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**ADDIS ABABA UNIVERSITY  
SCHOOL OF GRDUATE STUDIES**

**THE FINANCIAL MANAGEMENT OF JIMMA  
TOWN**

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**Addis Ababa**

**May, 2000**

# **THE FINANCIAL MANAGEMENT OF JIMMA TOWN**

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## ACRONYMS

AARH	The Agency for the Administration of Rented Houses
ADLI	Agricultural Development Led Industrialization
AOI	African Oriental Italian
CSA	Central Statistical Authority
E.C.	Ethiopian Calendar
FMSS	Financial Management Support Services
GTZ	German Technical Cooperation
m.a.s.l.	metre above sea level
NGO	Non-Governmental Organization
NUPI	National Urban Planning Institute
RLDS	Regional and Local Development Studies
TGE	Transitional Government of Ethiopia
UDA	Urban Dwellers Association
UDSS	Urban Development Support Services
WSSA	Water Supply and Sewerage Authority
ZBWUD	Zonal Bureau of Works and Urban Development

## ABSTRACT

*Urban centres constitute an important part of local government in Ethiopia. They serve as the centre of services, manufacturing and markets for both urban and rural people. Thus, improving urban management should be part of the national development endeavor. One of the important conditions in this regard is improving the financial management of the urban centres. This in turn calls for improving revenue bases, proper allocation, spending and record keeping. However, the fact that urban centres in Ethiopia are being governed by age-old rules and regulations, lack of viable revenue bases, less buoyant sources, lack of stable management and poor municipal staff profile have obstructed municipalities from providing urban services to their residents in a meaningful manner.*

*This paper analyses the financial management of Jimma town in light of the above issues. It appears that the financial management of the city is characterized by dual problems of scarcity of funds on the one hand and inappropriate management of those which are available on the other. These problems are analyzed in terms of the revenue structure of the city, its collection process and the problems encountered. It also critically assesses the allocation and spending which includes the budgeting process, record keeping and inspection. Then in its conclusive remarks, the paper tries to suggest ways and means to improve sources of revenues and their management. This last part consists of two issues. Since urban centres are affected by both internal and external forces, any attempt to reform urban finance must take duly these factors in to account. Internal financial issues include effective institutional capacity that could enable the municipal government to manage its financial resources. External factors include the removal of heavy hands of higher tiers which in this case includes zonal administration and zonal bureau of works and urban development.*

**PART I**  
**CHAPTER 1**  
**INTRODUCTION**

**1.1 Background**

Managers and planners of the cities of the developing world face enormous task because of the increase of their population at a phenomenal rate. In some cities tens of thousands of people are added to the total population every year. This poses a huge challenge to those who are responsible for the management of urban development and provision of services.

Under normal conditions cities make vital contributions to economic growth by providing public services such as health, education, sanitation, planning, road construction etc. In many countries cities account for about two-thirds of the national output (Cheema, 1987). The modernization of the agricultural sector depends largely on the emergence and efficient functioning of a network of smaller urban centers and market towns to provide financial, marketing, processing and distribution functions. These towns also serve as places of commerce, where the rural populace can purchase modern consumer goods and sell its produce. The existence of such networks leads to an increase in employment opportunities. Cities also facilitate the provision of diverse career with abundance and variety of opportunities that are not found in rural areas.

Despite these contributions of cities to development, most evidence suggests that city managers of the developing world have faced problems to meet these demands. Large number of citizens is left without adequate shelter, without access to safe water or sanitation. Education, power supply, health service, roads, fire protection and recreation centres are below the growing demands of urban residents. The reasons for this failure are quite

numerous and complex. Rural-urban migration is one of the challenges which over strains the limited municipal finance. Most urban centres could not supply the influx of migrants with basic facilities, as urbanization in the developing world is not accompanied by industrialization unlike in western cities. Urbanization in the developing world is simply a demographic not an economic.

The failure in the supply and quality of urban services reflects, in most part, constraints in financial resources. The limited resources and the incapability of expanding the existing ones are the impeding financial problems.

Ethiopian towns reflect same urban features. Official report indicates that urban population in Ethiopia has kept on increasing though not as high as in many African countries. For instance, in 1993 total urban population was estimated to be about 8 million with the average annual growth rate of 3.2 % (CSA 1994). There were 294 towns with more than 2000 people. Most urban population lives in poverty. According to a World Bank report (1992) the urban poor in Ethiopia is estimated to be four million of which two million are said to be chronically poor.

Municipal administration is not capable of supplying adequate basic services to the people. Most urban centres are characterised by unemployment, inadequate housing, social problems (such as crime, theft, juvenile delinquency, prostitution, street dwelling) and environmental pollution. But the degree of these problems varies from town to town. The trend is that the larger the town, the higher the extent of these problems. The major causes for these situations in part are lack of financial resources on the one hand and inefficient management of the existing ones on the other.

The writer of this paper takes Jimma town as a case in point to study the role and problems of financial resources management within the time frame since 1991.

## **1.2 The Statement of the Problem**

Ethiopia is predominantly an agrarian economy, with 87% population living in rural areas. The percentage share of agriculture in the economy was 60% in 1992/93, followed by 30% services and 10% industry (CSA, 1996).

In 1994, Ethiopia had a population of 54,939,000 out of which 8,219,000 constituted the urban population (CSA, 1994). The rate of urbanization was 3.2%. The function of most urban centres is to serve as seats of government and as market centres where goods and services are transacted.

Despite the present low level of urbanization compared with many least developed countries on same economic level, it is felt that accelerated growth of urban population will occur with the current annual growth rate of 5.4% per annum

A major contributing factor for urban growth is the higher natural growth of urban population as well as increasing rural urban migration. Especially, the latter is initiated by recurrent droughts which resulted in agricultural crises in rural areas and the popular expectation for better life in urban centres.

Due to such population pressure, municipal administration faces challenges in providing adequate physical and social infrastructures. The problem is aggravated by weak institutional capacity of municipalities which denied them the ability to cope, in meaningful manner, with the number of problems. These major problems that faced urban centres today include:

1. poor financial position and financial management
2. poor service provision.

3. poor internal organization and lack of skilled managerial and technical staff.
4. lack of clarity with regard to the powers and duties of municipalities.
5. lack of autonomy in management.

Though the issues listed above reinforce each other, this paper focuses on the municipal finance by taking Jimma town as a case in point because the financial issues have a far-reaching impact on the management and development of the town. The development of the municipality is partly conditioned by its capacity to identify revenue bases, raise sufficient revenues, allocate and undertake spending on urban programmes. Despite this, Jimma municipality faces problems in all the issues listed. The revenue bases are limited in comparison with the rising demands for urban services. The demand for services has been fueled by an increase in population. According to the Central Statistical Authority, the urban population was 30,000 in 1965. It has grown to 54,000 in 1984. Ten years later, it has now grown to 113375.

The problem is not only lack of financial resources but also failure to utilize appropriately the existing ones. There are many reasons for this state of affairs. But generally the problem could be viewed from internal and external perspectives. Internally, the municipality is poorly equipped with trained and motivated personnel in revenue and expenditure management, record keeping and realistic budget preparation and implementation.

Externally, the municipality is vaguely accountable to more organs than necessary. Technically, it is accountable to zonal bureau of works and urban development which supervises performances and provides technical assistance. In principle, the Woreda council has also a stake in municipal issues without which major deliberations are not made. But Jimma is currently more affiliated to zonal administration than to that of Woreda

administration. The mayor is more submissive to the zonal administrator. This relationship is not legally defined, however. Among the municipalities in the Oromia region, only the managers of Nazareth and Shashamane towns are appointed by their respective zonal administrators, upon the recommendation of region's bureau of works and urban development (Shewaye Tesfaye, 1997). Thus, mayors are forced to work under political pressure. This practice often results in frequent appointments and removals in a span of few years. As the result, regional and federal governments are able to manipulate urban centres especially during political campaigns, war times and elections. This manipulation is also reflected in budget preparation and spending.

Moreover, the development strategy pursued by the government is Agricultural Development Led Industrialization (ADLI) which gives little attention to urban centres. Hence, by and large, municipalities do not operate with autonomy. Thus they are forced to operate pursuant to rules, regulations and proclamations of central and regional governments. For example, a tariff regulation of 1971 is still being implemented with the exception of land rent which was revised following urban land nationalization and more recently urban land lease holding policy.

The urban economy of Jimma is also vulnerable to international coffee markets which fluctuates from time to time. All urban business activities are based on the export of coffee whose implication on urban finance is of enormous magnitude.

The internal problem can be solved by an effective management practice. To this effect, the municipality requires skilled management that could not only utilize existing resources economically but is also capable to expand the revenue bases. However, for the realization of such management, external environment especially the problem created by extra municipal authorities must be removed.

### **1.3 The Objective of the Study**

This paper explores revenue sources, its collection and administration at Jimma municipality. It also analyses the process of spending and record keeping and identifies its shortcomings. It then proposes options to strengthen resource bases which includes improving revenue collection, arrears recovery, promoting investment and improving internal organization.

The writer selected municipal finance in view of its critical nature as pertains to urban development. The specific objectives of the paper are the following:

- to identify the major municipal revenues and their structure,
- to identify major municipal spending and its management,
- to identify the bottlenecks of revenue generation of the municipality,
- to review record keeping, inspection and auditing
- to identify human resources problems
- to survey the opinions of the residents on financial issues and the delivery of services.
- to propose ways and means to remedy financial management problems.

### **1.4 The significance of the study**

The study of urban finance deserves demand for many reasons. First, urban centres constitute an important part of local government in Ethiopia. According to CSA (1994), urban population constituted 15% of total population. The Ministry of Works and Urban Development projected that it will grow to 17.1% in the year 2000. Secondly, urban centres provide basic services which affect their residents on a day-to-day basis. Thirdly, the study of

financial management of Jimma town can give an impression and new insights as a contrasting ground for other towns.

Despite these realities, urban finance was not given due attention by successive regimes that took place in Ethiopia. Urban centres have been appendages of central government in both Imperial and Derg periods where legislations appeared to consolidate the power of the central government in one way or another. Hence, all municipalities were bound to follow those legislations despite their variations in revenue bases, administrative capacity, population size and responsibilities. Moreover, the provisions in many legislative documents carried only a few articles on urban finance. Yet, the provisions did not exhaustively define revenue bases, tax assessment, property valuation and supporting guides for effective financial management.

But with the change in government in 1991, new thinking is emerging. Devolution of power has been the guiding principle of the new government. This has been enshrined in the transitional period Charter and later on in the federal constitution. But still there is a gap between the policy and the implementation. Urban centres are not given management autonomy whose implication on urban finance and its staff management is not overestimated. As the result, towns and cities including the study area are forced to pursue age-old regulations. Therefore, debates on reform initiatives are emerging to improve the institutional capacity of towns which includes revenue raising and management. Thus, the coincidence of this research at this particular time makes it timely and relevant. It can provoke ideas and debates especially, on issues such as tariff regulation and revision, revenue collection, the state of arrears and its recovery, tax assessment and imposition, budgeting, allocation and spending.

## **1.5 The scope of the study**

Urban finance is a broad area of inquiry which includes revenue base identification, generation, allocation and management. It also involves intergovernmental relations which greatly affects the state of urban finance. While these issues are applicable to all urban centres in Ethiopia, this paper is confined only to Jimma town. Otherwise, the issues raised in any part of this paper are presented to substantiate the study of the financial management of the study area. It is also confined to the periods since 1991.

## **1.6 The Structure of the Paper**

This paper is organized into 3 parts. An introductory part, the review of related literature and the analysis of financial management of Jimma town. The introductory part is divided into 2 chapters. Chapter one is about the background and the conventional parts of the paper. Chapter 2 is the method of data collection. Part II has chapters 3, 4 and 5. Chapter 3 deals with the theory of urban finance, chapter 4 deals with the review of urban finance in Ethiopia and chapter 5 is about the historical development of Jimma town. Part III is composed of chapters 6,7,8 and 9. Chapters 6 to 8 deal with revenue structure, issues and problems surrounding revenue raising, allocation, spending, accounting and auditing. Chapter 9 is the summary of major findings. This chapter is followed by recommendations.

# **Chapter 2**

## **Methodology**

### **2. Methods of Data Collection**

The methodology used in this study is descriptive and analytical whereby details of financial issues, problems and processes of the municipality of Jimma is analyzed. Because of the qualitative nature of the study, amalgams of data collection methods are used. These approaches include document review, opinion survey and interview.

#### **2.1 Document Review**

This part mainly constitutes the review of financial documents supplied by the Department of Finance and Budget, Land Administration section and Tariff and Tax Revenue Administration of the municipality.

A modest reference was also made to various secondary sources which were produced by different organizations and government institutions whose roles and functions are related to the subject of this research. These sources include the data from the Bureau of Works and Urban Development of Oromia Regional State, National Urban Planning Institute (NUPI) and Urban Development Support Services (UDSS). Books, articles and other publications had also supplemented the study. The latter were mostly used to write the theoretical and conceptual framework.

#### **2.2 Opinion Survey**

Three sets of questionnaires were also prepared to get information from various

stakeholders in urban finance.

The first set was addressed to the leadership of the municipality especially, the mayor's office.

This set focused on issues like:

- the status of Jimma in historical perspectives
- internal organizational structure of the municipality
- the relation of the municipality with Zonal administration and woreda councils ,
- the line of accountability

The objective of this question is to get a picture of the town as a local unit of government in the administrative arrangement of contemporary Ethiopia.

The second set was designed for the municipal staff. This set had a 6-page questionnaire. The questions aimed at issues like the major sources of revenues, types of expenditure, the specifics of each revenue source, the revenue collection process, the institutional capacity of the municipality to manage revenues and expenditure.

The third set was for the business community. Needless to say, one of the major stakeholders in municipal finance is the business community who pays taxes, charges and fees and who expect better service provision in return. Thus, a separate set of questions was prepared to conduct opinion survey on finance and its relation to service delivery. To this effect, a -12 page questionnaire was prepared and filled out.

Since there were thousands of merchants who were engaged in various business activities, it was not possible to cover the entire population. Therefore, selecting a few groups was necessary. This called for sampling.

