts participate and deliberates on budget decision making process. As an interview with Planning and Programming Service of the City Administration reveals the budget making process lacks comprehensiveness and guiding principle. In addition to lack of guiding principle chart of accounts are not known in municipal budgeting.

Cost centers are known as one of the key tools for sound financial management and budgeting. Cost centers allow proper information on cost structures and

can help to determine the price for services delivered to public. Until recently the regional guidelines for budget preparation of state function recommends the establishment of cost centers. Since, 1997 E.C. the method have been changed to unit cost method. However, both cost centers and unit cost method have never been adopted to municipal budget system. Thus, the City Administration should create the cost centers for proper budgeting and sound financial management . Besides, price determination of services also calls for creation of cost centers.

With regards to comprehensiveness of the budget system of the municipality two issues are worth mentioning i.e. whether the strategic plan is linked with annual budget and the City Administration is using combined budget to meet local expenditure priorities. The city administration argues that its strategic plan directly linked with annual budget. However, a close examination of strategic plan and budget for 1997 E.C. and 1998 E.C. reveals that this is not the case. Some of The development projects proposed was not in the annual budget and there were capital projects in annual budges that were not mentioned in strategic plan.

At present, there are two budgets in city administration of Adama.i.e.budget for state function and municipal function. But the two budgets, with exception of some times resource transfer from one to the other, have never been combined in planning process. The Mayor Committee of the city approved the budget for state function and municipal function separately. This practice limits the use of combined budget to meet local expenditure priorities. The line of argument is that not to undertake the arithmetic sum of the two budgets. That can not be possible since they are not prepared on the same chart of accounts. But, the separate approval of the two budgets clearly shows that the resource allocation process is not systematically synchronized to planning process.

Since municipalities or local governments are closest to people than regional government, it is assumed that they are in better level of administration where

in public participation in development and governance can be better ensured. Likewise, the relation between strategic plan and annual budget, the city administration still argues that it had fully promoted public participation while preparing budget and strategic plan. However, the respondents to questionnaire have completely different answers on contrary to what the officials the City Administration responded to interviews.

Table 31 Residents response over expenditure Priorities of the City Administration

Question/Response	No	%
<i>Question</i> Are the expenditure priorities of the City Administration coincides with residents?		
<i>Response</i>		
▪ Yes	8	14.3
▪ No	47	83.9
▪ I don't know	1	1.8
Total	56	100

Source: Survey Data

As can be seen from the above table those who respond no to coincidence of priorities have got the major share i.e. 83.9 %. Table 33 also shows similar result for public consultation in City administration's priority setting.

Table 32 Residents response over expenditure priority's consultation

Question/Response	No	%
<i>Question</i>		
Have you ever consulted about expenditure priorities and development projects of city administration?		
<i>Response</i>		
a) Yes, the city administration always consulted with the public	1	1.8
b) Yes, the city administration some times consulted with the public	8	14.3
c) Yes, but the consultations are made to meet formal requirements	1	1.8
d) No, there is no consultation at all	46	82.1
e) Other comments	-	-
Total	56	100

Source: - Survey Data

As can be seen from the above table out of the total of 56 respondents to questioner 1 that says whether the city administration consulted with them while approving annual budget, 46 or 82.1% of them responded that there is no consultation at all. This implies that the city administration has failed to plan with its residents while making an important public decision such as budget.

### 5.3.3. Accounting and Auditing Practices

The city administration of Adama like wise other municipalities in the country is using its own ad hoc accounting system that shows elements of double entry accounting and also single entry system called "Voucher System". The single entry accounting system was in use in federal government accounting system until and of 1994 E.C. and the regional state of Oromia also had been using this system until end of 1996 E.C. The federal government has changed the system to double entry accounting in the year 1995 E.c and the regional government of Oromia followed the suit from 1997 E.C. on wards.

The double entry accounting system introduced in Oromia focused on Woreda Administration and state functions of city administrations. As a result, the

municipality function or the municipality is still using voucher system. As an interview with Finance and Administration service of the City Administration reveals the use of ICT supported accounting is in its rudimentary stage. But, personal computers are used to compile accounting reports and to record some transactions.

Regular reconciliation of fiscal and bank record is one of accounting practices to see the soundness of financial management of cities. Besides the presence and absence of account back logs shows the degree of effectiveness of the accounting system of the given organization. As an interview with Finance and Administration Service reveals that reconciliation of bank and fiscal records has not been carried out in a uniform manner. Sometimes it has been strictly followed and sometimes has been omitted from the system. Account back log of two years are common. There is also huge suspense account in financial reports of some years. The following table describes the suspense account reported in the year 1998 E.C.

Table 33 Suspense account of City Administration of Adama

No	Type of suspense account	Amount	Remark
1	Procurement of construction materials	2,695,000	
2	Wages and salary	120,117	
3	Printing expense	33,854	
4	Perdiem and other	18,206.00	
5	Other operating expenses	3,752,517	
	Total	6,619,714	

Sources: Compiled from Oromia Auditor General Office's Audit Findings reports of 1994 & 1997

The suspense account seen in the above table has been accumulated for about 10 years. The government guideline to settle suspense accounts gives only seven days. However, adherence to this guideline has never been practiced in City Administration's financial management system.

At the local level, the Weredas and State Functions of the city administration have been following some what standard accounting procedures. However municipalities do not have standard accounting procedure. This reality is also true of City Administration of Adama. The absence of standardized accounting procedures hampers financial reporting. Since financial reporting is the crucial issue in management decision, establishing sound financial reporting system should be given due consideration. The lack of standard accounting procedures results in poor financial reporting which in turn shows the absence of chart accounts in the accounting system. As a result, the development of chart of account and its immediate application should be undertaken to solve the problems of standardized accounting procedure and financial reporting.

The audit system of city administration focused mainly on aspects of internal control. Performing audit function on plan basis has not yet practiced uniformly. The audit section of the city administration is busy on non -value added business of checking the regularity of budget and accounts transactions. Safe guarding of treasury and cash is primarily the responsibility of account section. Thus, undertaking this task again by auditor will make auditing a non- value added activity. As an interview with Audit Service Head of the City Administration reveals, the city administration did not produce comprehensive internal audit report for the last 5 years.

With regards to external audit the Oromia Auditor General Office had conducted auditing on accounts of the City Administration for year 1994 and 1997 E.C. The major findings of the office are:-

1. Lack of planning and huge tax arrear in revenue auditing of the City Administration.
2. Irregularities in expenses such as lack of supporting document, absence of receipt while effecting payments
3. Huge un utilized budget especially that of capital budget.
4. Presence of huge unsettled expense account.

5. lack of proper care for City Administration's property
6. Failure to apply the recommended accounting systems such as UDSS accounting system
7. Failure to apply or adopt the auditor's opinion and recommendations.

#### **5.4. The Fiscal Gap**

Measuring the fiscal gap is the comparison of existing balance between revenue available and expenditures and the trend projected in to the future. The former is generally understood in terms of difference between own sources of revenue and their expenditure during the current period budget deficit or surplus. The latter is understood as the trend projected in to the future is concerned with the determination of the future expenditure needs and revenue raising capacity of the municipality. However, calculating future expenditure needs requires complete expenditure data especially on municipal services. The city administration does not have well organized data on expenditure of municipal services. Thus, we resort to the former fiscal gap analyzing method to see the balance between revenue and expenditures for the past ten years (1989 E.C. to 1998E.C.)

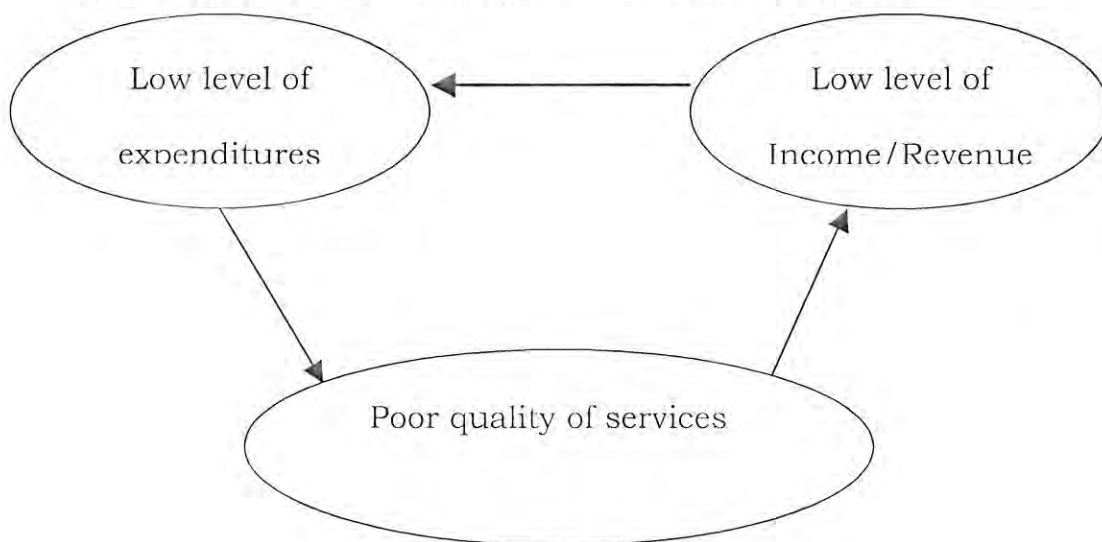
##### **5.4.1. Trend in Fiscal Gap**

What is important in relation to fiscal gap is the efficiency of expenditure management, sources of financing the deficit and effectiveness of using the surplus. The size and the nature of the gap is a crucial input to evaluate the sources of revenue and develop measures to bridge or minimize the gap. As discussed earlier revenue from local sources used to finance recurring expenditure and revenue from external sources and sales of municipal assets such as land and building is used to finance capital expenditure. However, it is presumed that more expenditure on development of infrastructure and core urban services will eventually bring high economic return. Thus, it can be said that the higher the level of spending, the higher the level of municipal service

(Mathur Parkash, 2001:53). The extent of the gap between revenue and expenditure (fiscal gap) reveals the degree of adequacy of municipal revenue to finance its expenditures. However, a surplus or zero gaps does not necessarily mean that the city administration is efficient and its expenditure management is healthy. Indeed, it may depicts a vicious circle of under spending

characterized by provision of poor quality services, low level of revenue collection and low level or expenditure.