### **2.2.1 Sampling Method**

The population to which inference was made is the business community who were involved in various commercial, industrial and other occupations on which the city imposes taxes, fees and charges. There were 3517 registered establishments in the town. Out of these, a random sample of 100 businesses were taken. Each business establishment was numbered and hence had an equal chance of being selected. Then the heads of the establishments or their associates were asked to reply. All the respondents had attempted the questions. The questions were aimed at soliciting feelings, complaints, suggestions and stances on financial issues. The major issues were:

- tariff rates and ability to pay
- the situation of urban economy
- provision of public services
- tax collection methods
- the behaviour of tax collectors
- the relation between tax collectors and tax payers
- the problems encountered in paying taxes and charges

- the relation between taxes, charges and the provision of urban services
- expectations of the respondents
- feelings about tariff increase

Most of the questions were designed in such a way that they could be answered in five ways over a continuum from 'strongly agree' to 'strongly disagree' with 'no comment' in between.

More than 50% of the respondents have lived in the town for more than 15 years. This long residence gives them the advantage of comparing the current and previous regimes as regards to the handling of municipal finance.

### **2.3 Interview**

Unstructured interview was conducted with few residents. The objective of this interview was to solicit ideas and issues which were not covered in questionnaires and documents due to cost and inconvenience. The major points covered in this part dealt with the opinions about service delivery on the one hand financial contributions on the other. (See annex 2).

Observation was also part of the over all method whereby the researcher was able to observe road conditions, housing, urban patterns, drainage, market places, shops etc. which enabled him to see marks and scars of urban neglect in some quarters and promising developments in others.

The data obtained from the documents, questionnaires and interviews is analyzed in

chapters 5,6, 7 and 8 of this paper.

## **PART II**

### **THE REVIEW OF RELATED LITERATURE**

#### **Chapter 3**

#### **URBAN FINANCE, A THEORETICAL FRAMEWORK**

Municipalities have to provide basic services to their residents. Such services include street cleaning and lighting, fire protection, garbage collection, markets, abattoirs, cemeteries, libraries etc.

Studies of many developing countries showed that many municipalities also have full or partial responsibilities for the provision of infrastructure particularly, construction and maintenance of roads, potable water supply, sewerage and drainage service, primary education and low cost housing (Roy Bahl and Johannes F. Linn, 1992).

The major sources of finance to manage these functions are taxes, charges, fees, grants and loan. But the effectiveness and the magnitude of these sources depend on the effectiveness of financial management, the economic base of the city, the size of population and tariff structure.

Financial management can be considered as the management of financial resources. In a municipal context, it is concerned with the identification of revenue bases, its mobilization, allocation and utilization. As cited above the sources could be taxes, non-tax revenues, grants and borrowing.

In general, there could be two broad sources of revenues for urban governments – local and external. The local sources include locally collected taxes, user charges and

benefits, license fees, penalties, stamp duties etc (Roy Bahl and et. al, 1992). User and benefits charges include public utility tariffs, fees for education and health services and all types of charges which are levied on urban residents on the basis of some benefit received or costs imposed on account of service provision and use. On the other hand, the external sources include grants, shared taxes and borrowing. More issues on external sources will be discussed under 3.1.

However, the ability of municipal government to mobilize and utilize its local sources depends mainly on the types of taxes it levies, how it collects and its managerial capability. The extent of how a revenue base is buoyant also affects the size of urban revenue. In many instances some revenues are less buoyant i.e. they do not respond to inflation, population growth and economic growth (Kenneth Davey, 1993)

Another aspect of financial management is the allocative function. This constitutes the expenditure side of financial management and this depends on the availability of resources and on the functions of the urban center. This again varies from country to country and even among cities within a country. Some cities have substantial functions and thus have large per-capita expenditure whereas some have declining expenditure trend while others have rising trends (Roy Bahl et.al, 1992). Though the increment in expenditure does not show the sufficiency of urban services, the decline signals negative implication on service delivery. According to the world bank study (1992), it seems many urban governments showed substantial decrease in real per capita expenditure in 1980s. And this is the sign of certain fiscal problems and deterioration of services.

There are urban centers that finance total expenditure from local sources. According

to Roy Bahl et. al (1992), in Karachi, Pakistan, the local revenue finances 100% of the expenditure. But in the cases of Kinshasa, Zaire, it accounts for only 26.9%.

The major instrument in financial management in general and resource allocation in particular is the budgeting. Budgeting is a plan expressed in financial terms. Friedman Lewis (1991) described budgeting as attempts to allocate financial resources through political process to serve different purposes. A budget serves many purposes. One is that it is a tool for creating accountability. Government organizations will be held responsible for the proper management of funds and programmes for which funds are appropriated (Sunley Emil, 1976). So due to this, organizations undertake activities in line with the plan. Secondly, budgets are the tool for management. It enables managers to control the progress of their activities when they get information from the budget because budgets indicate costs, their nature and the time span and the expected out comes.

While budgets are implemented, various records of accounts are kept which serve as the basis for the budget evaluation.

Once the budget is executed, inspection/ auditing comes into picture. Auditing is one of the financial control mechanisms with the following purposes:

- to ensure the correctness and completeness of accounts,
- to examine accounts to ensure regularity of expenditure
- to ensure that the resources expended by the executive body have produced the desired results.

Research indicates that inadequate financial resources of municipalities remain one of the key constraints of satisfactory urban services in almost every towns and cities. They are inadequate because:

- I the taxes assigned to local government are often unsuitable for various reasons, being low

- yielding, inelastic, costly to collect and in adequate in size.
- 2 charges for services are not properly related to the costs of those services, and are not revised with the inflation.
  - 3 revenue collection methods are inefficient and ineffective
  - 4 the grants from the central or state level on which municipalities depend do not match their financial needs.
  - 5 loans are not available for capital investment
  - 6 low tariff rates
  - 7 lack of trained staff in financial management.
  - 8 tax payer reluctance because of lack of recognition of municipal functions and roles.
  - 9 lack of ethical discipline on the part of revenue collectors.
  - 10 lack of basic financial records. (Kenneth Davey, 1996).

Carole Rakodi (1993) has also similar views. He says "The importance of urban finance is well understood but the nature of the problem is less recognized." He identified two critical revenue base aspects. One is its buoyancy- the response of the municipality's revenues to the pressures of inflation, increasing population which fuel demands on its budget. The second is the political sensitivity of revenues-the degree of political cost involved in determining tariffs, assessing liability and enforcing payment.

According to Davey, for most local taxes and charges, there is scope for improving the performance of revenue collection and administration in terms of both effectiveness (the proportion of the tax potential which is actually collected), and efficiency (the proportion of the tax yield remaining after deduction of collection costs).

Improving performance requires (Davey, 1993):

normally occurs because national government exploits its constitutional authority to levy the more lucrative and buoyant taxes, either in the interests of macro-economic regulation or maintain influence over the way they are spent.

- Transfers may also seek to correct horizontal imbalance by reducing disparities in local revenues arising from differences in the local tax base. Transfers may also be used to reduce horizontal disparities in expenditure need. This arises where specific grants are made to overcome service “deficits”. It also characterizes formulas which give special weighting to areas of deprivation. 30% of shared revenues in Ecuador are distributed according to “poverty index” which is in inverse proportion to the average number of years schooling, the percentage of households with water and electricity connections and the percentage of housing units in durable materials. (Malcon Morris, 1986)

However, grants have shortcomings:

- The conditions attached to transfers distort local preferences over the direction of municipal spending.
- Transfers encourage irresponsible expenditure by local officials because they are using resources which they do not have to raise directly from the public; they deny local electorates a choice over the quality of the services they are prepared to ‘buy’ with a given level of taxes.
- Transfers discourage local revenue generation and add to national budgetary constraint (Kenyon Daphne, 1986).

### 3.2 Loan

In Europe and North America urban government financial markets have largely funded by borrowing. It has been standard practice, particularly in Britain and the United States, for local authorities to float their own bond issues on the capital markets. Most European countries also have official agencies specifically providing long term credit to municipalities and local utility enterprises (Kenneth Davey, 1996).

By contrast most urban agency borrowing in Africa, Asia, and Latin America has been financed from public funds. Loans have been obtained either from governments directly or from urban/municipal development funds run by official banks and agencies. Loans have been also promoted by international donors who find municipal credit funds a convenient channel for financing a large volume of investment in a range of towns and cities. According to Nick Devas (1993), donors have actively encouraged governments to substitute loans for capital grants. International assistance to urban development programmes in countries like Colombia, Indonesia and Mexico has positively encouraged often reluctant municipalities to borrow more for capital development purposes.

A distinction is to be made between self-liquidating and nonself-liquidating investments i.e. between those which should generate extra revenue to service a loan, and those which do not. There is a clear justification for the use of loans to fund investments which will generate revenues. User charges, such as water supplies or markets, providing that repayment can be supported by realistic estimates of demand and tariff levels can service loan.

More contentious is loan financing of investments like roads, drains, refuse collection, schools or clinics which do not generate revenues. There are a number of

arguments. The unfairness of visiting full costs on current beneficiaries may be cancelled out by the benefits they derive from investments of previous generations. Borrowing may breed irresponsibility. There is further macro-economic objection that increasing public sector borrowing impairs the wider economy because it encourages inflation.

In practice these arguments tend to be resolved pragmatically. Municipal government which have buoyant tax and transfer base or limited current expenditure commitments, tend to finance capital expenditure largely from revenue. Algerian communes were able to contribute 51% of recurrent revenue to capital expenditure in 1987; in Senegal the city of Dakar transferred 45% of its current revenues to the capital account (*ibid.*).

Urban governments also do differ in their autonomy to raise revenues and to manage their expenditure. This calls for the discussion of central-local arrangements that varies across countries.

The Anglophone and Hispanic traditions of municipal government emphasizes its legal and functional separation from the apparatus of national or state administration. Municipal authorities have their own budgets, properties and staffs. They have developed functions which they perform exclusively. Central/state governments perform other functions in which case they have branch organizations under their management.

Other traditions particularly Napoleonic and Ottoman regard municipality government as part of an integrated hierarchy of government (Batley, 1990). In this case, municipalities perform dual roles, undertaking both delegated by the state and their own functions. The latter are responsibilities formally assigned to run municipal affairs which are financed by their own revenues. State appointed governors act both as chief executive of the municipality and coordinator of government agencies as in Bangkok, Cairo, Conakry, Jakarta and Manila (*ibid.*).

The socialist tradition, now largely abandoned in Eastern Europe but exists in China, acknowledges no distinct legal identify for municipal government. Municipalities exist with some degree of representative character and political representation but with no powers to own and manage assets and revenues which are legally protected from state intervention.

## **CHAPTER 4**

### **The Review of Municipal Finance in Ethiopia**

#### **4.1 The Imperial Period**

Urbanization in Ethiopia traced back to the time of Axumite Kingdom. However, the emergence of municipalities as units of local government in the administration of urban centers is a recent phenomenon. (Sisay Ashenafi, 1996).

After the withdrawal of Italians in 1941, the Haile Silassie government issued series of decrees to reinstate and consolidate its power. To this effect, Decree No.1/ 1942 was issued in regard to administrative regulations. Thus, the country was divided into 14 provinces, 103 Awrajas (sub-provinces) and 505 Weredas (districts). The Emperor appointed Governor Generals and Awraja Governors whose functions include the administration of municipalities, approval of the assessment of taxes, fees, charges and budgets.

In its Article 75, the Decree empowered the municipalities to levy taxes on properties and land provided that these taxes would be fully spent on municipal functions (Minas Hiruy, 1999). However, the Decree failed to identify the exhaustive list of taxes to be levied by the municipalities. It did not indicate other revenue sources, either.

##### **4.1.1 Municipalities Proclamation No. 74/1945**

The purpose of this proclamation was to define municipal taxes and the duties of municipal councils. It was a step in furthering the revenue source identification .

As stated in article 4 of the proclamation, a municipal council had a power to consider and decide town's budget proposals, assessment and collection of municipal taxes as well as the administration of revenues.

Accordingly, Kantibas (Mayors) or Town Officers were empowered, with the approval of governor General, to impose and collect local rates on immovable property , water consumption bills, license fees, market fees, sanitation fees, slaughter house fees etc. However, it was mandatory that such rates, fees and dues had to be issued in the Negarit Gazeta.

But municipalities were regarded as part of the highly centralized administrative system whereby the Emperor was attempting to have a firm grip on his power. Thus, he was said to have exercised his control over municipalities through the then Ministry of Interior which inturn dictated Provincial and Awraja Governors. Only Addis Ababa was a chartered city which acquired its autonomy by General Notice No. 172 of 1954. Other towns were denied this right. Furthermore, both the Decree and the Proclamation did not provide for financial grants and loans to the municipalities that could have supplemented their financial resources.

#### **4.1.2 Rates, Dues and Fees Regulations No. 161 of 1971**

Pursuant to the provision of Article 11 of proclamation No. 74 of 1974, municipal councils were empowered to fix:

1. Licenses to carry on trades and professions.
2. Use of market places.

3. Non-stationary trades license.
4. Municipal services.
5. Immovable property taxation.
6. Fees for the posting of public notices.
7. Registration fees.
8. Weapons control.
9. Management and control of stray animals.
10. Water bills. (See annex 1 for details).

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

#### **4.1.3 Municipal Rates Regulations**

Legislations and legal orders on municipal fees and rates had also provincial specifics. Each legal notice allowed for each province thereby specifying the rates, dues and fees applicable in pace with the commercial activities, economic development, resource bases etc. of the province where the urban centre was situated ( Mandefro Tegegn 1999: 138). Municipal rates, dues and fees Regulation Nos. 372/1969 of Wellega, 384/1970 of Keffa, 385/1970 of Shewa, 386/1970 of Illubabor, 402/1971 of Bale, 404/1971 of Wollega and Showa, 405 and 409/1971 of Hararge and 407/1971 of Showa may be mentioned.

The regulations require possession of licenses to carry on trade and professions for which annual licenses fees was payable. Furthermore, the municipalities collect dues, fees

and rates for loading and unloading vehicles, for keeping animals in market places, for use of market stalls and certification of animal purchase.

However, the rationale for most of these legislations, other than their provincial specifics, was not clear. It is not clear because some of the regulations were issued in early 70s when Regulation No. 161 was promulgated. It is not known whether they are different from the Regulation. Otherwise, it seems duplication.

## **4.2 Municipal Finance under the military government**

After the overthrow of the Haile selassie government in 1974, the military government began transition to socialism in Ethiopia. Thus, it issued the first legislation (Legislation No.47/1975) which nationalized urban lands and extra urban houses. The legislation changed the administrative system introduced by Decree No.1 of 1942. The Ministry of Interior was also abolished and the Ministry of Urban Development and Housing tookover the role of supervising municipalities. Later on, the Central Urban Dwellers Association (UDAs) were formed to administer urban centres. The UDAs were empowered to collect charges, taxes, fees and rents in their jurisdictions.