Fig.3 Vicious circle of municipal low level under spending



Source: - Adopted from Mathur Parkash (2001) page 53

Municipal revenue and expenditure ratio may show us the level and trend of the fiscal gap of City Administration of Adama.

Table 34 Municipal Revenue Expenditure Ratio (1989-1998 E.C)

Year	Local Source/ recurrent expenditure	Local source/ total expenditure	Capital receipt /capital expenditure	Total revenue/ total expenditure
1989	2.12	1.27		1.27
1990	1.94	1.59		1.59
1991	2.21	0.86	0.48	1.09
1992	1.63	0.75	0.19	0.85
1993	1.63	1.03	0.44	1.20
1994	1.56	0.94	0.5	1.13
1995	1.84	1.60	3.25	2.02
1996	2.35	1.74	0.53	1.88
1997	2.56	1.37	0.62	1.37
1998	4.04	1.56	0.29	1.55
Average	2.13	1.27	0.79	1.40

Source: Computed from revenue & expenditure reports of  
City Administration of Adama

As can be seen from the above table the financial balance of the municipality shows surplus balance over the 10 year period under consideration with the exception year 1992. The over all average financial balance is 140 % (total expenditure includes the reported road fund expenditure of 4.06 million and 3.09 million for the year 1997 and 1998 E.C. and the amount is excluded while calculating local sources to total expenditure ratio of respective years). The budget deficit of 1992 is due to an increase in capital expenditure and low level of revenue collection. The capital revenue receipt is not enough to finance the capital expenditure responsibilities this may be attributed to lack of access to external sources of revenue and lack of adequate authority to manage capital projects (road fund) and inappropriate planning of capital projects.

The surplus of local revenue over the total expenditure reveals that the city is capable enough to finance itself the present level of low service provision and infrastructural development. However, the last ten year's ratios show a

declining trend. Moreover, the surplus ratio is not the real image of the efficient performance and satisfactory provision of infrastructure and basic services. This is owing to the fact that the city administration prepares its annual plan by under estimating its revenue generating capacities. According to different studies conducted by Adama Master Plan Project Office, the city is providing inadequate services and infrastructure development in many aspects.

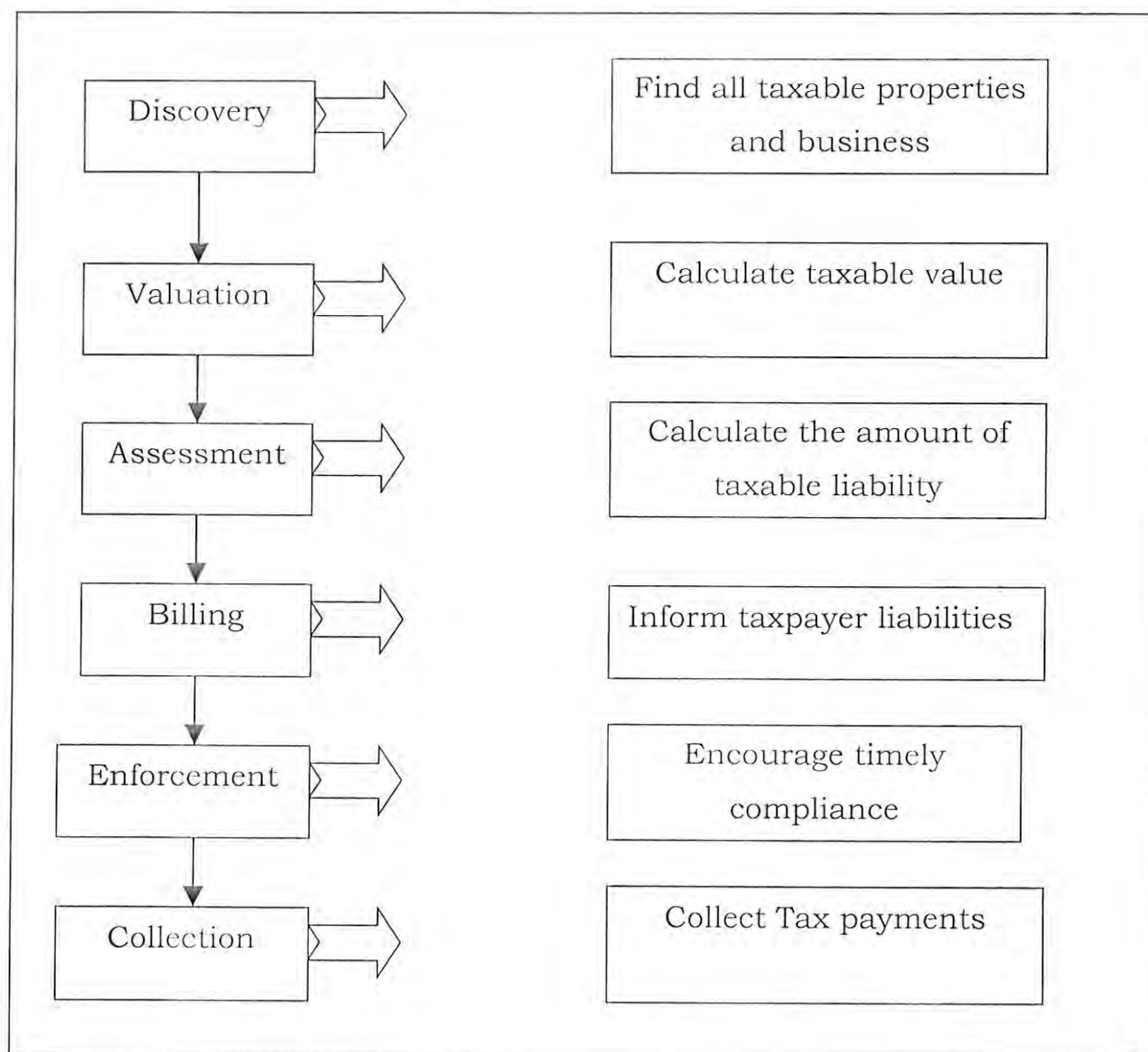
At present the city administration is providing both municipal and state functions which may accordingly increase the burden of municipal expenditure. The line of argument is that existing surplus revenue to expenditure gap is a short run phenomenon which calls for more revenue generating initiatives from the City Administration.

## **5.4.2. Possible Options to Close the Fiscal Gap**

### **5.4.2.1. Revenue Enhancement Plan**

The experience of many developing countries suggests that the major problem in tax collection is not a policy but administration. (Bahl Linn, 1992:32) The well known method of revenue increment is either through improvement in tax administration or revenue base expansion and adjustment in rates. Tax base expansion and increase in rate can be utilized interchangeably or in conjunction in a tax system. However, a thorough identification of a tax base is problematic in developing countries like Ethiopia where in let alone the tax base a complete list of tax payers may not be found easily. Thus, efforts to identify the tax base should be given priority. Efficiency in tax administration might result in increase in revenue yields by implicating a positive change in revenue base expansion. As a result, efforts to increase revenue in urban local governments like City Administration of Adama should adopt a revenue enhancement plan that basis itself on improvement in tax administration. Ideally, the revenue enhancement plan should base it self on sequence of activities involved in tax revenue administration

Figure 4 Sequence of Tax Revenue Administration



Source: Adopted from Mathur Parkash (2001)

As indicated in figure 4 taxable properties and business must be identified in all sectors, with the information systematically collected and maintained them it must be valued. Then tax must be assessed and billed. The bills must be delivered to taxpayer on time. The tax must be collected accordingly and finally if the situation requires, enforcement must be applied timely and effectively sequentially combing this administrative components is critical for an effective tax administration system. The amount of revenue raised depends up on the

cumulative implementation all six steps tabulated in figure 4 i.e. the proportions of taxable properties discovered and identified ,the accuracy of valuations of these properties, the proportion of bills effectively delivered and the proportion of those bills that are paid. Failure at one stage in tax administration sequence can adversely affect successes at the others. This sequential activity must be on going not a one time event. To maximize sustain increase in revenue the revenue enhancement plan should follow this sequential activity.

According to preliminary study conducted by Revenue Department of the City Administration, there are large unidentified taxpayers whose number is assumed to be larger than actual tax payers. The presence of widespread informal activities in almost all sectors, absence of proper legal registration of houses and business, absence of periodic assessment of the existing and new businesses contribute to this large amount un identified tax payers.

If we consider the construction of informal houses, efforts in identification alone can bring about 10,000 houses to tax roll. According to the information obtained from city authorities even those residents who own houses legally, owing to various reasons, do not have property right or title deed that obliges them for tax payment. Hence, the amount tax revenue that could be collected would increase significantly, if efforts in discovery and identification have been intensified. The revenue collected could also increase if proper and periodic assessment was made on informal houses and businesses activities.

Taxable properties can be valued either on basis of rental value or based on income to be generated by business or activity (market or capital value). The widely used approach in valuation of taxable property or business is market information and mass appraisal approach (Bahl & Linn, 1992:83-84). The mass appraisal approach is more appropriate in that it relies on formula so that it relieves the problem of complete discretion of the valuator. Accordingly, the City Administration of Adama could undertake proper valuation of taxable

properties and business so as to yield an increase in revenue. The valuation process must be supplemented by revaluation and up dating. By revaluation and up dating a change in tax base might be discovered. For instance, upon revaluation a change in ownership and new properties or business might be discovered that could enhance the tax roll.

Billing and collection is what followed next to discovery and valuation. Low collection efficiency is one of the major constraints on the yield of tax administration and it can offset any gain made through improvement in discovery and valuation. The past 10 years experience of City Administration of Adama shows that owing to low collection efficiency more than half of current tax revenue is not paid in the year it is supposed to be collected. According to tax regulation, notification about the amount to be paid must be given to the taxpayer annually. However due to absence of efficient billing, collection and enforcement system this was not the case in City Administration until recently. Hence, the City Administration should target two issues to improve the collection efficiency i.e. legal framework and collection administration. The improvement in legal framework should focus on what is liable, what constitutes notification and what penalties shall be imposed. On aspects of collection administration managing the production of bills, monitoring of payments and pursuit of delinquents are the areas that should be given due emphasis.

What has been discussed so far is the revenue enhancement plan by adding efficiency in tax administration i.e. revenue base expansion. It has been observed that improvement in discovery and identification, valuation, billing and collection and enforcement mechanisms could substantially increase the tax yield. However, increasing revenue alone can not be a solution to ever expanding nature of urban finance. The development effort of the city administrations apart from increase and improvement in public services would further demand an increase in infrastructural development and other

development activities. Hence, other methods of urban finance such as municipal borrowing should not be over looked.

#### **5.4.2.2. Municipal Borrowing**

In urban centers like Adama the financial gap that is attributed to infrastructural development and income generating activities can be covered through cautious application of municipal borrowing. The institutional framework for municipal borrowing has been established by urban development policy. This policy stated that the urban local government /city administrations can borrow funds from financial institutions subject to federal and regional control.

The alternative to use credit finance arises from the fact that taxation, user charging and transfers are primarily assigned to meeting operational costs and for urban services .Loan finance or credit finance is often regarded as a natural source of capital funding in many developed and developing countries. In both Britain and United States the bulk of municipal construction has been financed by credit. In contrast to this experience in India , Indonesia and Sweden credit finance is unknown and municipal capital projects are largely financed by budget surplus or grants (the World Bank, 1999)

The arguments against credit use may arise in the presence of budget surplus in cities like Adama. However, the urban development efforts need to be undertaken beyond the scope of annual budget surplus. For instance, the construction of 20 kilometers asphalt road undertaken by the city administration costs 82.2 millions of Birr. This asphalt project is made to be financed by regional grants of 72.2 millions of birr and a 9 million capital contribution of the City Administration. This situation clearly shows that the financing of this asphalt project is beyond the budget surplus of the city administration. Besides, as has been discussed in municipal expenditure the

city administration is characterized by low provision of municipal services. Hence, it is advisable to use a part of surplus fund for expansion of municipal services. It is believed that the expansion of municipal services will eventually increase the municipal revenue. The argument for use of credit arises from the reason that using surplus to services debt rather than for direct capital spending can accelerate development.

The credit worthiness and accountability are two most important issues while using credit or loan finance for urban development. With regards to credit worthiness it is assumed that the properties at hands of the city administration, actual tax collection and potential tax collection can serve as determinants of credit worthiness. Accountability is the issue which should be taken cautiously whiling implementing credit finance. First, borrowing should be approved by city council to insure public participation and the execution of this fund should also be reported to public owing to the fact that the borrowed fund is taken and utilized on behalf of larger public. Besides, debt servicing is out of tax collected from business community and public at large. Regarding the use credit finance for urban development both interviewed business community and the house holds or residents have similar response. The following table describes this situation.

Table 35 Business community and residents' response over the use of credit finance

Question /response	No	%
<i>Question</i>		
Do you agree if city administration borrows money from financial institutions?		
<i>Response</i>		
1. yes	85	80.2
2. No	19	17.9
3. I don't know	2	1.9
Total	106	100.0

Source: Survey Data

In practice the use of credit finance largely depends on the availability of credit and the City Administration's ability to service debt. On aspects of the availability of credit finance the regional government has sought to establish a specialized financial institution that undertakes the activities of Municipal Development Fund. Until then, the City Administration could take a loan from financial institutions on market terms especially for those projects that are determined to be feasible to generate revenue.

The City Administrations capacity to service debt should not be in question in case of projects which generate revenue both for operational costs and repayment of loans. The viability of the project is the basic test to use credit finance. However, in case of projects with no specific revenue return such as roads, drainage or other social services the issue of debt servicing capacity should be analyzed primarily. In practice, a certain percentage of annual revenue collected to determine the debt servicing capacity. Mostly, 15% of annual revenue or a tax base is used to determine the debt servicing capacity (World Bank, 1999:51). The city administration of Adama can adopt this criterion as a threshold to finance development project through credit finance.

#### **5.4.2.3. Other Financing Options**

The mismatch between urban local government functions and the financial resources at hand calls for a variety of options to fill the fiscal gap.

The first option that can be the likely option to fill the fiscal gap is intergovernmental fiscal transfer. However, intergovernmental transfer has to reflect the urban reality and its forms should be restructured to urban local government setting. Conditionality and its effect on revenue mobilization has to be considered while designing inter governmental transfer to city administration like Adama. Conditional, because it has to address the specific issues in urban finance. For instance, intergovernmental transfer should be directed towards financing of infrastructure and utilities. It can also be used to

initiate local tax efforts. Alternatively, intergovernmental transfer might be utilized in combination with available surplus fund so as to promote economical use of financial resources.

As can be noted from our discussion on expenditure planning the City Administration has about 31.8 million financial balance from locally raised revenue alone. If we leave 1.8 million of this financial balance for reserve and use the rest, we may have 30 million surplus fund that can be used for re-financing purpose in combination with intergovernmental transfer. The following table describes the hypothetical use of surplus fund in combination with slide intergovernmental transfer.

Table 36 Slide Intergovernmental Transfer Financing

Year	Intergovernmental transfer	Surplus Fund	Total
1	30	0	30
2	27	3	30
3	24	6	30
4	21	9	30
5	18	12	30
6	15	15	30
7	12	18	30
8	9	21	30
9	6	24	30
10	3	27	30
11	0	30	30

Source: Own Computation

As can be seen from the above table, intergovernmental transfer can be pulled out in 10 years time and the use of surplus fund increased from time to time and will assume its maximum in 10 years time. This approach will make the intergovernmental transfer target oriented and the use of surplus fund economical and plan based. By using this approach the city administrations can finance a number of projects that can raise the tax efforts and expansion of

municipal service provision, infrastructural development, utilities and other developmental projects that could increase the economic base of the city.

Likewise, intergovernmental transfer can be utilized in capital projects financing in combination with loans. Such arrangement might build in the components of credit use financing. But ,the approach could be matching fund not slide intergovernmental transfer owing to the fact hat credit use financing entails other arrangements such as debit servicing and repayment schedules that may not be compatible with nature of intergovernmental transfer.

Other options to close the fiscal gap are the introduction new municipal taxes and charges. As the economy of cities improves there always emerge new activities and the already existing ones are also expanded .This situation necessitates introduction of new taxes and charges. A close examination of existing taxes, fees and charges and the changing economic situation of the city demand an introduction new taxes and charges in: Bus terminal service charge, utility taxes, charges from drainage service provision, municipal sumptuary taxes and municipal spa tax. The introduction of these new taxes may increase substantially the tax revenue of the city at relatively low administrative cost (Bahl & Linn, 1992:236). Table 29 shows newly introduced taxes, and their method of collection.

Table 37 Newly Introduced taxes, method of imposition and area of their use

Type of tax/ charge	Imposed on	Method of collection	Are of use
Bus-terminal service chare	Vehicle owner	Per passenger served/ certain % on ticket	Maintenance of road & Bus terminal
Utility Tax	On direct User	per kilowatt consumed /certain % on bill	street lighting
Charge for drainage service	Building owner	Perm m <sup>2</sup> of floor area	Drainage maintenance
Municipal sumptuary taxes	On direct users	Volume of per sales	On Social projects
Municipal spa tax	On direct users	A certain % on ticket	Development of parks & hot springs.

Source: Adopted from Bahl & Linn, 1992, Page 229-236

The City Administration of Adama presently engaged in various areas of service provision by charging prices that has its origin dates back to three decades ago. Despite minor revision of these charges and fees in 1997 E.C. by management of city administration, the existing user charges and fees do not reflect rational policy and correct pricing. As a result, the adoption of well designed policy of user charges that maximizes cost-recovery should be adopted. The cost recovery approach promotes economical use of scarce financial resources. The best charges from economic efficiency point of view are those that equal to marginal cost of the goods or services supplied. Therefore, the collection of data on costs and its calculation should be given due consideration while imposing new user charges and revising the already existing ones. Accordingly, the City Administration of Adama could undertake revision of the already existing and introducing new user charges so as to increase revenue collected from these sources. The increased revenue obtained by revision of user charge can be utilized to fill the fiscal gap.