Chartered Urban Centres were authorized by Proclamation No. 206/1981 to levy and collect tax and rentals, subject to approval by the council of ministers. Non-chartered towns could only prepare and submit land rent, house tax and service charges to the Minister. As Addis Ababa was the only Chartered City, almost all the urban centres could only prepare and submit the rates to the minister.

#### **4.2.1 Urban Land Rent and Urban Houses Tax**

##### **Proclamation No. 80/ of 1976**

This Proclamation was issued for the Purpose of fixing urban land rent and urban house tax. Three years later, it was amended by proclamation No. 101 of 1979, which contains schedules. According to the schedule, urban land is divided into 3 classes which were further graded into sub-grades 1 and 2. The rate of rent for such lands is up to Birr 0.06/m<sup>2</sup> per year.

#### **4.2.2 Legal Notice No. 64 of 1979**

Under this legal notice the Provisional Urban Land Rent and Urban House Tax Regulations were issued by the Ministry of Urban Development and Housing of that time.

The regulations classify urban centres into 4 categories in line with their stage of development (Art.5), and any person, family or organization shall pay an annual land rent and house tax in accordance with the relevant schedules contained therein.

Accordingly, most urban centres in Oromia were listed in schedule 2:1 among which Jimma was one. Schedule 2:2 of the Regulation provided for the rate of rent payable on urban land used for dwelling house based on 1-3 grades. For grade one, the rent ranges from Birr 0.04 to 0.08/m<sup>2</sup> and for grade 2 and 3 Birr 0.03 to 0.07/m<sup>2</sup> and Birr 0.02 to 0.06/m<sup>2</sup> respectively (ibid.). Note that the area of the land ranges from 500m<sup>2</sup>-200m<sup>2</sup>.

The rate of urban land rent for business buildings, residential houses, industrial and agricultural users also differ depending on the sub-grades.

The rate of tax payable on urban house ranges from 3% of annual rental value of the house to 4.5%. Schedule 3 of the regulations lists several towns or places as urban centres in Arsi, Bale, Hararge, Illubabor, Keffa, Shoa and Wollaga. It should be noted also that there are several small urban centres which have not been categorized as urban centres with one Kebele urban dwellers' association.

### **4.3 Municipal Finance under the current government**

After the overthrow of the Military Government in May 1991, no specific municipal law has been enacted at national level except the issuance of series of proclamations which devolved power to regional states. Such proclamations include the Transitional Period Charter, Proclamation No. 7/1992 ( A proclamation to provide for the establishment of Self-governing States) and Proclamation No. 1/ 1995 ( Federal Constitution).

Unlike the previous constitutions, the issue of self-government has been pronounced. The constitution stipulated that it is proper that regional governments must administer their local affairs because they are responsible for local problems, and matters related to governance at the grassroots level. Further more, under article 52(2) (a) the state government has been given the power and function of "establishing a state administration that best advances self government, ...". This implies that the state government will establish a system of administration which not only creates a suitable climate for grass-roots government to flourish but also facilitates their advancement.

However, the constitution does not make an explicit reference to municipalities as such except the introduction of concepts such as 'self-rule', expressions which conventionally applicable to both rural and urban units of government.

According to both the constitution and the proclamation No. 7/1992, regional states can establish administrative units that can advance self-rule. Implicit in these provisions is the possibility that the states can create their municipal administration. But the question is to what extent the constitutions of regional states have recognized municipal government as their important local government unit. Only few regional states have taken a move a long this line. Such pioneering states include the Tigray and Amhara regional states. Tigray had enacted 'Municipalities Administration Proclamation No. 21/1997' with the view of addressing the municipal problems of its cities. The municipalities collect taxes, charges and fees that are due to them. The details are those provided under the 1971 Regulations. However, tariffs have been modified twice since the new administrative arrangement has been put into effect.

Oromia regional state had also issued proclamations No. 4/1993, No. 1/1995 and more recently No. 26/1999 – which are Municipal Authorities and Rural Kebeles Establishment Proclamation, Oromia Urban Lease-holding Proclamation and a Proclamation to Establish the Town Administration in the Oromia regional state respectively. But unlike in Tigray regional state, no attempts were made to revise the old tariff regulations.

The Amhara regional government had issued new legislation in view of restructuring its municipal administration. Such review includes the recent tariff legislation which is underway and expected to be effective soon.

Proclamation No. 26/1999 issued by the Oromia regional state classifies municipalities in to 4 classes. Special zone cities, special woreda town, sub-woreda towns

and special kebeles. Municipalities which have special zonal status are directly accountable to the regional council. Jimma is said to be given special zonal status. In this case, there will be clear line of accountability unlike in the previous case.

However, the proclamation does not say much on the issues of urban revenues. In its article 5 (2) (a) it says that the special zone has the powers and duties to prepare and submit tariff regulations to Executive Committee of the Government pertaining to urban land rent, service charges, urban house tax and other charges and upon approval, collect same. It did not say anything about grants, revenue sharing and borrowing. However, since the municipalities in the region are poor, there should be a provision for grants. Nevertheless there should be some criteria laid down by which grant receiving municipal governments could be identified. It must be directed as an incentive for promising municipalities to mobilize their local resources.

In the same legislation, the role of Bureau of Works and Urban Development is not defined. There is no any article related to the Bureau's role regarding its relation with municipalities. It is recalled that the Bureau and its zonal offices have been giving technical and supervisory assistance to municipal governments.

In summary, municipal legislations, decrees, legal orders and proclamations in each system of government especially, in the imperial and military rule periods seem to be incomplete in terms of financial and managerial issues. They focused mostly on few revenue bases such as land rent and building taxes. Municipalities were not also given the power to mobilize their financial resources. Instead, in the imperial period they were tightly controlled by central government through its provincial and Awraja governors and through

the Ministry of Interior. During the Derg regime, municipalities were serving political purposes than discharging their traditional urban service provision. In the EPRDF-led government period, the devolution of power was enshrined in the federal constitution. But this devolution is not effected at municipal level. Therefore, there is a gap between the law and the implementation. As the result , urban centres are still governed by old rules and regulations. This state of affairs has impacted on the municipal revenue sources. Thus, in some urban centres the revenue has stagnated whereas it even declined in others. See table

4.1

**Table 4.1.** Annual Average growth of Revenues and Expenditure of Selected Municipalities

Municipality	Year	Income	Average Growth	Expenditure	Average Growth
Dire Dawa	1990/91	233,700	-	306,7000	-
	1991/92	2,364,000	1.2	1,753,000	-42.8
	1992/93	3,240,000	0.4	2,224,000	26.9
	1993/94	3,695,000	0.1	5,195,000	133.6
	1994/95	3,612,000	0.0	4,882,000	-6.0
Harar	1990/91	1,719,000	-	1,628,000	-
	1991/92	1,787,000	4.0	1,418,000	-12.9
	1992/93	2,082,000	16.5	1622000	14.4
	1993/94	2,270,000	9.0	1,478,000	-8.9
	1994/95	330,000	-85.5	2,435,000	64.7
Awash	1991/92	01,528	-	32,673	-
	1992/93	115,500	87.7	51,291	57
	1993/94	115,186	-0.3	69,888	36.3
	1994/95	109,328	-5.1	91,743	31.3
Jigiga	1990/91	1,253,000	-	1,461,000	-
	1991/92	1,666,000	33.0	886,000	-39.4
	1992/93	2,686,000	61.2	1,532,000	72.9
	1993/94	3,132,000	16.6	15,475,000	1.0
	1994/95	5,916,000	88.9	3,521,000	127.6
Bahir Dar	1992/93	1,545,981		1,021,327	
	1993/94	1,673,430	8.2	1,772,839	73.6
	1994/95	1,857,490	12.8	1,800,717	1.6
	1995/96	4,365,150	131.3	3,100,741	72.6
Nazareth	1990/91	2,986,572		1,598,272	
	1991/92	2,247,284	-24.8	1,414,147	-11.5
	1992/93	2,767,988	23.2	2,562,375	81.2

	1993/94	3,081,680	11.3	448,8458	75.2
	1994/95	4,075,640	32.3	2,992,525	-33.3
	1995/96	5,635,370	38.3	4,379,763	96.4
	1996/97	6,108,510	8.4	4,808,556	9.8
Mojo	1993/94	604,760		445,066	98.1
	1994/95	755,529	84.9	88,489	0.4
	1995/96	963,973	27.6	884,621	-24.8
	1996/97	948,467	-1.6	665,180	24.5
Goba	1993/94	33,000		326,000	
	1994/95	405,000	22.7	414,000	27.0
	1995/96	739,000	82.5	441,000	6.5
	1996/97	460,000	-37.8	639,000	44.0
Robe	1993/94	519,856		982,340	
	1994/95	393,329	-24.3	1,050,462	6.9
	1995/96	723,711	84.0	945,164	-10.0
	1996/97	685,156	-5.3	1,064,570	12.6

Source: Shewaye Tesfaye, 1997

As cited earlier, decision making on financial and personnel issues was also held centrally especially in imperial and Derg periods. In the mean time, Personnel issues are still governed by the federal civil service laws which were issued in early 1960s. See table 4.2. As the result, salaries and promotions were hampered whose implication is of enormous magnitude on urban municipal staff motivation and productivity.

Table 4.2 The locus of decision making regarding finance and personnel

No	Issues	Imperial Administration	Administration of the Derg	TGE* and FDRE**
1	<ul style="list-style-type: none"> <li>Personnel administration</li> </ul>	<ul style="list-style-type: none"> <li>In accordance with the Civil Service Regulations &amp; Proclamations No. 1 and 2 of 1962 and 1972 respectively.</li> </ul>	<ul style="list-style-type: none"> <li>Same as in column 1</li> </ul>	<ul style="list-style-type: none"> <li>Same as in column 2-civil service regulations are not strictly observed</li> </ul>
2	<ul style="list-style-type: none"> <li>Training</li> </ul>	<ul style="list-style-type: none"> <li>Centrally handled</li> </ul>	<ul style="list-style-type: none"> <li>Centralized with some degree of autonomy for municipalities.</li> </ul>	<ul style="list-style-type: none"> <li>Decentralized</li> </ul>
3	<ul style="list-style-type: none"> <li>Finance</li> </ul>	<ul style="list-style-type: none"> <li>High interference of government officials at provincial levels</li> <li>The legal basis for municipal tax was the Proclamation issued in 1971</li> <li>Municipalities have had additional revenue sources-one per cent duty on imported goods and 2 Cents per litter from petroleum products lubricants.</li> <li>Centrally administered income redistribution mechanism was introduced among municipalities in the form of loan and grant.</li> <li>Central guidance for revenue collection.</li> </ul>	<ul style="list-style-type: none"> <li>Interference was more political</li> <li>Same as in column 1</li> <li>Same as in column 1, but income from imported goods was later discontinued</li> <li>None</li> <li>Same as in column 1</li> </ul>	<ul style="list-style-type: none"> <li>Same as in column 2</li> <li>Same as in column 1 -- in Tigray region municipal tax fees' rates were revised twice.</li> <li>None</li> <li>None</li> <li>Guidance from Regional administrations with some minor capacity building technical assistance from the Ministry.</li> </ul>

Source: Sissy Ashenafi, Legal and Institutional aspects of Municipal Administration in Ethiopia, 1996.

\* TGE - Transitional Government of Ethiopia

\*\* FDRE - Federal Democratic Republic of Ethiopia

## CHAPTER 5

### BRIEF HISTORICAL BACKGROUND OF JIMMA TOWN

#### 5.1 Early History of the Kingdom of Jimma and its Centers

According to some written documents and oral traditions, before the 16<sup>th</sup>c, the area where the present Jimma town lies and its surrounding was inhabited by an agricultural people, collectively known as the Sidama, who were living under different principalities and kingdoms such as Hadya, Wolamo, Kaffa, Sidamo and Enarea. Since the mid-16<sup>th</sup>c., however, the area has been occupied by the Oromos, who eventually absorbed the Sidama people (NUPI, 1997).

The Oromos, especially the Mecha group, once settled in the region, continued to practice their nomadic way of life under their egalitarian political and social organization, the Gada System. Gradually, however, especially towards the 2<sup>nd</sup> decade of the 19<sup>th</sup>c, the Oromos abandoned the Gada system and established five small monarchies, namely the kingdoms of Limmu-Enarya, Jimma, Gomma, Guma and Gera, which were collectively known as the Ghibe States or Monarchies.

The strongest among these monarchies were, however, the Limmu-Earea and Jimma. It is argued that their location at the intersection of the then important Red Sea trade route was the principal factor for their supremacy. This made them an outlet of lucrative commodities of the period (such as gold, slave and ivory) to the northern, otherwise the Red Sea trade route.

Until the last quarter of the 19<sup>th</sup>c, Limmu-Enarea was strong enough to control the commercial activity of the region. This was due to the political unity of Enarea, achieved by its strong ruler, Aba Bogibo (1825 – 1861). It is argued that this supremacy did not last long as Jimma began to challenge Limmu-Enarea. This started when the kingdom of Jimma was reunited under its king, Aba Jifar I (1839-1854) who united several tribes of Jimma and re-established a strong kingdom at Jiren, in the 1830's. Mana, the previous capital of the kingdom, which is located some seven kilometers to the northeast of today's Jimma town, was thus abandoned.

Once re-established at Jiren, Aba Jifar's kingdom expanded its territory and achieved political stability. This helped the kingdom to effectively challenge Enarea's economic predominance in the region by the 3<sup>rd</sup> quarter of the 19<sup>th</sup> century.

The prominent king among the progenitors of Aba Jifar I was Aba Jifar II (r. 1878-1930). During his reign the kingdom attained economic dominance in the South and South-Western Ethiopia which made it the entrepot of commercial activity in the region. He further expanded his domain, pacified the region and was able to control the long distance trade that linked the region with the northern and Somali coast (the Red Sea) through Shoa.

Several factors contributed to the success of the kingdom in this period. Among these the political status which Jimma enjoyed in South Western Ethiopia within the larger empire is very important. It was given a semi-autonomous status in the late 19<sup>th</sup>c for it submitted peacefully to Menilik's army. This helped Jimma to maintain its territorial integrity unlike other kingdoms which fell under the direct control of the central government for they resisted

Menelik's army. It is worth noting that Jimma's peaceful submission helped it to emerge as the only economically strong kingdom, for other rival kingdoms (such as Limmu-Enarea and Gomma) in the Gibe region were destroyed.