Public- private partnership (PPP) is also among other mechanisms to fill the financing gap particularly in areas of provision urban services. At present there is no specific policy to enforce and regulate public private partnership intervention in provision urban services. As a result, the services that could be provided in PPP options have not been identified. However, if we examine the urban service provision of the city services such as waste disposal, public parks, recreation and cultural centers, cemetery, Abattoir services and road maintenance can be handled by PPP options. The possible option of financing of these services could be full cost recovery especially when they are delivered by purely private operators. The important aspect of PPP options is that it eases governmental expenditure thereby filling the fiscal gap.

Generally, the municipal revenue analysis shows an increase in revenue collection. However, revenue collection of the city lacks sustainability and proper planning. There is huge accumulated tax arrear which is largely attributed to inefficiency in collection and enforcement mechanisms. The overall tax administration including the tax assessment method needs an improvement. The municipal expenditure analysis reveals that there is a very slow level of municipal service provision. Moreover, the review of expenditure management shows a very low level capital budget implementation and existence of huge surplus fund. Further, the revenue and expenditure analysis shows the existence of fiscal gap in City Administration's finance.

## Chapter 6

### Conclusion and Recommendation

#### 6.1. Conclusion

Nowadays, it has been increasingly recognized that the ever growing nature of urban areas has undermined policy alternatives such as to slow the rate of migration to urban areas. The shift of emphasis of a policy is driven towards seeking better alternatives to finance urban growth rather than curbing the rate of migration to cities. Urban growth experienced in 1990's has substantially increased the need for urban services whereas the revenues of cities and towns by far lag behind the increased demand for such services. The most likely reason for this situation is urban local governments might be limited to income inelastic sources such as property tax, and transfers from higher level of government. In such cases the gap in financing urban services can be attributed to mismatch between local governments responsibility in providing services and their taxing authority (Bahl & Linn, 1992:472)

Municipal finance in Ethiopia dates back to the time of Imperial Regime. In almost all parts of the country the municipal revenue is collected by regulation enacted three decades ago. With exception of initiative to improve by Regional Government of Amhara and Tigray there was no substantial move to change the outdated rates, duties and fees regulation. Taking into account, factors like, per capita revenue and expenditure; and provision of the core urban services the status of Ethiopian municipalities is one of lowest even by African standard.

A system of decentralized governance under devolved power and functions form of governance is the recent endeavor in the history of the country. Devolved form of governance is taken as the most effective, efficient and responsive form

of decentralization since it provides authority and expenditure responsibility. Moreover, popular participation can be maximized with devolved form of governance. Ethiopia first adopted decentralization at regional level which is followed by woreda/urban local government level. Woredas embarked on decentralization since 2002 and urban local governments since 2004. In Oromia regional government the major legislations that empowered urban local governments like Adama was enacted in 2003 by proclamation no. 65. /2003. This proclamation instituted decentralized urban local government in Oromia Regional Government.

In this paper the review of revenue mobilization and expenditure management efforts of city administration of Adama has been carried out following the present arrangement with primary data and secondary data that covers from 1989 to 1998 E.C.

City Administration of Adama largely depends on local sources of revenue with no regular intergovernmental transfer from the regional government. However, there is only one external sources i.e. road fund. Although there is steady increase in revenue collection and the performance seems remarkably high, the trend does not show the revenue potential of the City Administration. The major problems associated with revenue collection performance are weak revenue base identification, inefficient tax assessment and enforcement mechanisms, slow tax payment procedures and capacity constraints.

Moreover, owing to inability to undertake regular tariff revision that reflect the changing socio economic reality i.e. change in price , income and population growth, the ability to raise additional source of revenue in a sustainable manner have been curtailed. Municipal tax rates, user charges and fees are more than thirty years old and they have not been adjusted in accordance with changes in income, price and population growth.

The buoyancy municipal revenue has been impaired since the revenue collected does not reflect change in population, price and income. Unless the revenue collected from the community and from external sources buoyant enough, it is impossible to cover the increasing demand and cost of producing urban services and infrastructural development.

The major sources of revenue of the city Administration are property tax, business permit tax and lease income. However, the contribution of property tax is low as compared to other developing countries experience. The low yield of property tax can be attributed to failures in administrative and policy aspect. Tax bases of property tax have not yet identified. In addition to this, those identified properties by themselves are in accurately valued. Business permit tax is another major source of revenue. Averagely It accounts for 27% of the total revenue from 1989 E.C. to 1998 E.C. However, there are large numbers of illegal traders who do not pay business permit tax. Had these illegal traders been made to work on license, the revenue collected from business permit tax might be substantial.

One of the sources of revenue of urban centers like Adama is lease income collected from urban land lease holdings. Lease holding was introduced in 1991 . Since then the city administration is collecting lease income from this source. However, there is a huge uncollected arrears of lease income. There has been complaint from tax payers that the lease price is high and an enforcement effort of the city administration is rather weak.

The expenditure of city Adama is predominantly recurrent in nature. From recurrent expenditure a large share goes for general operating and administrative expenditures. Expenditure on municipal services constitutes the lower share of total municipal expenditure. The municipal expenditure analysis reveals that the city administration is short of effort to expand municipal services. On the other hand, there is high demand for such services

from resident and business community. Complains about municipal service is critical. Some further argues that City Administration is near to forgetting its responsibility as service provider.

Any management be it business or governmental to be successful has to plan ahead expenditure management and planning have to get wider role in local government finance. Planning is the missing link both in revenue collection and expenditure of city administration of Adama. Revenue planning is based on incremental approach. This approach of planning does not reflect the changing economic reality. Change in tax base and rate should be incorporated into planning process so as to make planning target oriented. On expenditure side a huge surplus fund observed is attributed to lack of proper expenditure planning. Besides a low implementation level of capital Budget, although capacity constraints contributes to low level of implementation, can be explained by lack of proper planning.

There are problems with the city Administration in setting priority for municipal expenditure. These are particularly manifested in planning and budgeting process. Annual budget hearing and approvals excluded not only public but also concerned experts. As a result, the budget allocated for public services is not properly defended and articulated to include the opinion of public and other stake holders. This has contributed to lack of focus and comprehensiveness in the budgetary system. Lack of participation in budgeting and planning process also contributed to low performance of public service delivery. Moreover, lack of participation magnifies the problem of proper identification of local priorities.

The revenue expenditure balance of the City Administration shows a surplus ratio. However, this does not show the efficiency of City Administration in providing adequate public services and infrastructure provisions. The existence of surplus revenue to expenditure ration reveals that the City

Administration is capable to finance the present level of low service provision and infrastructural development. However, low level of spending entails low level of municipal services which in turn presupposes low level of income or revenue. The low provision of services and infrastructure development and the prevalence of high demand for such services indicate the existence of fiscal gap.

This fiscal gap can be filled with different options. Revenue enhancement plan based on improving the tax administration by adding efficiency on sequential activities of tax administration, i.e. identification, valuation, assessment, billing, enforcement & collection, can maximize the amount of revenue yields. In urban centers like Adama the importance of municipal borrowing in filling the fiscal gap should not be neglected especially in areas of capital financing. The growing demand for infrastructural development and provision of urban services demands additional means of financing that augments the locally raised revenue and external source of finance.

The other options to fill the fiscal gap are: intergovernmental transfer restructured in urban setting, introduction of new municipal taxes, user charge and fees revision based on cost recovery policy and marginal cost pricing approach, public private partnership in provision of services and community participation. These options could substantially increase the municipal revenue and there by to fill the fiscal gap of city administration

## **6.2. Recommendation**

Although there is an increase in revenue from time to time, the City Administration is short of efforts to increase the revenue collected in sustainable manner. Besides, the expenditure management of the City needs improvement. As a result, the following policy and operational measures are recommended to enhance the revenue raising capacity and to improve the expenditure management.

1. On the policy aspect, the regional government has to complete its home work of producing financial regulations and guidelines of municipalities. Although the law that empowered the city the urban local government status promulgated 4 years ago, financial regulation and guidelines have not yet produced. These regulations and guidelines especially important in financial management of cities and towns.
2. For realization of Capital financing that subsequently developed to municipal credit institutions, the regional government has to establish Regional Municipal Development Fund.
3. Improve the tax assessment system. At present the tax assessment is under taken by the committee organized form staff of the municipality alone. This approach raises the question of fairness. The tax payers are willing to pay taxes when they feel they are being taxed fairly, therefore, the tax assessment and the tax appeal procedures should include a representative from businesses community or tax payers so as to ensure fairness in tax levy.
- 4 Generally, overall tax reform should be preceded by improvement in tax administration. Improving the tax administration might have positive effect on revenue base expansion which makes the subsequent change in rate easier for implementation.
5. Both revenue planning and expenditure planning has serious shortcomings; As a result, a reform in planning process has to be undertaken soon
6. The reform in the budget process has to be undertaken so as to include community participation in planning and budgeting process. Cost centers and chart of accounts have to be developed and implemented in budgeting and financial management.

7. The annual plan and budget should incorporate the surplus fund financing approach by redirecting the available surplus balance for financing of urban services and infrastructural development.
8. Policy for public-private partnership intervention has to be formulated and the options should be applied in urban service provision areas in which the option of closing the fiscal gap of the City Administration might be maximized.

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## Annex 1

## City Administration of Adama -Revenue Sources and Collection 1989-1998 E.C.

No	Revenue Title	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>A</b>	<b>Tax Revenue (A)</b>	<b>4,692,367.26</b>	<b>3,608,976.75</b>	<b>3,965,298.94</b>	<b>3,900,979.79</b>	<b>3,392,401.40</b>	<b>3,480,020.89</b>	<b>4,067,025.66</b>	<b>5,040,455.39</b>	<b>7,649,740.03</b>	<b>11,282,114.27</b>
	Renewals of trade license	857,029.09	956,690.48	1,106,047.81	1,075,699.57	1,068,520.22	1,053,269.48	1,287,363.62	1,588,860.95	1,267,340.79	2,075,392.48
	Cattle Market taxation	415,226.45	493,458.00	470,938.75	410,548.75	595,713.95	468,264.00	556,099.25	784,259.50	1,154,359	1,270,341.90
	Land rent	763,879.61	776,178.20	755,196.42	906,696.68	444,732.71	478,920.90	531,510.51	1,045,857.69	2,481,367.53	3,540,182.79
	House rent Tax	824,782.97	883,329.27	1,205,986.93	1,192,598.00	773,209.53	742,001.66	781,424.45	366,547.87	361,134.32	528,146.96
	Vehicles Road Tax	54,058.50	31,094.18	28,422.30	29,304.24	35,763.70	77,955.55	63,476.00	110,139.40	87,971.90	997,481.41
	Miscellaneous Tax and Rent	1,655,049.61	272,016.62	238,856.99	96,060.01	239,005.60	290,053.52	510,783.85	512,851.21	677,821.90	837,125.56
	Contract registration Revenue	122,341.03	196,210.00	159,849.74	190,072.54	235,455.69	369,555.78	336,367.98	631,938.77	1,619,744.59	2,033,443.17
<b>B</b>	<b>Service Income -Total (B)</b>	<b>1,077,326.28</b>	<b>1,262,537.89</b>	<b>1,877,030.11</b>	<b>1,694,927.40</b>	<b>2,356,892.39</b>	<b>2,391,817.45</b>	<b>3,409,614.72</b>	<b>3,749,392.65</b>	<b>10,292,992.52</b>	<b>13,311,830.93</b>
	Cleaning Service	101,632.30	99,431.95	111,278.00	94,073.83	88,629.40	74,302.25	76,870.65	111,698.96	181,120	333,698.30
	Recreational place and parking Service								17,817.65	46,267	39,087.55
	Technical Works Service	752,075.48	904,875.75	1,489,802.90	1,063,001.66	1,971,179.03	1,903,221.84	2,500,446.73	2,870,641.16	7,902,713.27	743,804.63
	Charges for title deeds and plan blue print										8,482,318.16
	Electrical Poles fee				272,000.00						
	Slaughter house service	193,549.75	191,962.83	221,029.00	211,762.70	242,265.50	236,172.50	327,787.50	358,164	658,277.50	956,446.48
	Burial Place	1,935.00	6,445.17	8,810.00	9,665.00	9,130.00	6,805.00	5,215.00	5,810	6,431.45	8,149.00
	Marriage, Birthday certificate Service	10,140.00	11,080.00	12,921.00	10,612.00	15,810.00	15,570.00	16,553.00	34,604	42,905.33	51,846
	Miscellaneous revenue	17,993.75	48,742.19	33,189.21	33,812.21	29,878.46	41,697.10	199,225.55	62,881.71	492,933.93	2,245,607
	Revenue from sales of invoice					119,380.00	114,048.76	283,516.29	287,775.17	439,730.24	450,873.81
	Bus Terminal service income									522,614.10	
<b>C</b>	<b>Property Income</b>	<b>338,816.88</b>	<b>443,645.11</b>	<b>373,658.81</b>	<b>616,538.13</b>	<b>423,648.73</b>	<b>435,100.53</b>	<b>967,720.96</b>	<b>2,634,683.13</b>	<b>3,363,736.89</b>	<b>8,551,847.60</b>
	Rent from fixed Asset	211,569.48	265,049.95	221,469.02	314,509.36	384,696.95	409,351.87	861,453.66	629,745.31		164,811.95
	Market Shade Rent	65,824.65	79,202.35	11,352.19	16,349.00	19,920.90	15,776.75	84,648.33	1,205,069.69	1,593,080.59	888,859.87
	Machineries Rent	18,710.00	1,075.00	5,390.00	3,460.00	6,150.00	3,860.00	9,140.00	1,750		
	Sales of fixed Asset	20,768.00	3,281.00	28,251.60	5,060.00	659.00	210.00				
	Miscellaneous wind fall gain	21,944.75	95,036.81	107,196.00	277,159.77	12,221.88	5,901.91	12,478.97	516,803.75		5,785,489.11
	Income from parking service										2804.1
	Rent from government houses								281,314.38		1,709,882.57
	Rent from business centers									870,074.82	
	Rent from residential houses									900,581.48	
<b>D</b>	<b>Arrears (D)</b>					678,616.10	1,203,924.60	881,510.60	1,625,564	1,308,066.71	1,495,883.94
	<b>REGULAR INCOME TOTAL (A+B+C+D)</b>	<b>6,108,510.42</b>	<b>5,315,159.75</b>	<b>6,215,987.86</b>	<b>6,212,445.32</b>	<b>6,851,558.62</b>	<b>7,510,863.47</b>	<b>9,325,871.94</b>	<b>13,050,095.17</b>	<b>22,614,536.15</b>	<b>34,641,676.74</b>
<b>E</b>	<b>LAND LEASE INCOME (E)</b>				1,426,045.78	1,450,569.33	1,307,118.09	2,125,632.55	2,215,235.74	4,260,360.77	5,435,387
<b>F</b>	<b>TOTAL LOCAL SURCES OF REVENUE</b>	<b>6,108,510.42</b>	<b>5,315,159.75</b>	<b>6,215,987.86</b>	<b>7,638,491.10</b>	<b>8,302,127.95</b>	<b>8,817,981.56</b>	<b>11,451,504.49</b>	<b>15,265,330.91</b>	<b>26,874,896.92</b>	<b>40,077,063.74</b>
<b>G</b>	<b>EXTERNAL SOURCES (ROAD FUND)</b>			1,634,000.00	1,064,000.00	1,385,369.91	1,869,243.00	2,962,353.70	1,206,685	5,655,338.00	4,619,660
<b>H</b>	<b>INCOME GRAND TOTAL</b>	<b>6,108,510.42</b>	<b>5,315,159.75</b>	<b>7,849,987.86</b>	<b>8,702,491.10</b>	<b>9,687,497.86</b>	<b>10,687,224.56</b>	<b>14,413,858.19</b>	<b>16,472,015.91</b>	<b>32,530,234.92</b>	<b>44,696,723.74</b>

Source: City administration Of Adama

**Annex 2**

<b>Expenditure of City Administration of Adama (1989-1998) E.C.</b>											
	Types of expenditure/year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>A</b>	<b>Recurrent Expenditure</b>	<b>2,884,592.67</b>	<b>2,729,529.28</b>	<b>3,810,137.59</b>	<b>4,681,859.67</b>	<b>4,918,801.04</b>	<b>5,659,958.46</b>	<b>6,229,870.02</b>	<b>6,496,383.42</b>	<b>10,502,250.68</b>	<b>9,924,416.00</b>
1	<b>General Operation &amp; Administrative</b>	<b>1,653,038.80</b>	<b>1,805,386.21</b>	<b>2,289,776.03</b>	<b>2,429,594.69</b>	<b>2,648,358.72</b>	<b>4,210,226.74</b>	<b>3,737,283.09</b>	<b>3,901,827.91</b>	<b>9,052,435.73</b>	<b>7,958,874.10</b>
	Wage and salary	937,444.79	962,725.57	952,408.88	958,743.07	1,012,946.30	3,057,435.00	1,302,984.00	1,612,295.310	3,387,397.26	3,997,406.19
	Office equipment	30,880.80	39,609.40	67,640.70	224,300.99	96,318.36	69,284.33	547,912.21	479,433.71000	3,081,764.62	1,392,364.67
	Office operation & utility	389,294.49	461,014.92	759,810.79	720,341.57	1,054,529.10	660,993.81	883,430.15	952,548.1500	1,243,162.04	1,062,385.98
	Maintenance of vehicle & equipment	223,641.03	205,067.11	404,469.59	369,657.50	386,377.38	380,095.20	585,208.51	443,646.83	595,264.73	520,464.93
	Misellaneous unexpected expenditures							158,224.40	247,898.12	225,220.71	332,313.14
	Others	71,777.69	136,969.21	105,446.07	156,551.56	98,187.58	42,418.40	259,523.82	166,005.79000	519,626.37	653,939.19
2	<b>Social Services</b>	<b>332,701.57</b>	<b>367,750.47</b>	<b>550,418.56</b>	<b>1,256,690.08</b>	<b>1,279,884.42</b>	<b>1,319,688.02</b>	<b>1,684,101.93</b>	<b>1,864,655.21</b>	<b>1,376,291.59</b>	<b>1,815,541.90</b>
	Sport services	137,577.23	164,741.75	284,097.10	858,960.48	999,976.49	1,169,455.50	1,101,182.67	919,326.01	672,884.05	916,724.40
	Sanitation Services	138,716.67	146,005.57	213,736.15	268,580.74	198,113.00	38,820.41	387,423.81	359,291.53	29,127.50	55,392.03
	Water supply and electricity							135,049.54	449,698.69	485,740.62	577,121.01
	Fire and flood protection	13,131.72	526.00		47,518.17	20,000.00		11,517.91	27,260.18	12,954	4,015
	Slaughter house service									38,476	34,188.76
	Park and recreational sevices									27,372	119,570.20
	Budget subsidy for Ambulance(Red							45,000.00	106,430.80	106,430	100,000.00
	Charity and donation	43,275.95	56,477.15	52,585.31	81,630.69	61,794.93	111,412.11	3,928.00	2,648.00	3,307.50	8,530.50
3	<b>Economic services</b>	<b>898,852.30</b>	<b>556,392.60</b>	<b>969,943.00</b>	<b>995,574.90</b>	<b>990,557.90</b>	<b>130,043.70</b>	<b>808,485.00</b>	<b>729,900.30</b>	<b>73,523.36</b>	<b>150,000.00</b>
	Maintenance of house, road & public square	898,852.30	556,392.60	969,943.00	995,574.90	990,557.90	130,043.70	808,485	729,900.30	73,523.36	150,000
<b>B</b>	<b>Capital Expenditure</b>	<b>1,923,963.39</b>	<b>593,449.62</b>	<b>3,378,401.55</b>	<b>5,558,774.15</b>	<b>3,151,409.91</b>	<b>3,744,904.65</b>	<b>914,829.00</b>	<b>2,283,770.55</b>	<b>9,089,146.32</b>	<b>15,789,582.00</b>
	Vehicle and machinery cost	809,440.11	106,521.75	1,170,137.70	1,419,036.50	344,637.40	1,307,332.90	180,774.68	973,478.5300		
	Social services	126,179.79	50,940.05	776,728.95	140,581.85	827,796.11	580,300.05	45000	106,430.0000	430,980.62	4,618,995.80
	Economic services	988,343.49	435,987.82	1,431,534.90	3,999,155.80	1,978,976.40	1,857,271.70	689,054.32	1,203,862.020	8,658,165.70	11,170,586.20
	Contingency for capital projects							161,885	247,068.000		
	<b>Total Municipal Expenditure</b>	<b>4,808,556.06</b>	<b>3,322,978.90</b>	<b>7,188,539.14</b>	<b>10,240,633.82</b>	<b>8,070,210.95</b>	<b>9,404,863.11</b>	<b>7,144,699.02</b>	<b>8,780,153.97</b>	<b>19,591,397.00</b>	<b>25,713,998.00</b>