Apart from this favourable political condition, there were several factors which contributed to Jimma's economic success. These include: its increasing participation in the lucrative trade of slave and ivory; expansion of coffee growing in the region and its export by Jimma to the Sudan and Djibouti through Gambela and Shoa, respectively; effective administration under Aba Jifar II; and particularly its policy that encouraged commerce (the imposition of low due tax, provision of lodging and security for caravan traders and the construction of roads).

In particular, the construction of roads and improved transportation were among the peculiar characteristics of Aba Jifar's reign. It is probably to show his achievement that a statement in a traveler's account reads; "... road making is (Aba Jifar's) hobby"

While the kingdom was intact and strong, there were three important quarters in today's Jimma town, which were serving different purposes. These were Jiren, Hirmata and Mendera as centers of political, economic and merchants' residence, respectively. These quarters were, in fact, the nucleus of the present day town.

### **5.1.1 Jiren**

Jiren, as it is mentioned earlier, was founded as the capital of the kingdom during the reign of Aba Jifar I. It is argued that Aba Jifar selected Jiren, instead of Mana, because of his

interest to control the Hirmata market, located about seven kilometers north of Jiren and which was established in the 17<sup>th</sup>c. Jiren has had also strategic location in a topographically elevated area (i.e., at 2,020 m.a.s.l).

After the construction of Aba Jifar's Palace at Jiren in the 1830s, his officials and their servants started to construct their houses and huts around the palace. There were also a large number of people who settled in the area. Thus, there emerged a small by-weekly market, held on Mondays and Fridays which also attracted people from the surrounding rural areas. All these together made Jiren a small village staffed with a number of houses and large number of people (residents).

Though it was only a small village when it was founded in the 1830s, Jiren's importance grew and had been known since the 1870s and 1880s (i.e., during the reign of Aba Jifar II). After he came to power, Aba Jifar II constructed an elaborated one-storey palace and mosques at Jiren. Moreover, the number of his followers and servants (like palace handicraftsmen) increased, and other people (such as merchants), flocked into Jiren to settle in the area. This initiated the construction of houses at Jiren which transformed it to a somewhat bigger political center in the South and South-western Ethiopia.

### **5.1.2 Hirmata**

There are some indications for the existence of Hirmata before Jiren. It is said that the area was occupied by the Mecha Oromos in the early 17<sup>th</sup>c. some attempt to substantiate this by the fact that the term "Hirmata" itself was given by these Oromos who "... shared the

cattle and other booties after major raiding campaigns” in the area. Hirmata, in literal Oromiffa, means ‘sharing something among many people’ or a ‘sharing quarter’.

Hirmata was a small local market during the early period of its establishment. It is argued that the main factor which led to the emergence of this market was the bartering activity of the Oromos on war booties in the area. As mentioned earlier, the presence of this market prompted the establishment of a permanent capital in a nearby area (Jiren) as the kingdom of Jimma was interested to control it.

Hirmata first emerged as a loci of itinerant merchants, and its importance grew with the establishment of Jiren as a capital of Jimma kingdom especially after the mid-19<sup>th</sup>c which witnessed the prosperity of Jimma under Aba Jifar II. Thus, the area which had been occupied by a few huts and a small market began to be replaced by offices and shops of long distance merchants (both foreign and local). Besides, the Hirmata market grew in size, and the volume of commodity exchanged increased, which lured foreign merchants such as Arabs, Indians and Armenians.

The Hirmata market was held on Thursday’s from which it inherited its another name “Gaba Kamisa”, which, in Oromiffa, means the Thursday Market. A large amount of local and foreign commodities such as slaves, salt, ivory, gold and textiles, were exchanged in this market. It is said that “... the market was organizaed in European fashion. Items were displayed at their respective places (Medebs).”

The major entrepreneurs of Hirmata market included merchants from Yemen (Arabs), Greece, Armenia and Syria who opened shops and offices for their agents in Hirmata and

Mendera. Until the appearance of the caravneers, they collected local products through their agents and exchanged these commodities with foreign products like textiles on the market day (Thursday). The other groups of merchants at Hirmata were mainly local Oromos and northerners who came mainly from Gojam, Gondar and Shoa.

Although Hirmata was an exchange center of diversified merchandize, it was known for its slave market. This market, known as 'Dabi Garba' (a slave market in Oromiffa) was located in front of the site occupied by the present municipal building, where there were about ten to fifteen blocks of stones on which slaves were displayed for sale.

In the mid-1880s, about four or five thousand slaves were estimated to be sold in a single market day. The slave trade was very important in that "... except for some peasants who sold grains, cotton and tobacco, all those who attended the Hirmata market seemed hardly engaged in any other business than in buying and selling slaves." Besides, until the early 1930s, it was the jumping-off point for slaves to be distributed all over Ethiopia for both internal use and export, in the latter's case mainly to the Sudan and the Arabian Peninsula.

### **5.1.3 Mendera**

While Jiren and Hirmata emerged as the political and commercial centers of the 'kingdom, a third quarter – Mendera – emerged between the two centers. From the very outset Mendera (which means a village in Oromiffa) developed as a permanent and temporary residential quarter of long distance merchants and their agents.

These merchants were of diverse origin who established their villages on the basis of their origin such as Mendera Wollo, Mendera Gojjam, Mendera Gonder, etc. It is probably from this settlement pattern that the name "Mendera Guda" (big village) evolved. In this locality there were also quarters of foreigners. For instance, the area east of Awetu River was the quarter of Indian merchants and it used to be known as 'Hindoch Sefer'. There were also the branch offices of foreign companies owned by French, Swiss and Syrian merchants.

Although Mendera was settled predominantly by long distance merchants, its importance grew later when it also started to serve a temporary market for those slaves who stayed with their masters. A small market known as 'Cocci' (which in literal Oromiffa means small market) also emerged in the area probably owing to the presence of merchants in the quarter.

To sum up, Jiren, Hirmata and Mendera were the principal quarters of the kingdom of Jimma. Each of these quarters more or less maintained their respective functions until the eve of the Italian Occupation (1936-41). After the mid 1930's, Jiren and Mendera lost their importance, while Hirmata emerged as the prominent quarter.

Mendera's importance began to wane when the central government (under Ras Teferi, later Emperor Haile Selassie) launched its campaign to abolish slave trade. This policy forced those merchants who were engaged in slave business to shift their activities into other commercial activities held at Hirmata market. Besides, most of the branch offices and shops of expatriate merchants at Mendera were transferred to Hirmata and what remained in

Mendera on the eve of Italian occupation were only few huts and houses with corrugated iron roofing and a small number of settlers.

Similarly, Jiren's importance began to decline on the eve of Italian occupation. After the death of Aba Jifar II in 1932, the kingdom became weak and ceased to be 'a semi-autonomous' political entity and was fully incorporated under the larger Ethiopian Empire, owing also to the centralization drive pursued by Emperor Haile Selassie. Thus, the capital of the kingdom (Jiren) lost its fame and most of its residents flocked to Hirmata where they continued their engagement in commerce.

Thus on the eve of Italian occupation the already flourished market of Hirmata grew as a viable quarter due to the relative decline of Mendera and Jiren. The number of settlers in Hirmata increased and the size of the market grew and the volume of goods increased. It was in fact this quarter which evolved as the most important node (nucleus) of the present day Jimma town, especially since the period of Italian Occupation. This was a turning point in the history of Jimma town which is discussed in the next section.

## **5.2 JIMMA DURING ITALIAN PERIOD**

### **5.2.1 The Foundation of Jimma in Proper**

The period of the Italian Occupation (1936-41) is a landmark in the history of many urban centers in Ethiopia including Jimma. The Italians established new towns and expanded existing urban centers.

After the Italians entered into Addis Ababa in May 1936, they reconstituted an Italian Colonial Empire known as Africa Oriental Italian, AOI (otherwise Italian East Africa). The empire, which was formed with the fusion of a newly conquers Ethiopia, Italian colonies of Eritrea and Somaliland, had six major regional divisions: Tigre, Amhara, Oromo and Sidama, Addis Ababa (later known as Shoa), Harar and Somalia. The respective capitals of these regions were Asmara, Gondar, Jimma, Addis Ababa Harar and Mogadishu, respectively.

Jimma previously known as Hirmata and Mendera was thus made the capital of a vast and fertile region: Oromo and Sidama. This helped Jimma to emerge as one of the biggest towns in Ethiopia, as the Italians invested a lot on infrastructure such as roads and buildings. It was during this period that the corner stone for the present day shape of the town was laid down.

The Italians left Jiren for the local (traditional) rulers, while they developed Hirmata as the administrative and commercial center of the region. They prepared a Master Plan in 1937, mainly for Hirmata, which was drafted on the basis of fascist segregation policy.

Accordingly, the town was divided into two distinct parts, namely black and white quarters.

The reason why the Italian Master Plan excluded Jiren, however, is not known.

The Master Plan, designated Hirmata as the white quarter which include: today's Ferenj Arada (foreigners residential quarter), Shoa Ber (gate of Shoa), Mentina and part of Mendera. The Italians built various buildings at Hirmata, of which the notable ones are: the palace of the regional governor, the office of civil and military tribunals (around today's Hirmata School), civil and military hospitals (which is now a Regional Police Head Quarter), the municipal building (the present office of Jimma's Municipality) and various office and residential buildings for lower officials.

Moreover, the Italians built modern hotels (eg. What are now Gibe and Gojeb hotels), restaurants and rows of shops at Shoa Ber, which were mostly owned by Italian and Arab merchants. The branch offices of two Italian banks (Banko Di Roma and Banko di Italia) were also opened, the former around the plywood factory and the latter at today's Jimma Hotel area. The postal (in its today location) and telegram services were extended to Hirmata. Furthermore, two cinema halls (today's Cinema Jimma and Cinema Ethiopia) were opened at Hirmata and a Stadium was constructed at Kitto locality. The Italians also provided the white quarter with tapped water supply from Jiren spring, and an Italian company installed electric supply from a diesel generator.

The most remarkable change at Hirmata during the Italian period was the construction of internal roads. The Italians constructed main and feeder asphalt roads. New roads were opened and existing ones were maintained, which connected the town with other

regions like Addis Ababa, Nekemte, Bonga, etc. Moreover, the Italians built an airport of Kitto, on the western side of Hirmata.

The master plan designated those areas which are located south, south-east and South-West of Hirmata as black quarters. Thus, the Italians transferred the scattered settlements of the indigenous people from Hirmata and Mendera to these quarters/sefers. These included the areas which are presently known as 'Kullober', 'Saratagna' and 'Maryam' 'Sefers'. These were then marsh lands, hence breeding sites for malaria-causing mosquitoes. The Italians reclaimed part of these marsh land and provided some medical services in the poorly built hospital for the native at today's area of Maryam Sefer.

The settlement in this area was congested, with poor houses constructed mainly from mud and wood and also scattered huts. There was no treated water and electric supply as well as road infrastructure extended to this quarter, although some earth roads existed in grid forms.

The Italians built a mosque and a school for Islamic studies at Mentina for local Muslim people. They also transferred the old markets of Hirmata and Mendera (Cocci) into Merkato, where they constructed modern market stalls divided in terms of the items sold. This market, known as 'Mercato Indigeno', became a daily food stuffs (like grains, butter, spices, egg, vegetables), cash crops (like coffee) and other commodities (like hides and skins). It is said that this market was arranged only for these goods, while other items such as textiles, were sold in shops located at 'Shoaber', 'Mercato Indigeno' was particularly important for it supplied the Italians with coffee, egg, vegetables and the like.

While the above mentioned developments were taking place at Hirmata, the Italians prepared another plan which was aimed at relocating the main town center to east of Aweytu river, i.e. to Mendera. Accordingly, the plan assigned the area for: main government offices, residential quarter of Italian officials (including the governor), Casa Fascio (quarter of Fascists), etc. Included in the plan were also an exclusive market for Italians (Mercato Nazion), a stadium, parking, a whites-only hospital, churches, military camp, etc.

There is no straight answer as to why the Italians planned to relocate the town's center to Mendera, but informants suggest two reasons. Firstly, the derive to create an exclusive (self-contained) white quarter is mentioned as the basic motive: as Hirmata, the previous center, was very near to the black quarter, the Italians found it difficult to effectively apply racial laws in the town. Secondly, the topographic condition of Mendera is mentioned to have encouraged their choice (which is found in a relatively plain area): the Italian's also had a plan to make Jimma 'Secondo Roma' (the second Rome).

The Italian plan did not fully materialize, except the construction of few buildings such as today's Jimma Hospital, a military camp (today's Jimma Health Science Institute) and other buildings like today's Zonal Education Office, residence and office of the region's Abun and other rows of residential buildings. Failure to implement the plan was due to the lack of time; they were defeated in late 1941 and subsequently evicted from the region.

Had this plan been fully implemented, Mendera's importance would have probably overshadowed Hirmata's predominance and the shape of the town could have been different.

In concluding this section, Jimma was the biggest town in the south and southwestern Ethiopia during the period of Italian Occupation (1936-41). The following two sections attempt to briefly outline the most important events that took place in Jimma after liberation.

### **5.3. JIMMA DURING THE IMPERIAL PERIOD**

#### **5.3.1 Town Administration**

The restored Ethiopian Government made Jimma the capital of Kaffa Province in the late 1941. In the meantime, the Municipality of Jimma was re-established having its office within the previous Italian municipal building. The Municipality introduced a new administrative system in which it divided the town into four Safars and it appointed 'Safar shums' (governors) for each safar. The Safar shums had offices in their respective domain. The safars included Bossa, Hirmata, Mendera and Jiren, of which the first two are located to the east and the other two to the West Awetu River. The main aims of this division had been for facilitating tax collection, land and property regulation, and controlling the sanitation of the town. This sub-division remained intact between 1942 and the mid 1970s. The 1945 decree acknowledged six towns (Addis Ababa, Gonder, Harar, Jimma, Dessie and Dire Dawa) to be municipalities and 99 other towns as townships. Although these were the major Safars, there also existed small Safars within the major Safars which took the names of nearby churches (like Maryam Safar), roads (like Shoaber, being located on the road that leads to Shoa) and other activities (like Saratagna Safar', meaning workers quarter, the dominant inhabitants being blacksmiths), etc.

Of all major Safars, Hirmata was the most important quarter in the periods under discussion, as the town's major market (Mercato), Shoa Ber, Saratagna Safar, Maryam Safar, Kullober, and Ferenj Arada as well as the big hotels, the Municipality building, the post office and other government institutions were located in this Safar.