*Source: City Administration of Adama*

**ADDIS ABABA UNIVERSITY**

**DEPARTMENT OF REGIONAL AND LOCAL DEVELOPMENT STUDIES**

**SEMI-STRUCTURED INTERVIEWS**

The objective of this questionnaire is to gather information from Finance, planning & Revenue Department staff regarding the source of revenues, its collection, utilization and administration and the expenditure management efforts of City Administration of Adama. The data will be used to write Master's Thesis in Regional and Local Development Studies at the Addis Ababa University. The study aims at identifying the problems of revenue collection and expenditure management efforts of the city administration and tries to indicate ways and means to minimize them.

**Part I General Information**

1. Age \_\_\_\_\_
2. Education \_\_\_\_\_
3. For how long you lived in the town? \_\_\_\_\_
4. Your Position \_\_\_\_\_

**Part II Questions**

**A) General & Issues on Tax**

1. What are the legal bases of the city administration to levy taxes, user charges and fees?
2. Is enough mandates have been given to the city Administration?
3. Does the city administration have the authority to revise tax rates?
4. What are revenue sources of the municipality?
5. Which of the following can be cited as the problems of revenue collection?
  - a) Low level of compliance
  - b) Tax assessment problems
  - c) Tax payers do not maintain book of accounts or hide their income
  - d) Shortage of tax collection staff
  - e) Inefficiency in collection
  - f) Others
6. What are the measures taken to solve the problems?
7. How often you make periodic assessment on taxable properties and businesses?
8. What are the factors that affect collection efficiency in property taxation?
  - a) Valuation
  - b) Assessment
  - c) Billing
  - d) Others

## **Annex 3**

9. What are the problems over the years in areas of tax?
  - a) Identification
  - b) Valuation
  - c) Assessment
  - d) Billing
  - e) Enforcement
  - f) Collection
10. What are the magnitude of tax arrears in property taxation and other types of taxes?  
How much of the taxable properties have not yet assessed?
11. Do you have revenue sources, which are not yet effective? or not implemented?
12. What are the major problems encountered in revenue collection procedure? Are the following factors parts of the problem?
  - a) Out dated tariff rates
  - b) Weak institutional capacity
  - c) Bureaucratic constraint
  - d) Community attitude
  - e) Increase in illegal trade activities
  - f) Poor enforcement mechanism and insufficient legal support.
13. Have you ever undertaken
  - a) A study how to increase existing tax base and rates
  - b) Tax comparison with other jurisdictions
  - c) Review of fees and service charges
  - d) Introduction of new taxes and other revenue sources.

### **B) Service Charge and Fees**

14. How does cost of services related to charges in your organization?
15. What are the problems observed in relating costs to charges?
  - a) Absence of service charge computational methodology
  - b) Lack of data
  - c) Absence of categorization of service
  - e) Absence of cost- centers administration of budget
16. Service charges and fees are said to be too many and costs more to administer. Can streamlining be a solution to this problem?
17. What do you recommend as to how the public services should be financed?
  - a) From general or municipal tax revenue
  - b) By charging direct beneficiary
  - c) By cross subsidizing
  - d) Other methods

## Annex 3

18. What are areas of public private partnership and purely private takeover in providing public services? Would you suggest some areas of intervention?
19. Can you mention problems that may be encountered in implementing public private partnership and privatization of public services?
20. What do you propose or recommend on service charge pricing or cost recovery?
  - a) Full cost recovery-in what types of services and why?
  - b) Subsidy- in what type of services and why?
  - c) Cross-subsidy in what type of services and why?
21. Do you have service quality standards? If not why? What do you think the shortcomings of not having quality standards?

### **C) Expenditure Management**

22. What is the level of variation between budget and actual expenditure?
  - a) Budget and actual expenditure are closely matched  
(a very good level of planning)
  - b) Budget and actual expenditure are some how matched  
(inconsistence planning that needs improvement)
  - c) Budget and actual expenditure are divergent  
(lack of planning)
  - d) Actual expenditure is higher than budget  
(unplanned financing)
23. What is the self-sufficiency level of jurisdiction when explained in terms of proportion of own revenue from total actual expenditure?
  - a) Relatively higher level of revenue collection
  - b) A moderate level of revenue collection, which needs improvement
  - c) A limited level of revenue collection
24. How do your rate budget utilization capacities when actual total revenue (grant, subsidies & won revenue) compared to actual total expenditure.
  - a) Budget and actual expenditure are closely matched  
(a very good level of planning)
  - b) Budget and actual expenditure are some how matched(inconsistent planning that needs improvement)
  - c) Budget and actual expenditure are divergent (lack of planning)
  - d) Actual expenditure is higher than budgeting (unplanned financing)
25. What is the financial management status of the city administration when explained in terms of?
  - 1) Linkage of strategic plans and budget allocation
  - 2) Producing progress and monitoring reports.
    - a) A strategic plan is used and budgets are allocated based on this plan and there is high degree of transparency in reporting

## **Annex 3**

- b) A strategic plan is used but budgets are not allocated based on this plan and transparency in reporting is unsatisfactory.
  - c) The financial management status is poor.
26. How do your rate efficiency and comprehensiveness of accounting and auditing procedures in terms of:
- a) Use of double entry accounting
  - b) ICT assisted accounting
  - c) Regularity of reconciliation of financial and bank records
  - d) Existence of account backlogs
  - e) State of internal and external Auditing.
27. Would you explain the budget process of the city Administration?
28. Do you have medium term fiscal planning? Is it linked to annual budget allocation?
29. Is budget allocation related to programs of city administration units?
30. What are the major problems of budget execution/implementation?
31. What are the factors that have much influence in capital budget implementation?
- a) Lack of project planning
  - b) Absence of qualified staff
  - c) Low capital budget allocations
  - d) Others
32. Do the budget requesting units have proper guidelines, standards or unit cost in preparing budget?
33. How does budget recommended or approved at city administration level?
34. How often external Auditors audit the city administration? What are the major audit findings and recommendations of external auditors? Would you explain how long you have adopted the auditor's recommendations?
35. Would you explain the procurement system of the city administration? What are the major problems encountered in procurement administration of the city government?

### **D) Inter Governmental Transfer & Municipal Borrowing**

36. Currently the regional government allocates inters governmental transfer for state function of city Administration alone, what is your comment on this issue? Do you think the municipality function should also be provided with inter governmental transfer?
37. Would you comment on the importance of municipal development fund in enhancing municipal finance?
38. What do you suggest about using municipal borrowing in areas of developmental activities and commercial activities of city administration?
39. Are the areas of utilizing municipal borrowing should be restricted?
40. You're other comments, suggestion and recommendation please.

**Thank you.**

**ADDIS ABABA UNIVERSITY**  
**DEPARTMENT OF REGIONAL AND LOCAL DEVELOPMENT STUDIES**

**PART II. Interviews and Discussion**

This in depth interview is for policy makers and officials of city Administration of Adama, Finance and Economic Development Bureau bureau of Revenue, bureau of Works and Urban Development and Oromia Urban Planning Institute. It tries to cover areas of urban development policy, Planning and some major operational aspects of urban finance:

**I General Information**

Age \_\_\_\_\_

Education \_\_\_\_\_

Position \_\_\_\_\_

Your Organization \_\_\_\_\_

**II. Questions**

1. Under the present arrangement urban local government are made to have both municipality functions and state functions. Is this arrangement a feasible option in the long run?
2. Is there overlapping of function between municipalities and other government institutions?
3. The financial management of urban local governments like Adama has two faces i.e. one for municipality and the other one for state functions. Is streamlining is possible so as to avoid duplication of effort?
4. What are the policy factors that hinder to revise the outdated tax rate, user charges and fees?
5. Shall the authority of tax rate, user charges and fee determination; and future revision remains at regional or at local administration level?
6. In what areas you recommend revenue enhancement plan and expenditure management reform?
7. What should be the policy of inter governmental transfer for urban local governments like Adama?
8. Is revenue sharing between Wereda Administration and city administrations is fair enough? If not is there any room for revision?
9. In what areas you suggest the municipal borrowed fund should be utilized?
10. You're other comment, suggestion and recommendation please?