It is worth noting that it was during the period under discussion that the second Master Plan of the town was prepared by the Ministry of Interior. This Master Plan, which was prepared in 1967, envisaged to enhance the development of the part of the town which was situated east of Aweytu River. It envisaged to reduce the saturation of Hirmata (which was overcrowded) and to develop Mendera, lower Jiren and Bossa. Although the aim of the new master plan was different, its proposals were more or less similar to the previous Master Plans. Both excluded Jiren and which is mentioned as the major factor that exacerbated the deterioration of this old political center.

#### **5.4 JIMMA DURING THE MILITARY GOVERNMENT**

Jimma's administrative status as provincial capital continued until it was made the capital of Illubabor Administrative Region in 1987 which lasted until 1991. A new urban administrative structure was introduced in 1975 which divided the town into three Keftegnas and twenty seven 'Kebeles' (which were later reduced to 21).

The period under discussion was a difficult time for Jimma in both economic and infrastructural development, which was engendered by the political situation of the period.

The incumbent (military/socialist) government nationalized all urban land and extra houses and introduced restrictive measures on private business. Moreover, the Arabs, the major entrepreneurs of commercial activities of the town, left the town due to the restrictive economic policy of the government and the prevalent political situation.

The government confiscated coffee farms and coffee processing machines which were concentrated in Jimma and other towns and later distributed to peasants. This measure was a blow for the absentee landlords and urban-based businessmen. As the vibrant sector of the local urban economy was dependent on coffee trade, the town's economic fabrics was thus disrupted since the mid 1970s. As a result, the town's economy became dependent, more than ever, on the government sector.

The declining commercial activity impacted on the exacerbation of the deteriorating urban infrastructure and service delivery. For instance, intra-urban transport service began to decline as the number of taxis and their service routes reduced. Similarly, the coverage of the city bus service, which had many routes within the town and which was providing inter-city transport service to the surrounding small towns was significantly reduced. The city bus service confined its intra-urban service to a single line (i.e. from Merkato to hospital), concentrating only on the more profitable line. The town's buildings, which were not maintained for long time began to crumble, and most of the asphalted roads were destroyed due to lack of adequate maintenance, although some of them were maintained on some occasions like when higher officials from Addis Ababa came to visit the area.

A large number of hotels and buildings mainly at Shoaber and Ferenji Arada, which were serving as night clubs and shops were converted into (government) offices and other purposes. Besides, the soft drinks and candy factories and other small cottage industries were closed down; there was also a significant reduction in the amount of commodities imported into the town.

Despite the economic hardships, the town witnessed during the period under discussion, some developmental activities. These include the construction of about fifteen kindergartens and a few number of elementary schools; the establishment of Jimma Health Science Institute; the constructions of the town's main bus terminal and its modern stadium. In addition, self-help (low cost) houses were built at 'Cocci Safar'.

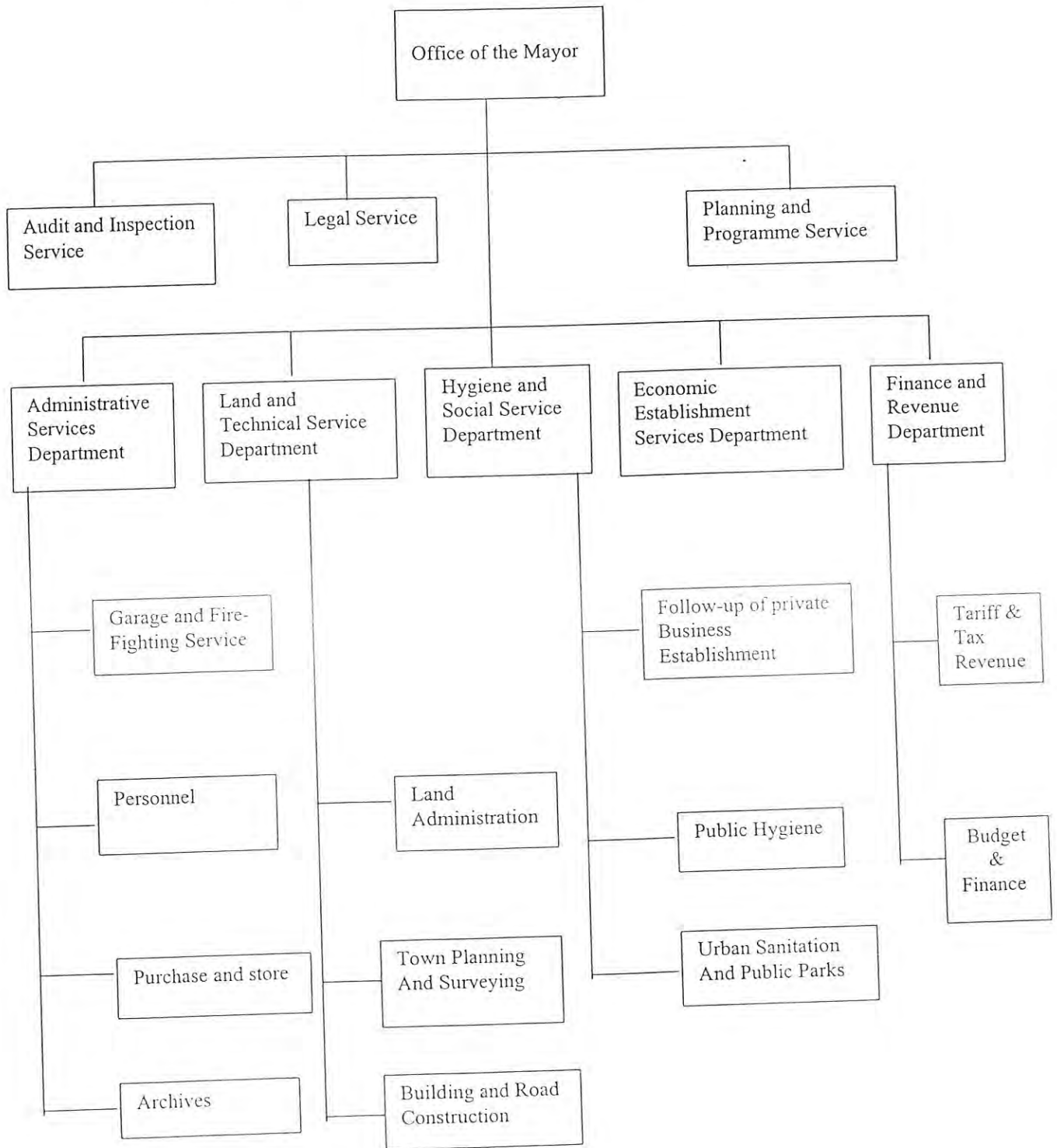
#### **5.4 JIMMA SINCE 1991**

Until the late 1980s, Jimma was serving as the capital of former Kaffa province. It has also been the capital of Illubabor region under the short-lived People's Democratic Republic of Ethiopia (PDRE). After the change of government in 1991, Illuababor was further divided into Jimma and Illuababor zones respectively.

After the accession of the EPRDF-led government to power in 1991, Jimma has become the capital of Jimma zone in the Oromia Region State. According to the Annual Statistical Abstract (1998), the town has 113375 population out of which 51% are males and 49% are females. It has an area of 4482.43 hectares as well.

The town currently has Wereda status which is divided into 3 *highers* and 21 *Kebeles* (including *Jiren* which was incorporated into the urban jurisdiction recently). It has one elected mayor who is responsible to run five major departments such as Finance and Revenue Department, Hygiene and Social Service Department, Land and Technical Department, Administrative Service department and Economic Establishments Service Department. It has also 3 supporting departments. (See Fig. 1).

**Figure 1 Organizational Structure of the Municipality of Jimma (Effective since 1985/86)**



Source: Municipality of Jimma.

**PART III**  
**The Financial Management of the of Jimma Town**  
**chapter 6**

**The Structure and Mobilization of Revenue**

In order to provide social and physical services to their residents, municipalities need to raise revenues from different sources.

Just like other towns in Ethiopia, the municipality of Jimma collects its revenues from different sources most of which are taxes, charges and fees as per the proclamation No. 161/1971. As cited earlier, the proclamation empowers municipalities to levy taxes, fees and charges on businesses in their municipal jurisdictions.

**6.1 The Revenue Structure**

Apart from the taxes, charges and fees identified in the proclamation the municipality also raises more revenues from non- tax, charge and fee sources. However, taxes and charges constitute the largest share of the municipal revenue. In the subsequent part of this chapter, the review of the revenue structure will be made.

**6.1.1 Business Taxes**

Business taxes range from commercial taxes on large businesses to small miscellaneous taxes such as market stall taxes. In principle, these taxes are levied on the profit of any commercial activity, industry, profession, wholesale, distribution, retail and all forms of business activities which are licensed and operate legally in the city. In practice, tax imposition is not strictly based on profit. It is rather based on the estimated value of capital.

Business tax includes an annual license fee, a charge to establish new business and a charge for solid waste disposal. The sanitation charge is imposed as a percentage of license

fees. According to the Tariff and Tax Revenue Department; there were 3517 business establishments in the town as of 1999.

**Table 6.1** The number of establishments licensed by the municipality.

<b>No.</b>	<b>Type of Business</b>	<b>Number</b>
1.	Bars and drinks grocery	251
2.	'Tej Bet'	153
3.	Hotels	100
4.	Restaurants	77
5.	Showers	2
6.	Merchandise	652
7.	Pharmacy and Clinic	38
8.	Butchery	31
9.	Grain, and edible oil mills	68
10.	Shoe and leather products shops	50
11.	Jewelry and handicrafts shops	26
12.	Spare parts	23
13.	Building materials	40
14.	Automobile garage/ tyre repair	45
15.	Household utensils	25
16.	Ready made clothes and textiles	221
17.	Wood workshops	73
18.	Honey and butter	33
19.	Photo studios	17
20.	Music shops and videos	30
21.	Snack bars and Cafeteria	185
22.	Yarn and thread trade	12
23.	Grain trade	84
24.	Metal works	60
25.	Barber shops and beauty salons	51
26.	Fuel stations	7
27.	Industry	12
28.	Brick production and gravel sales	33
29.	Fruits and vegetables	120
30.	Spice trade	153
31.	Chat trade	22
32.	Live stock trade	20

33.	Coffee trade	55
34.	Sewing machine, language school and typing school Store and whole sale	10
35.	Bakery	54
36.	Gravel mill	2
37.	Printing press	1
38.	Stationery	10
39.	Taxis	106
40.	Horse-drawn carts	260
41.	Bicycles	290
42.	Total	3517

**Source:** municipal archive, Jimma

Business establishments increased from 3050 in 1996/97, to 3413 in 1998/99 and to 3517 by the year 2000. As the result, business tax increased. It constitutes the largest share of the municipal revenue followed by loading and unloading charges. The increment in business is attributed to the free market policy which relaxed previous restrictions on the private sector.

As one can see from table 6.5, business tax accounts for 80% of total tax revenue in 1994/95 and 74% in 1995/96.

### 6.1.1.1 Tax rate determination

The revenue rate assessment is based on the tariff proclamation No. 161/71. There were 19 business grades whose tax ranges from Birr 19.5 for the 19th to Birr 8521 for the first grade. However, there is no strict instruction to know where a given business exactly falls.

There was a tax assessment committee whose members were drawn from the municipality's various sections such as finance and budget department, tax and revenue section and also one from the chamber of commerce. Though the committee members are expected to go to business establishments and observe the financial performances of each

business, they rather refer to previous taxes and levy accordingly.

In other cases, the committee depends on its subjective judgements, as there is not systematic criteria for profit assessment. The problem is aggravated by the fact that the traders do not keep book of accounts which can indicate their annual financial position. The writer had come across that about 81% of business establishments do not keep upto date revenue and cost books. As the result the amount is arbitrarily levied. Thus, it could either be underestimated or overestimated in which case either the municipality or the taxpayer is affected.

After the amount of tax is determined, the taxpayers are required to pay 75% in a month's time and apply for appeal for the rest. The implicit reason is that the assessment of the value is very subjective so that taxpayers must bargain. The appeal committee is composed of 6-members which the mayor heads. The community is informed by loudspeaker to pay the tax as soon as possible. Notices are also posted at public squares. The defaulters are identified and their names are handed over to the legal section for appropriate actions. The establishments are then sealed off by police. The defaulters are required to pay 5% penalty if they pay the arrears after the fiscal year is over.

As far as the appeal is concerned, the business community complains that the appeal committee does not give appropriate decisions on time.

**Table 6.2** opinion survey on appeal cases and tax laws.

Issues	Frequency	Percentage
Get timely decision	14	14
Don't get timely decision	86	86
No comment	-	-
Total	100	100

**Source:** compiled from field survey.

Moreover, most respondents do not know why they pay taxes. The respondents attributed this to the failure of the municipality in creating public awareness regarding objectives, legal basis and the purposes of the taxes.

Out of the 3050 tax paying establishments in 1990 E.C, 302 (10%) forwarded appeal to the committee. Only 14% were given final decision. This situation strained the relation between the committee which in turn affected the relation between the municipality and the community.

On the other hand, the municipality does not have strong legal backing to arrest defaulters. Thus, it is forced to take the case to the formal court which takes a long time. The defaulters are believed to have capitalized on this long duration of delay by investing what they owe on profitable businesses. As the result, tax arrears increased over time. For instance, it increased from 1,337,200 Birr in 1997/98 to 2,337,900 in 1998/99 ( Tariff and Tax Revenue Department, Jimma). More issues and problems related to revenue raising will

be discussed in detail in chapter 7.

### **6.1.2 Loading and unloading charges**

Another important municipal revenue is the power given to municipalities to tax all commercial transactions for using municipal roads. The charge is determined as a percentage value of the item loaded or unloaded. It ranges from 1% for commercial merchandises to 0.5% for agricultural goods. It used to contribute a modest amount to the municipal revenue account. This revenue base has shown consistent increase between 1994/95 and 1996/ 97. But it declined since 1997/98 after checkpoints (*kellas*) were removed following the directives given by the council of Oromia.

Loading and unloading tax also faces the following problems:

- owners do not produce the actual value of goods, which would be the base for the charge.
- they produce false receipts to escape the charges.
- absence of owners when goods are loaded and unloaded.
- negligence (fraud) on the part of drivers
- road use tax requires the presence of nighttime municipal collectors, which is difficult to ensure control.

### **6.1.3 Contract Registration Fee**

Contract registration includes fees on:

- title issue or transfer of title deeds and land registration
- transfer of title to motor vehicles.

- registration of rental contracts
- contracts dealing with property
- registration of contracts of construction.

Since new business activities are being undertaken in the town, contractual and related dealings enabled the municipality to raise a modest amount of money from this source. Some of the sources are easier to collect like the registration of title deeds. However, others such as collateral registration fees involve risks. Moreover, it is difficult to predict and plan the amount from contract registration fees. Thus, there are differences between the plan and actual performance in most budget years.

#### **6.1.4 Land Rent and Building Taxes**

As a form of property taxation, municipalities are empowered to levy an annual land rent and urban building tax. Thus, the municipality used to collect land rents and building taxes based on Dues and Rates Legislation of 1971. But pursuant to proclamation No. 80/1995 (a Proclamation to Provide for the Lease Holding of Urban Lands), the Oromia regional state issued proclamation No.1/1995, as amended by Regulation No.3/97, to govern urban land holding. Since then, Jimma became one of the lease towns in the region.

There are three types of lands offered for lease holding in the town. It includes land for commercial, industrial and residential purposes. Each class is further divided into three ranks (1-3). The ranking is based on the proximity of land to major roads, access roads and the availability of physical and social infrastructures such as water, telephone and electricity.

**Table 6.3** Urban Land Grades and their Prices.

<b>For Commercial Purposes</b>		
1st Grade	Area	Price/m2
	1-350	5.44
	350-450	6.32
	451-550	7.20
	above 550	8.08
2nd Grade	1-450	4.08
	451-600	4.74
	601-750	5.40
	above 750	6.06
3rd Grade	651-900	3.16
	901-1100	3.6
	above 1100	4.04
<b>For industry, education, storage etc.</b>		
1st Grade	1-350	1.4
	351-450	1.7
	451-550	1.92
	above 550	2.4
2nd Grade	1-450	1.44
	451-750	1.66
	above 750	2.10
3rd Grade	1-650	1.4
	651-900	1.62
	901-1100	1.82
	above 1100	2.06

<b>For Residential Houses</b>		
1st Grade	1-350	2.8
	351-450	3.2
	451-550	3.7
	551-650	4.2
	above 650	4.74
2nd Grade	1-450	1.44
	451-600	1.7
	601-750	1.9
	651-900	2.2
	above 900	2.48
3rd Grade	1-650	1.4
	651-900	1.6
	901-1100	1.9
	1101-1250	2.1
	above 1250	2.44

**Source:** Jimma municipality, Land Administration section.

The maximum price for commercial plot is Birr 8.08 per square metre. Since the town is mostly identified by its commercial activities, most investments are made in this sector. Thus, since the proclamation became effective in 1987 E.C., 50 businessmen have secured commercial lands and started various business activities. The leaseholders were very reluctant at the outset. The authorities attribute this to the very low level of public awareness. Gradually, however, the public has been oriented about the importance of the policy. One of the reasons for reluctance on the part of the business community and investors is the high price offered for commercial land. Jimma is unnecessarily equated to Nazareth where equal price is offered for the same grade. Thus, most of my respondents strongly disagree to the current price.

Despite the complaints, the municipal revenue raised from this source has increased from year to year contributing to the municipal treasury. In subsequent years after the proclamation, the municipality had raised more revenue than planned especially, in the budget years of 96/97 and 1997/98. In semi annual fiscal period of 1999/2000, the income raised amounted to 292435.37 Birr which was 46.2% more than the plan.

In an attempt to ease the complaints and attract more investors, revisions have been made. The previous requirement to pay 25% of the total rent immediately when signing an agreement was reduced to 6%. Moreover, auction is replaced by negotiations with the bidders.

In principle, the revenue raised from this source is to be spent on the construction and maintenance of urban infrastructures. A special bank account is to be opened to deposit the money. But this account has not yet been established. Moreover, the revenue from the land lease is not kept under separate revenue title. Instead, it is mixed up with other revenue sources such as house tax and technical service fees.

The urban land administration section lacks qualified personnel in cadastre which shows the features of land including possession, boundary and area. The master plan of 1997 is too much for the municipality to implement.

### **6.1.5 Building Tax**

In Jimma there were 6400 residential and 300 commercial houses. The rent is paid on metre square basis and hence varies with the size of the houses. The assessment of the

estimated value is the responsibility of regional bureau of works and urban development. Thus, the bureau established new rates for the houses which have been constructed since 1986. The reason for the revision is not clear. However, it is believed that this measure was based on the intent to update the rate. Even then, taxes on fixed assets such as this is less buoyant because the assessment of land value is subjective.

The municipality had also attempted to include the building tax of old residential houses in the lease holding package. But this practice raised many complaints from the community and it was abandoned later on.

**Table 6.4** The number of Houses in Jimma as of 1999.

No.	Categories	Number
1.	Commercial houses owned by the municipality	459
2.	Residential houses owned by the municipality	83
3.	Kebele houses (residential)	5931
4.	Kebele houses (commercial)	500
5.	Houses for miscellaneous purposes	46
6.	Houses used for Kebele administration	43
7.	Private residential houses	6400
8.	Private commercial houses	300
	Total	13762

**Source:** The municipality of Jimma.

### **6.1.6 Charges from the Slaughter Services**

Jimma has a 50 year-old slaughterhouse which has the capacity to slaughter more than 50 heads of cattle per day. The centre gives adequate services for the residents and butcheries by charging them 20 Birr per cattle and 4 Birr per goat/sheep. The municipality also charges 25% from skin sales and 20% from fat sales. The service charge was revised recently because of the failure of the centre to cover its costs. It is the only service charge revised by the municipality in a bid to strengthen the capacity of the centre. As the result , the increment improved municipal revenue. Thus, the income from the service has shown an increasing trend in the budget years 1996/97 and 1997/98. However, the writer observed increasing illegal slaughtering to escape the increased charges. Unless strict control is made, it will have a negative consequence both on municipal income and urban sanitation. Moreover, the revised rate can be challenged on legal grounds though it is being implemented with no difficulty.

### **6.1.7 Technical service charges**

It includes technical service fees on house plan permit, fence permit, building permit and title deed fees. Though it is relatively small in amount the revenue raised from the source had increased over years in correlation with the rise of business and residential house construction activities.

### **6.1.8 Market tax**

The municipality collects market tax and marketplace rent from traders. It is imposed on traders of agricultural goods coming from the surrounding rural Weredas and also on regular urban residents who are involved in the trade of various goods. The latter are given permanent plots for which they pay monthly or annual rents as the case may be. But the municipality does not have up to date figure of plot users because some of the traders were casual. Moreover, it was not possible to apply tight control in ensuring appropriate tax collection from the market plots. Thus, there can be a leakage. The plots were not also properly arranged, no shade and no partition in most sites as the writer observed.

### **6.1.9 Livestock market rents**

There is one cattle market and various sheep and goats markets. But the the revenue from this source was small because of:

1. very low rate
2. sale of livestock outside the market place to escape the tax.
3. lack of properly arranged and fenced off market locations and inadequate internal control over the collectors.

### **6.1.10 Sanitation fees**

It includes fees on refuse removal, removal of dead animals and unsanitary conditions created in hotels, restaurants and bars. The charge is lumped to the annual business taxes. This fee is levied only on business establishments whereas other residents are exempted. It

seems unfair to charge business establishments alone. This will have two negative implications. First, it contributes to urban unsanitary conditions. Secondly, the municipality fails to collect fees which can supplement its revenues.

### **6.1.11 Revenues from the sales and rent of municipal properties**

The municipality was operating a clinic, a pharmacy, a bakery, a cafeteria, low cost houses, shops, verandas and hollow block production. The amount raised from these sources ranges from 170,000 Birr in 1995/96 to 448700 Birr in 1997/98. Most of the establishments are now leased to private contractors.

As shown in table 6.5 the various sources of municipal revenues do not make equal contribution. Some brought in significant revenues while the share of others is small. Some are easier to collect while others are not. See annex 3 for the nature of each revenue source

Table 6.5 Sources of revenues (in 000)

Sources	94/95			95/96			96/97			97/98			98/99			
	Plan	Actual	%	Plan	Actual	%	plan	Actual	%	Plan	Actual	%	plan	Actual	%	
<b>A Taxes</b>																
1	Business taxes	900	682	76	990	1339	135	1040	852	82	1040	195	19	1029	436.4	42
2	Market place tax	60	27.5	46	66	30.7	47	69.5	35	50	69.3	2.2	3	70	29.5	42
3	Live stock tax	25	4.3	17	27.5	6.7	24	22.9	6.4	28	28.9	0.4	1	25	-	-
4	Urban land rent	200	59.7	30	210	188	90	220.5	322.3	146	231.5	167.2	72	300	278.2	92.7
5	Building tax	150	37.3	25	151.9	215.1	142	159.5	146	92	167.4	130.8	78	200	202.9	101.4
6	Various taxes	400	19.9	5	440	28	6	462	30.5	7	40	9.6	24	30	9.2	30.6
<b>Total</b>		1735	830.7	48	1885.4	1807.5	96	1974.4	1392.2	71	1577.1	505.2	32	1664.5	956.2	57.4
<b>B Service charges</b>																
7	Loading and unloading charge	700	739	106	756.9	788.1	104	800	1078.7	135	880	3513	40	880	304	34.5
8	Sanitation fees	100	30.9	31	120	80	67	120	29.9	24	80	9.4	12	80	16.2	20
9	Technical service	120	132	110	169	83.1	49	84	110.9	132	200	110.3	53	210	82.2	39
10	Slaughter service	250	98.2	39	262	199.9	76	275.1	223.4	81	275	140	51	290	185.2	63.8
11	Contract agreement	100	258.3	258	284.1	395.4	139	40	524.2	131	310	367.9	119	320	192.6	60
12	Land permit	20	-	-	21	164	32	200	139	70	250	-	-	250	191.1	76
<b>Total</b>		1345	1258.4	94	1670.5	1710.5	102	1585.7	2106.1	133	1995	978.9	49	2085	971.5	46.5
<b>C From municipal properties</b>																
13	Property rent	50	21.7	43	52.5	28.6	54	55.1	43.3	79	55.1	2	4	30	12.7	42
14	Sales of assets	150	64	43	127.8	3.4	3	165.6	145.6	88	520	1	0.2	10	4.7	47
15	House rent	160	107.2	67	168	126.4	75	176.4	512.9	291	708.8	194.6	27	720	248.1	34
16	Gravel Sales	60	21.2	35	63	12	19	66.2	-	-	70	-	-	120	-	-
<b>Total</b>		3600	2659.9	74	4356	418.7	96	4140.6	4303.5	104	5058.2	17022	34	4734.5	21049	46.3
<b>D Miscellaneous</b>																
17	From AAHR*	70	19.8	28	73.5	28.3	39	77.2	30.7	40	32.2	-	-	35	-	-
18	Miscellaneous	30	*334.6	1115	315	*471	150	40	*72.7	182	100	20.5	21	70	1.7	2.4
<b>Total</b>		3600	2659.9	74	4356	4187.7	96	4140.6	4303.5	104	5058.2	1702.2	34	4734	2104.9	46.3

Source: The municipality of Jimma, Finance and budget department.

\* Above plan

\*\* The period when 'kella' checkpoints were lifted

\* AARRH = Agency for the Administration of rental Houses

## **CHAPTER 7**

### **Issues and Problems Surrounding Revenue Raising**

Limited revenue bases, poor collection efficiency, weak financial management, poor legal and institutional capacity, subjective tax assessment and property valuation affected the revenues of the municipality.

#### **7.1 Old Tariff Regulations**

Just like all municipalities, Jimma still uses outdated rates, tariffs and charges with the exception of those pertinent to land use and building taxes. The latter were revised following the urban land and extra house nationalization of 1975, housing policy issued in late 1980s and more recently the issuance of urban land lease holding.

The rates, dues and charges which were issued several decades ago remained inelastic with inflation, population growth and economic situations. As the result, the real value of revenues collected by the municipality have shown significant decline.

The rates of these charges, fees and dues were fixed in 1971 as shown in table 7.1. However, the prices of providing municipal services have risen significantly. For instance, the prices of machinery and spare parts, for refuse disposal trucks and building equipment have risen sharply. The cost of water and electricity supply has increased several fold. Labour cost, expert or otherwise, has also been increasing.

**Table 7.1** Dues and fees of selected municipalities issued in 1971 and still being applied until recently\*

Revenue items	Kombolcha	Bahir Dar
Market place use fees		
Monthly market stall	0.30 - 1.00	0.15 - 1.00
Monthly vehicle parking	5.00 - 10.00	0.25 - 10.00
Live stock market fees	0.10 - 1.00	0.10 - 1.00
Loading /unloading fees	0.2% - 1%	0.1% - 1%
Refuse disposal fees (per month)		
For business	0.10 - 5.00	0.25 - 15.00
For dwelling units	0.10 - 0.30	0.15 - 2.00
Property tax (on the basis of rental value of land)	0.01% - 6%	0.02% - 1%
Registration fee	0.5 - 5.0	1.00 - 10.00
Control of stray animals	0.5 - 1.00	0.10 - 1.00

Source: Minas Hiruy and et al., 1999:51

\*Amhara Regional state has recently revised tariff rate

For instance market stall fee per ox was from 0.10 to 1 Birr 30 years ago when the price of an ox was not more than 100 Birr. But today the price of an ox has jumped to 1000 Birr.

On the basis of this, the municipality welcomes the revision of the tariff to update it.

But this does not seem to be accepted favourably by the residents. For the question posed by the writer to the residents as to what will be their reaction if the municipality increases tariff on the basis of ability to pay, they had a lot to say. 40% of the respondents were strongly against the idea.

**Table 7.2** Opinion survey on tariff

Issues	Frequency	Percentage
Remain unchanged	40	40
Increase rates	40	40
No comment	10	10
Total	100	100

**Source:** field survey, 2000

Those who opposed increased tariff rate had suggested the following options.

1. the municipality has to use the available sources effectively instead of increasing tariff.
2. it has to collect tax and charge arrears instead of introducing new tariff schedules.
3. it should renew its kebele and low cost houses and rent them at higher prices.
4. it should create favourable environment for investors so that it will improve its revenues and to do this, it must reduce the price of urban land rent
5. it should fight corruption

6. it should control informal sector traders and levy tax on them
7. it should search for other sources and improve revenue collection methods.
8. It should attract non governmental organizations

Many of the respondents complain that their income is not enough to cover the ever rising cost of living. For instance, according to the survey conducted in 1994 on the sample of 230 households, an estimated 69% of the total house hold in the town are found to be within the low-income bracket (i.e. earning less than 300 Birr per month). See table 7.2. This has its roots in the rather stagnant nature of the local economy and also macro-developments such as the devaluation of the 'Birr' and the removal of indirect subsidies that followed the deregulation of the overall economy. The problem is exacerbated by increasing unemployment which is fueled by rural-urban migration. The significant migration into Jimma from those areas characterised by unfavourable population/ resource balance is also seen as an important factor.