**Thank you.**

## Questionnaires

### ADDIS ABABA UNIVERSITY

#### DEPARTMENT OF REGIONAL AND LOCAL DEVELOPMENT STUDIES

#### QUESTIONNAIRE 1

The objective of this questionnaire is to gather information from residents of City Administration of Adama regarding taxation, service provision, participation in major local decision making such as prioritizing expenditures, planning and budgeting.

#### Part I

1. Age \_\_\_\_\_
2. Education \_\_\_\_\_
3. For how long you lived in the town \_\_\_\_\_
4. Occupation \_\_\_\_\_

#### Part II Questions

1. Do you get sufficient urban services such as water supply, road maintenance sanitation services etc?
  - a) Yes
  - b) No
  - c) Partially
  - d) Don't know
2. If your answer to question no 1 is (b) or (c) what do you think are the possible reasons  
\_\_\_\_\_
3. Does the road in the city administration sufficient and regularly maintained?
  - a) Yes, it is maintained regularly
  - b) Yes, the maintenance is regular but not sufficient
  - c) Yes, but the maintenance has no quality
  - d) No, there is no maintenance at all
  - e) Other comments
4. Are there adequate drainage facilities?
  - a) Yes
  - b) No
  - c) Other comments \_\_\_\_\_
5. Are there adequate dry waste collection and liquid waste disposal facilities?
  - a) Yes, the facilities are substantial
  - b) Yes, the facilities are moderate.
  - c) Yes but, the facilities have low coverage

### Annex 3

- d) No, there is no such facility at all
- e) Other comments \_\_\_\_\_
6. Have you get enough slaughter house service?
- a) Yes
- b) No
7. Are there street cleaning and sanitation services?
- a) Yes
- b) No
8. Does the service coverage of core services (water supply, dry waste collection & liquid waste management, road, ambulance, fire brigade & street lighting) is significant?
- a) Yes, the service coverage is substantial
- b) Yes, the service coverage is moderate
- c) Yes, but the service coverage is low
- d) The service coverage is extremely low
- e) Other comments \_\_\_\_\_
9. If the service coverage is low, do you think out sourcing of most services to private operators will reduce the burdens and cost of the city administration?
- a) Yes
- b) No
- c) No comment.
10. Does the city Administration has undertaken service quality Assessment?
- c) Yes, it regularly undertakes quality assessment
- d) Yes, it undertakes quality assessment only once
- e) Yes, but it undertakes the quality assessment arbitrarily
- f) No, it does not undertake service quality assessment
- g) Other comments \_\_\_\_\_
11. Does the city Administration consulted with residents while introducing changes in service delivery?
- a) Yes, there is significant consultation
- b) Yes, there is somehow a consultation experience
- c) Yes, but consultations are made to meet formal requirements
- d) No, there is no consultation at all
- e) Other comments \_\_\_\_\_
12. Are the charges for electricity, telephone and water fair enough?
- a) Yes
- b) No
- c) Your other comments \_\_\_\_\_
13. Are the services you get commensurate with what you pay as taxes and charges

### Annex 3

a) Yes

b) No

c) Your other comments \_\_\_\_\_

14. Do you think the city administration has sufficient resources to satisfy the demand for public services?

a) Yes

b) No

c) Don't know

15. If you believe the city administration is in short of finance, can you suggest other sources?

a) Yes

b) No

16. If your answer to questions no. 15 is yes please suggest your options?

17. Do you agree if the city Administration borrows money from financial institutions to finance its development projects?

a) Yes

b) No

c) No Comment

18. If your answer to question 17 is (b) why?

a) The city Administration should maximize its tax collection first

b) High interest rate will impose burden to tax payers

c) The city Administration is not in a position to manage it

d) No comment

e) Other reasons \_\_\_\_\_

19. Under the present decision of Federal Government urban land holding system are to be converted to single lease system. Do you think this arrangement promotes investment in the town?

a) Yes, it is highly promotes investment

b) Yes it somehow promotes investment

c) Yes, but its investment promotion may not be significant

d) No, it does not promotes investment

d) Other comments \_\_\_\_\_

20. What type of taxes you pay to city Administration?

a) Urban land rent & house tax

b) Income tax

c) Others \_\_\_\_\_

### Annex 3

21. Do you pay other contributions apart from taxes?
- a) Yes
  - b) No
  - c) No comment
22. Are the expenditure priorities and development projects of the city Administration coincide with residents' priority?
- a) Yes
  - b) No
  - c) Other Comments \_\_\_\_\_
23. Have you ever consulted about expenditure priorities and development projects of city Administration?
- a) Yes, the city administration always consulted with the public
  - b) Yes, the city administration some times consulted with the public
  - c) Yes, but the consultations are made to meet formal requirements
  - d) No, there is no consultation at all
  - e) Other comments \_\_\_\_\_
24. What are the major municipal problems in your locality?
- a) Housing problem
  - b) Dry waste collection and sanitation problems
  - c) Water supply
  - d) Lack of access road
  - e) Others \_\_\_\_\_
25. Does the city administration prioritize municipal problems existed in your locality while allocating budget and implementing development projects?
- a) Yes, it sufficiently addresses the problems in our locality
  - b) Yes, It moderately addresses the problems
  - c) Yes, but it only addresses a small portion of the problem
  - d) No, it does not considers our problem
  - e) Other comments \_\_\_\_\_

**ADDIS ABABA UNIVERSITY**  
**DEPARTMENT OF REGIONAL AND LOCAL DEVELOPMENT STUDIES**

**QUESTIONNAIRE 2**

The objective of this questionnaire is to gather information from the business community regarding the sources of revenues, its collection, and utilization in the City Administration of Adama. The data will be used to write Master's thesis in Regional and Local Development Studies at the Addis Ababa University. The study aims at identifying the problems of revenue collection and financial management of the City Administration and will indicate ways and means to minimize it. Therefore, for the realization of this research, your objective, accurate and reliable information is highly required.

Give answers by encircling the letter of your choice under each question.

**Part I**

1. Age \_\_\_\_\_
2. Education \_\_\_\_\_
3. For how long you lived in the town? \_\_\_\_\_
4. Occupation \_\_\_\_\_

**Part II**

**Questions in detail**

1. Does the city administration has sufficient financial resources to satisfy the demand for public Services?
  - a) Yes, the city administration has sufficient financial resources
  - b) Yes, it has somehow enough financial resources
  - c) Yes, but the financial resources are not adequate enough to satisfy the demand for urban services
  - d) No, it has no adequate financial resource
  - e) Other comments

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2. Does the tax imposition is based on the ability to pay?
  - a) Yes
  - b) No
  - c) No comment
3. Does the tax assessment of the city administration is based on fairness principle?

### Annex 3

- a) Yes
  - b) No
  - d) No Comment
4. Does the tax assessment committee have representative from business community?
- a) Yes
  - b) No
5. If your answer to question no 4. Is yes how much you have been helped by this representation in making fair tax assessment?
- a) The representation has helped us a lot
  - b) It has somehow helped us
  - c) It does not help us much
  - d) It does not help us at all
  - e) Other Comments \_\_\_\_\_
6. If you have grievances over tax levies, to whom do you appeal?
- a) Mayor's Office
  - b) Zonal tax appeal committee
  - c) Regional tax appeal Committee
  - d) Others \_\_\_\_\_
7. Does the city administration gives orientation to create public awareness before it starts tax collection?
- a) Yes, the city administration gives sufficient orientation
  - b) Yes, it gives somehow enough orientation
  - c) Yes, but orientation given lacks necessary details
  - d) No, it does not give any orientation at all
  - e) Other comment \_\_\_\_\_
8. Does the city administration collects taxes on time?
- a) Yes
  - b) No
  - c) Other  
Comment \_\_\_\_\_
9. Does the city administration have sufficient number of tax collection staff?
- a) Yes
  - b) No
  - c) Other comment \_\_\_\_\_
10. Do tax and charge collectors create problems on taxpayers?
- a) Yes
  - b) No
  - c) Other Comment \_\_\_\_\_

### Annex 3

11. Do you think that the city administration's finance staff has sufficient record keeping ability?
- a) Yes
  - b) No
12. Do Tax and charge collectors are free from mal-practices such as corruption and fraud?
- a) Yes
  - b) No
  - c) Other Comment \_\_\_\_\_
13. Do you agree that revenue collection problems are rather created by us (the tax payers) than Collectors?
- a) Yes
  - b) No
  - c) Other Comment \_\_\_\_\_
14. What problem you encounter to get efficient services from city administration as a taxpayer?
- a) Tax collection is a very slow process
  - b) There is no adequate tax collection staff
  - c) The tax appeal decision is delayed
  - d) Others \_\_\_\_\_
15. It is believed that there are illegal traders who do not pay tax. What are the influences these illegal trades imposed on your business?
- a. They reduce our competitiveness
  - b. They may jeopardize the business environment
  - c. They exacerbate the problems of illicit trade
  - d. All can be the answer
  - e. Others \_\_\_\_\_
16. Do you think the city administration can raise more money from taxes and charges if it will be able to legalize these traders?
- a) Yes
  - b) No
  - c) Other comment \_\_\_\_\_
17. Do you maintain your revenue and expense accounts and show to tax assessors and collectors
- a) Yes
  - b) No
18. If your answer to question no.17 is B, why? \_\_\_\_\_
-

### Annex 3

19. Are there other institutions that impose tax on you? Which are they?

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20. Do you know tax laws and regulations

a) Yes

b) No

21. If your answer is no, why? \_\_\_\_\_

22. Does the low revenue profile (poor financial position) of the city administration is caused mainly by low tax and charge rates?

a) Yes

b) No

c) Other comment \_\_\_\_\_

23. If the city administration introduces an increased tariff rate that takes into account the ability to pay, do you agree?