**Table 7.3** Mean Household income (Jimma, 1994)

Income group In (Birr)	The number of Households	Mean income	Percent
< 50	38	30.42	17.0
50 – 99	35	69.34	15.6
100 – 199	50	139.78	22.3
200 – 299	31	237.62	13.8
Low income	154	116.48	68.7
300 – 399	17	327.24	7.6

400 – 499	16	439.31	7.1
500 – 599	10	556.10	4.5
600 – 699	4	633.29	1.8
Medium income	47	440.1	21
700 – 799	8	731.37	3.6
800 – 899	3	825.33	1.3
900 – 999	2	952.33	0.01
1000 & above	10	1192.8	4.5
High income	23	963.48	9.4
Total	224	271.27	100

**Source:** Taken from the master plan, 1997:137

The unfavourable reactions to the proposal of increased tariff do not only indicate that the existing resources were not properly tapped. Rather, they have the implications that the current tax and charges do not take into account the ability to pay.

**Table 7.4** Opinion survey on whether the current tax and charge rates are based on the ability to pay.

Issues	Frequency	Percentage
It is based on ability	4	4
Not based on ability	93	93
No comment	3	3
Total	100	100

**Source:** field survey, 2000

The respondents said that they had been already heavily taxed by Inland Revenue Authority and had faced hardships as the result of economic adjustment , inflation and unemployment.

However, it is not possible to confirm the allegations in the absence of evidences which indicate the financial position of the residents. It is recalled that about 81% of the traders do not maintain their book of income.

The writer observed the feelings were reflected in that the well-to-do opposes progressive tax whereas the poor longs for exemptions.

## **7.2 Poor revenue collection**

The revenue collection efficiency is rather poor for various reasons. It is linked with the lack of adequate number of revenue collection staff, the poor nature of collection system and poor record keeping and updating taxpayers statistics. The staff is not given incentives to increase collection efficiency. The revenue collection staff is not also given incentives to avoid corruption temptations.

On the other hand, this shortfall surfaced partly due to the poor enforcement to ensure tax compliance on the part of taxpayers. This shortfall has surfaced partly due to the poor enforcement capacity of the municipality in dealing with those who evade taxes and levies. Thus, there was outstanding arrears as shown in tables 7.5 and 7.6.

**Table 7.5** land rent and building tax arrears

Higher and kebeles	The no. of taxpayers			The amount dues to the municipality	The amount paid	Arrears (unpaid)
	Paid	Did not pay	Total			
1/1	31	234	265	89.3	30.8	58.5
2	29	208	237	104.4	43.7	60.7
3	19	493	512	138.9	30.4	108.5
4	30	271	301	88.3	34.5	53.8
5	7	87	94	98.1	60.8	37.4
6	15	149	164	106.8	80.1	26.7
7	22	245	267	85.4	21.3	64.1
2/1	15	250	265	113.3	30.6	82.7
2	15	160	175	107.6	34.3	73.3
3	5	200	205	25.5	6.1	19.1
4	11	199	21	38.4	8.6	29.6
5	45	386	431	66	25.9	40.1
6	16	239	255	77.8	13.5	64.4
3/1	45	111	156	66.9	22	44.9
2	7	265	262	159	35.1	123.9
3	275	304	579	137.1	16.6	120.5
4	35	508	543	80	22.1	59.9
5	39	321	360	250	78.5	171.5
6	71	381	452	150.6	60.7	89.9
7	76	579	655	420.6	209.3	211.3
Total	808	5590	6398	2403.7	811.4	1592.3

**Source:** adapted from UDSS-FMSS Finance Procedure manual implementation

Follow up at Jimma municipality, 1991 E.C.

Table 7.6 also indicates that there was more than Birr 2 million business tax arrears outstanding.

**Table 7.6** the number of traders and the amount of business tax arrears between 1993 and 1999.

Higher and Kebele	The no. of taxpayers			Arrears	Amount paid
	Paid	Did not pay	Total		
1/1	7	99	106	101.4	16.8
2	1	10	11	9.4	2.9
3	2	16	18	5	1.1
4	-	6	6	2.7	0.7
5	40	172	212	279.8	113.5
6	4	38	42	35.1	0.7
7	-	39	39	26.3	6.4
2/1	184	622	806	683.8	357.3
2	128	531	659	378.2	229.5
3	3	42	45	35.5	12.6
4	8	40	48	31.7	11.4
5	4	-	11	6.7	3.2
6	5	69	74	32.7	4.9
3/1	1	54	55	22.8	7.7
2	1	15	16	37.3	8.2
3	-	55	55	28.9	5.2
4	2	64	66	39.2	9.1
5	3	52	55	55.5	7.3
6	33	203	236	157.5	89
7	34	181	215	145.3	108.3
Total	460	2315	2775	2115.8	995.8

**Source:** *ibid.*

The absence of up to date data which can ensure a more objective revenue assessment, levying and collection is another setback. The municipality does not have cadastral information systems which could facilitate the collection of land and building taxes. It does not have also up to date records of business establishments. Furthermore, business establishments do not keep written records of their operations. This failure has resulted in taxation assessment being highly subjective and vulnerable to corruption practices. 66% of

the respondents of the opinion survey strongly agree corruptive practices in tax collection.

**Table 7.7** Opinion survey on corrupt practices

Issues	Frequency	Percentage
Corrupted	66	66
Not corrupted	30	30
No comment	4	4
Total	100	100

Source: field survey, 2000

### 7.3 Lost Revenues

The municipality has lost some important revenue sources associated with:

- a. The lifting of check points (*Kellas*) which deprived the municipality significant income it used to collect at check points from levies on manufactures, household goods, grain and cash crops such as coffee and 'chat'. The reason for the removal of *Kellas* was the complaint of the community because of the presence of several check points which were established both by the municipalities and Inland Revenue Authority.

The loss of revenue from this source is strongly felt in Jimma because it is a nodal town serving as a centre of distribution and transit of goods from and to the towns of

Metu, Agaro, Mizan, Bonga, Wolkitie, Waliso and Addis Ababa. It was noted that more than half a million Birr has been lost every year since the lifting became effective.

- b. The recent directive issued by the Regional Council waived the fee which the municipalities used to collect 5% of a loan secured by a person from a bank. The fee was in return for the guarantee the municipality gives to the bank so that fixed assets which the bank seizes as collateral will not change hands without the municipality's prior knowledge. As the result large amount of revenue was lost. Now, the municipality charges only 100 Birr irrespective of the size of the loan secured by the debtor.
- c. The conflict over who should collect road use fees between the municipality and zonal office of transport and communication. As the result, taxi owners stopped paying road use fees to the municipality. The municipality could have raised more from the owners because of the rising number of taxis from time to time.
- d. The change in government.  
The revenues missed due to political change include weapons registration and control; charges for the registration of rental contract between landlord and tenant.
- e. The transfer of power to utility agencies.

Electricity and water consumption bills were transferred to the Ethiopian Electric Power Corporation and Water Supply and Sewerage Authority respectively. This meant that the municipality could not benefit from certain charges of utilities.

## **7.4 Revenue Fluctuations**

The amount of tax to be collected by the municipality in a given year depends on rural economy, other things remaining constant. Since Jimma is located in a coffee producing hinterlands, its income is affected by the vagaries of nature and man-made influences. If there is a bumper coffee harvest, the rural economy improves with spill over effect on the town whereas if the harvest is low, it affects municipal treasury indirectly. Municipal report indicates that more than 70% of consumers of merchandise come from the hinterlands.

Secondly, coffee prices are highly dependent on international markets. Indeed, all coffee producing regions are affected by these fluctuations. In Jimma this had a visible effect on municipal finance and on urban development as well. For instance in 1994/95 where the coffee price had risen significantly, the municipal income especially, business tax had shown significant increase. The business tax jumped to Birr 1.34 million in 1994/95 from Birr 682,000 in 1991/92 (Municipality of Jimma).

The recurrent diseases such as malaria and typhoid in the hinterlands also indirectly affect the municipality. The drought which is looming in the areas since last year will also have a far reaching consequence on the urban economy by reducing production on the one hand and encouraging rural-urban migration on the other.

## **7.5 Revenue leakage (misuse)**

Corruptive practices on the part of municipal tax collectors and purchasers can cause financial leakage because effective financial inspection and auditing is mentioned as a missing link. The low salary profile of municipalities indeed, causes high temptation for

corrupt practices.

There is also authorization of unplanned (unbudgeted) expenditure by extra municipal authorities (especially zonal administrators) who deprive municipalities to spend their hard-earned money on the critical municipal services. There had been a significant amount of money taken out of municipal treasury by zonal order between 1980 E.C and 1986 E.C.

## **7.6 Absence of Subsidies**

Municipalities in Ethiopia are not entitled to get grants by law either from regional or central governments. Thus, they operate on their own precarious revenues. Jimma received earmarked grant of Birr 250,000 from Federal Road Fund for access road construction only in 1997/98 budget year out of the periods covered in this study. This is a negligible contribution. The local revenue alone cannot meet municipal expenditure, given the range of functions for which the municipality is responsible. Thus, though grants may affect the financial autonomy of the municipalities, there is merit in providing some sort of matching grants. However, it must be based on clearly defined criteria to determine the amount and eligibility.

## 7.7 Unproductive municipal staff profile

The capacity of municipalities to provide effective services and contribute to urban development depends on its human resources which has a far-reaching consequence on the financial and physical resource management and utilization of municipalities.

A human resources which is sensitive to the practical urban problems:

- provides mechanisms for employment and utilization of competent staff;
- encourages the use of motivation and performance based remuneration;
- allows the preparation and implementation of sound staff development plans and career advancement opportunities.
- promotes innovative practices and service conscious attitude as a key factor in making municipalities to provide adequate catering for the needs of its residents.

Despite this the town is suffering from serious human resource problems since 1985/86 when the existing organizational structure has been designed. Thus the personnel profile is quite below requirement at any standard. See table 7.3. Currently there are 115 permanent and 94 contractual workers. Therefore, one municipal staff serves for 982 residents. The substantial portion of the staff is employed on contractual basis for a very long time while the kind of work they perform is essentially of a permanent nature. It has been reported that there are employees who have been serving for over 12 years but still temporary. This was because the municipality was prohibited from hiring permanent employees. The reason was not clear, however.

If the staff remains on contractual basis for longtime, the staff lacks motivation, job security, loyalty and belongingness to the organization. Such jobs do not also entitle to

promotion and other benefits. This may lead the staff to corrupt practices and lax behavior. The impact of such behavior on the service delivery of the municipality could be adverse.

### **7.7.1 Salary Structure**

Good salary structure and remuneration system has high positive correlation with performance. Despite this, the salary of the staff has very much lagged behind other civil servants in other public organizations as the review of organizational structure has not been done along with other organizations.

The implication of very low and stagnant salary are many. It can result in:

- temptation for corrupt practices
- irregularities in behaviour and property handling
- unfavorable attitude towards clients.
- high turnover of technical staff
- inability of the municipality to attract qualified and experienced staff

**Table 7.8** Staff Profile.

Education			Work Experience			Salary		
Level	Number	%	in years	Number	%	Range	Number	%
Read and write	40	34	1-10	5	4	105-200	40	35
1-6	23	20	1-20	60	52	201-300	30	26
7-8	19	17	21-30	48	41	301-400	34	30
9-12	28	24	above 30	2	2	401-500	6	5
12+2	3	2				Above	3	2
B.A.	2	1				500	2	2
<b>Total</b>	115	100		115	100		115	100

**Source:** Municipality of Jimma

It is important to note that in this kind of salary structure and the subsequent staff attitude to their work, one cannot imagine the desired level of service and prospect for improved urban management and development.

### 7.7.2 Motivation, Performance, Promotion and Stability

A number of factors contribute to high staff motivation. Good salary, respect and love for one's job, career development opportunity, reward and benefits, recognition etc. It appears that almost all of the above factors are missing among the employees of the

municipality because:

- The employees see no prospect for career development and feel that their contribution is not recognized.
- They suspect that the community perceives municipal workers as corrupt and bureaucratic

As cited earlier, staff promotion is largely stagnant. There have not been opportunities for vertical growth and even horizontal movement is prohibited. If there are vacancies for promotion in rare instances, promotions are conducted not because the staff has the required qualification but simply because others (new recruits) cannot be attracted to the posts due to the low pay.

In respect to staff stability, looking at the matter from the number of staff that left the municipality in search of better destiny, one can conclude that it is not so much a problem. The decline of permanent staff from 159 in 1995/96 to 129 in 1997/98 and to 115 in 1999 is mainly attributed to retirement and death. But this is at clerical and general service level. At management level, there is a frequent turnover especially at mayors' level. It is reported that the town had four mayors in 4 year's time. Thus stable leadership is a rare phenomenon. Frequent change of mayors appears to be used as one way of reducing corruption and even some mayors were removed on corruption charges. But its implication on establishing stable management, reliable and experienced leadership is damaging.

In spite of the use of the above method to reduce corruption through 'Qoranno' (which means evaluation in Oromiffa), it has not really produced the desired result as far as the municipal performance is concerned.

Taking the above problems into account a lot is desired to reverse the situation.

- the municipalities need to have more say on the recruitment, hiring and utilization of their staff.
- the present staffing profile has to be changed in order to enable the municipality to overcome its drawbacks in human resources capacity.
- prohibition on promotions and transfers must be lifted and based on qualifications and experience.
- salary structure must be reviewed in line with the changing situations.
- frequent change of mayors need to be halted in order to provide the municipality stable and credible leadership. Mayors must be elected or selected on the basis of their merit rather than for their political expediency, or conformity. The intervention from the zonal administration must be avoided in the selection of mayors. This must be left to the general public living in the city.

## **7.8 The rising of informal Sector**

The data compiled by central statistical authority (CSA, 1997) defines informal sector as household type establishment or activities which :

1. is mainly engaged in marketing production
2. is not registered as a business enterprise
3. has less than 10 persons engaged in the activity
4. has no full written book of accounts and
5. has no license.

Accordingly, many economic activities are carried out by a sizeable number of people in Jimma. These activities go unrecorded in the official account. The noted data indicates that there were about 8256 people engaged in informal trades in 1997. These people mostly operate a small scale activities such as preparation and selling of various food items, beverages as well as petty trade activities carried out within residential units, along street corners and road sides. Indeed, there are also those who are engaged in the trade of grains, second-hand clothes, and a range of goods.