A) Yes

b) No

24. If your answer to question No. 22 is B, what are the reasons and what options do you suggest? \_\_\_\_\_

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25. Do you think that the city administration will cover most of its costs by recovering arrears?

a) Yes

b) No

c) I don't know

26. Does the recent urban land lease holding rate is appropriate and hence must be encouraged?

a) Yes

b) No

c) Other comments \_\_\_\_\_

27. Do you think the lease holding policy promotes investment and creates sizeable job opportunity?

a) Yes, it is highly promotes investment and creates job opportunity

b) Yes it somehow promotes investment and creates job opportunity

c) Yes, but its investment promotion and job creation may not be significant

d) No, it does not promotes investment and creates job opportunity

d) Other comments \_\_\_\_\_

28. Does the amount and quality service you get is commensurate with the charges and taxes you pay?

### Annex 3

a. Yes

b. No

c. Other Comment \_\_\_\_\_

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29. Are the charges for electricity, telephone and water fair enough?

a) Yes

b) No

c) Your other comments

30. Do you get sufficient urban services such as water supply, road maintenance, sanitation services etc.?

a) Yes

b) No

31. If your answer to question no. 30 is (b) what do you think are the reasons?

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

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33. If the service coverage is low, do you think out sourcing of most services to private operators will reduce the burdens and cost of the city administration?

a) Yes

b) No

c) No comment.

34. The city administration has now two structures both for municipality and a state function, does this arrangement create favorable business environment?

a) Yes it creates favorable business environment

b) Yes, it creates somehow favorable business environment

c) Yes, but the business environment is not that much favorable

d) No it does not create favorable environment at all

e) Other comments \_\_\_\_\_

35. Does this new arrangement (mentioned in questionno.33) reflect in positive changes of service provision?

a) Yes

b) No

c) Other Comments \_\_\_\_\_

36. Do you agree if the city Administration borrows money from financial institutions to finance its development projects?

a) Yes

b) No

c) No Comment

**Annex 3**

37. If your answer to question 35 is (b) why?

- X ca) The city Administration should maximize its tax collection first
- b) High interest rate will impose burden to tax payers
- c) The city Administration is not in a position to manage it
- d) No comment
- e) Other reasons \_\_\_\_\_

38. If you compare the current city administration of Adama with its preceding ones, which of the following is (are) true?

- a) It is much better than its predecessors
- b) It is worse than its predecessors
- c) No difference
- d) Difficult to evaluate
- e) Other comments

39. Which of the following can describe city administration of Adama?

- a) It is an administrative town
- b) It is industrial town
- c) It is service-providing town
- d) It is commercial center
- e) All
- f) Other comments \_\_\_\_\_

40. Do you have conclusive remarks?

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BULCHIINSA MOOTUMMAA NAANNOO  
OROMIYAATTI KOMISHINII SIVIL SARVISII  
በኦሮሚያ ክልላዊ መንግሥት  
የሲቪል ሰርቪስ ኮሚሽን  
The Oromia Regional Government  
Civil Service Commission



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Addis Ababa

*Annex 4*

To whom it may concern

The man power data of Bureau of Revenue, Finance and Economic Development and Works and Urban development attached herewith is the man power data of the above mentioned Bureaus as of June, 2006.

*his*  
We certify that is the original data organized by our Commission.

With Best regards

*[Signature]*  
**Wekaligne Berhane**  
Commissioner



**Bureau of Revenue**

Sadarkaa_Barnootaa	Total
BA/BSc	9
College Diploma	18
University/College Year 1-4	1
Class 4-8	4
Class 9-12	12
MA/MSc	2
<b>Total</b>	<b>46</b>

Appointee	2
Expert	18
<b>Total</b>	<b>20</b>

**Bureau of Works and Urban Development**

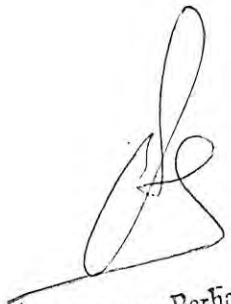
Sadarkaa_Barnootaa	Total
BA/BSc	17
College Diploma	22
Technic Diploma	2
University/College Year 1-4	14
Class 4-8	13
Class 9-12	9
LLB	1
MA/MSc	3
Certificate	4
<b>Total</b>	<b>85</b>

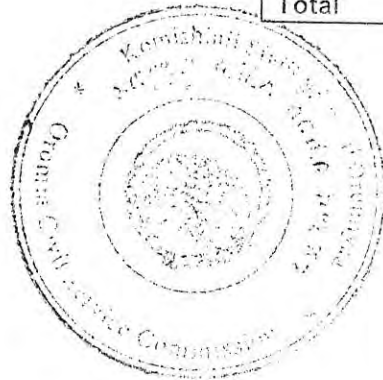
Appointee	2
Expert	39
<b>Total</b>	<b>41</b>

**Bureau of Finance and Economic Development**

Sadarkaa_Barnootaa	Total
BA/BSc	35
College Diploma	25
Technic Diploma	11
University/College Year 1-4	1
Class 4-8	7
Class 9-12	42
MA/MSc	10
<b>Total</b>	<b>131</b>

Appointee	3
Expert	66
<b>Total</b>	<b>69</b>

  
**TeKaligne Berhane**  
 Commissioner



Number of Business community Adamaa Town by service category or by sector:

Type of Business	No	Remark
Whole sale	151	
Retail Trade	2958	
Service Provider	4020	
Industry	330	
Whole Sale	151	
Urban Agriculture	2	
Total	7461	

Source: Adamaa city Administration trade & co. ordination office

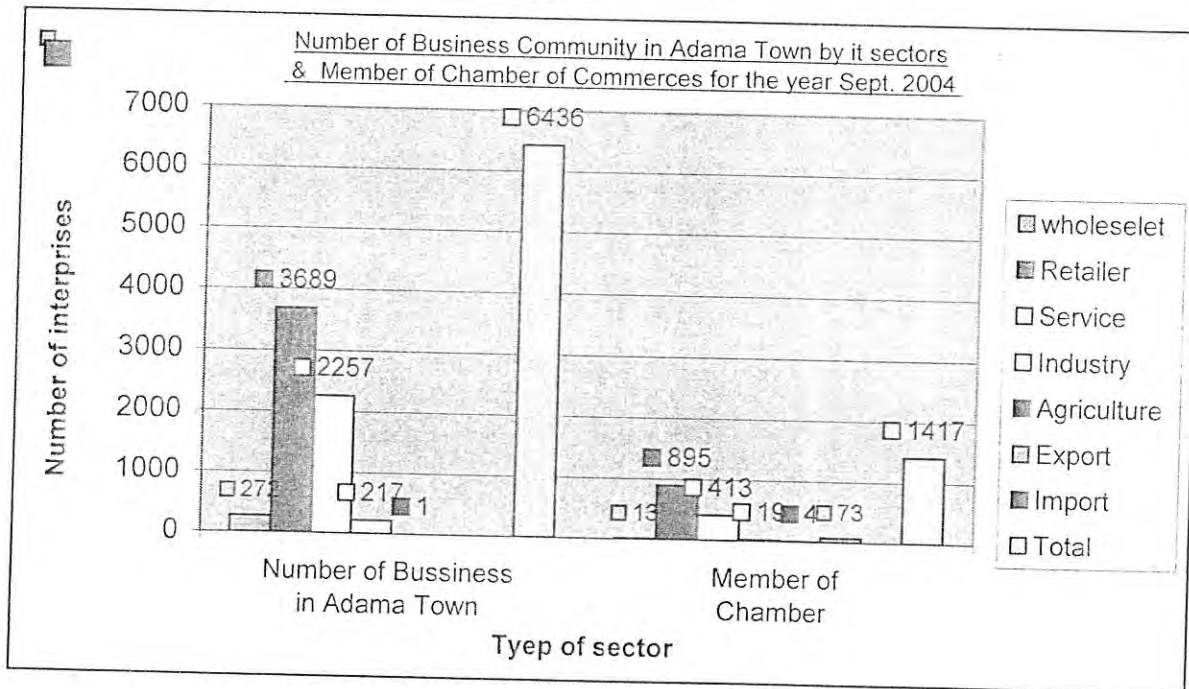
Note: 1) The Data is the Current figure of year 2006/07

2) The list contains only the licensed number of business community.



Number of Business Community in Adama Town by it sectors & Member of Chamber of Commerces for the year Sept.2004

Type of Business	Number of Bussiness in Adama Town	Member of Chamber
wholesale	272	13
Retailer	3689	895
Service	2257	413
Industry	217	19
Agriculture	1	4
Export		73
Import		
Total	6436	1417



## Declaration

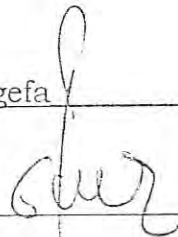
This Thesis is my original work and has not been presented for a Degree in any Other University and that all sources of material used for this thesis have been duly acknowledged.

Declared by:

Name

Teshome Degefa

Signature



Date

July 20, 2007

Confirmed by:

Name

Mehari Mekonnen (PH.D)

Signature



Date

20 July 2007