Municipal authorities did not take any measure to legalize the activities of the sector on the grounds that the traders don't fulfill the minimum initial capital of 5000 Birr to be licensed. Moreover, the authorities say that the informal sector is not an urgent agenda to be taken seriously.

But the business community do not agree to the opinions of the municipal authorities because for them informal sector has been increasing after market liberalization. The informal sector was accused of selling goods at low prices that affected the demand for goods in the shops of legal traders.

**Table 7.9** Employment status in both formal and informal sectors in Jimma town.

No.	Employment status	Percentage
1.	Own Account worker (informal)	31.2
2.	Government Employee	43.1
3.	Private Organization Employee	21.3
4.	Others	4.4
	<b>Total</b>	100

**Source:** Master Plan, 1997

In summary primarily, because of the reasons cited above, the amount of the revenue is not sufficient to cover municipal costs for urban services. The revenue assessment, enforcement and collection are not strong and objective. The municipality has weak institutional and legal basis to enforce and penalize the defaulters as the result of which much time is taken to arrest the tax evaders. Because of these reasons, the per capita revenue is very low compared with the level of demand for urban services. For instance, the average per capita municipal income for the budget years from 92/93 to 1996/97 is only Birr 32.26 whereas in 1997/98 and 1998/99, it was Birr 33.5. This indicates that while the pressure of demand for municipal service is increasing because of an increase in population, the revenue has shown very sluggish increase. This is aggravated by the increasing inflation on the one and the decline of purchasing power of money on the other.

## **CHAPTER 8**

### **Expenditure (Allocation and Execution)**

All municipal revenues are aimed at financing various municipal programmes and activities. This constitutes the expenditure side of municipal finance.

This chapter focuses mainly on the budgeting process, spending, record keeping, inspecting and auditing. Though both revenues and expenditure are part of the budgeting process, the writer found it necessary to discuss them separately because both constitute broad issues.

#### **8.1 The budgeting process**

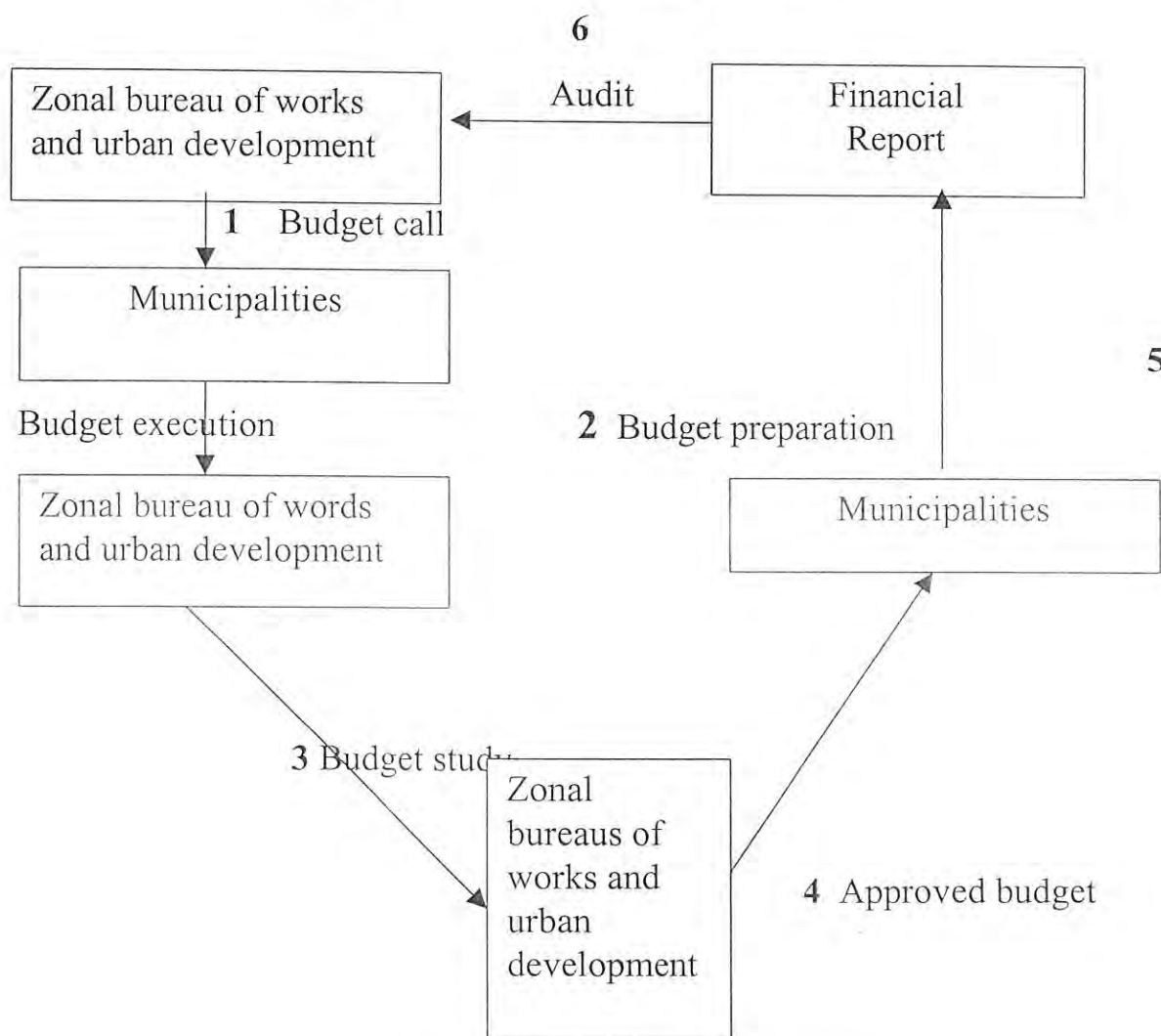
A budget is a blue print through which municipalities intend to achieve their objectives. Thus the process by which the budget is formulated is important because the process may have desirable or undesirable impact on the realization of budget objectives. The effectiveness of a budget thus depends on a number of factors including the number and interest of stakeholders in the preparation, authorization, execution and management of the budget.

In the municipality of Jimma, the major stakeholders in budgeting are budget committee who are drawn from inspection, general service, finance and budget and land administration sections, the municipal council and zonal bureau of works and urban development.

The budget committee prepares the annual budget before the succeeding fiscal year. After preparing the budget, the committee presents it to the executive committee of the municipality. The executive committee deliberates on the proposal which may result in minor

or major modifications as the case may be. The budget proposal is then sent to the zonal bureau of works and urban development for more scrutiny.

**Figure 2. The budgeting process**



**Source:** Municipal budget preparation manual. 1999.

The bureau undertakes deliberations with the municipal officials and gives final approval.

The budget preparation, however, does not follow systematic procedure because the committee prepares it mainly on the basis of past performances. Thus, the budgeting practice is retroactive than proactive. Because of this tradition, a wider gap is created between the plan and actual performance in many fiscal years. Here a major norm that is globally followed that is the participation of residents is avoided.

As per the finance regulation, budgeting in municipalities must follow the federal budget calendar which begins in *Hamle* (July) and ends in *Sene* (June) succeeding year. However, this is not strictly followed in the municipality of Jimma. For instance, the budget of 1997/98 was sent to zonal bureau of works and urban development in *Hamle* and approved in *Meskerem* (September), after a quarter of the year was over.

Budgets were also less flexible to accommodate changes that occur during the course of budget time because no budget allowance was maintained for emergency expenditure.

Budget transfer was allowed from one project to another when one of the projects cannot be implemented in that budget year. But since such transfer requires the approval of those who authorized the budget, the efficacy of such transfer is often in question.

The municipal authorities also complain that the approval of projects takes longer periods-sometimes as long as a year. The writer believes that this problem is a result of one of the problems of not decentralizing power to the municipalities.

## **8.2 Expenditure**

The expenditure side of the budget normally reflects the duties of the municipality on which it spends its financial resources. Hence, there are a number of expenditure items. However, municipal expenditures are generally divided into two categories - capital and recurrent

expenditure. Capital expenditure consists of road construction maintenance, storm drainage canals, purchase of assets, car repair, garage repair, construction and maintenance of low cost and Kebele houses, public toilet and others. Whereas most recurrent budget is allotted for salary, utilities, operating expenses and overhead costs.

The classification of capital expenditure is not clear in that some capital-like expenditures are included in the operating expense. This could be the problem of most municipalities in the region and probably in Ethiopia in general.

The profile of capital expenditure indicates that it is less than recurrent costs in many budget years. It also fluctuates from one budget year to another and from project to project. The low profile of capital budget implies that most municipal resources are spent on non-developmental activities.

The performance of capital projects is not also satisfactory. This is attributed to poor budget preparation, poor financial position and lack of qualified staff. These situations gave rise to little room to plan and execute large-scale projects in the context of medium and long-range planning horizon.

The municipality is poorly equipped to design and implement even the most rudimentary projects like public toilet and storm drainage canals. For instance in 1998 budget year, it planned to construct 2500 metres drainage canal along one of the major roads in the town with the allotted fund of Birr 250,000. But it implemented only 18% of the planned budget.

There was also the problem of prioritizing the purchase of equipment and machinery. The writer observed that there were 10 dry waste tanks left idle in the municipal compound. This was because trucks which pickup the tanks were not bought.

Table 2.1 Expenditure (in 000 Birr)

Expenditure Categories	94/95			95/96			96/97			97/98			98/99		
	Plan	Actual	%	Plan	Actual	%	plan	Actual	%	plan	Actual	%	plan	Actual	%
<b>A Operating Expenses</b>															
1 Salary	835.8	659.6	79	961.2	627.3	65	961.2	654.8	68	776.7	341.5	44	776.7	403.8	52
2 Office equipment	41.4	9.5	23	170.9	19.5	11	100	85.7	86	90	27.4	30	55	7.7	14
3 Stationery	31.5	25.4	81	40	22.5	56	35	35	100	35	11.3	32	40	18.4	46
4 Printing & public notice	19.1	9.7	51	25	8.8	35	25	13.2	53	30	10	33	50	14.8	29.6
5 Postal, telephone & telegram service	40	16.7	42	40	22	55	40	27.6	69	30	5.5	18	35	10.6	30
6 Employees uniform	30	24.8	83	32	15.6	49	30	29.4	98	30	3.3	11	35	2.8	8
7 Road construction	15.5	12.5	81	25	20.2	81	25	18.4	74	30	5.8	19	15.5	12.5	81
8 House & fence repair	25	16.3	65	30	1.9	6	30	7.9	20	10	23.5	235	20	-	-
9 Maintenance of public squares	29.8	20.5	69	39.8	25.6	64	55	46.8	85	50	18.7	37	50	28.5	57
10 Car repair	210	209.1	99	345.1	330.3	96	300	297.6	99	200	53.9	27	300	62.6	21
11 Fuel and lubricants	119.9	115.8	97	150	139.3	93	160	157.1	98	120	74.8	62	150	109.2	73
12 Sport	10	9.7	97	40	30.9	77	40	38.3	96	50	30.2	60	60	1.6	3
13 Purchase of chairs for Gibe Hall	-	-	-	-	-	-	-	-	-	-	-	-	40	-	-
14 Equipment for technical department	-	-	-	-	-	-	-	-	-	-	-	-	168.3	34.7	21
15 Abattoir maintenance	-	-	-	15	6.8	45	15	14.8	98	20	19.6	98	45	21.3	47
16 Canal	-	-	-	-	-	-	-	-	-	-	-	-	250000	45000	18



36	Low cost house construction	-	-	-	250	-	-	-	30	2.8	9	-	-	-	300	-	-
37	Gravel road	50	-	-	90.7	-	-	-	180	86.8	48	110	-	-	-	-	-
38	Car purchase	-	-	-	-	-	-	-	650	640	98	450	-	-	863	263	30
39	Hollow stone production costs	83	-	-	84	-	-	-	93	37.1	39	30	-	-	108	12.3	11
40	Bridge construction	15	-	-	25	-	-	-	100	-	-	-	-	-	-	-	-
41	Awetu public park maintenance	-	-	-	-	-	-	-	-	-	-	50	-	-	-	-	-
42	'Chat' market plot preparation	-	-	-	-	-	-	-	-	-	-	30	-	-	-	-	-
43	Kindergarten	-	-	-	-	-	-	-	-	-	-	41	-	-	-	-	-
44	Live stock market place preparation	-	-	-	-	-	-	-	-	-	-	14	-	-	-	-	-
45	New road construction	-	-	-	-	-	-	-	-	-	-	1200	-	-	2000	1013.8	51
	Total	714	305.7	41	961.9	500.1	52	3173	2826	4903	89	2945	41.5	1	3696	1354.4	36.6
	Grand Total	3158.9	1894.3	60	4247	2309	54	5826			84	5440	1064	19	6949	2306	33

Source: The municipality of Jimma.

There are also uncommon expenditure titles such as expenditure by the order of zonal administration and expenditure for the support of the poor and orphanages. The former should not be included in the municipal budget. Despite this a substantial amount of money is taken out of municipal treasury every year which could otherwise be spent on the highly demanded urban services. The expenditure for the poor and orphanage can be justified on ethical ground. However, given the weak municipal revenues, higher-tiers would better take care of it probably in collaboration with NGOs. The municipal authorities need to design such projects and look for support because in Jimma no NGO is operating currently.

### **8.3 Planned budget versus Actual Performance**

Table 7.1 indicates wider gap between planned and actual expenditure with recurrent shortfall of actual expenditure below plan.

The gap between the plan and actual performance also varies from one expense to another and from year to year. For instance, only 9.6% of planned road maintenance was performed in the year 1998/99. The performance of hollow stone production was also as low as 11% in the same year. The performance of all capital projects is less than 50% in the same year except new road construction budget.

The performance in the preceding years was 98% for road maintenance in 1994/95 and 95/96, 86.6% for gravel road construction in 1996/97 and as low as 2.8% for low cost house construction in the year 1995/96. Also one can see that there is a declining trend in capital projects actual performance in the subsequent years.

Variations are also visible in the revenue budget. The revenue performance had been

better since 1994/95 with 4% more than plan in 1996/97 but declined significantly thereafter. Thus, expenditure was higher than revenue in 1997/98. In the years 94/95 and 95/96, higher share was allotted to operating expenses (which shows unhealthy spending in development context) whereas 1997/98 and 1998/99 budget years reflected higher share for capital spending.

#### **8.4 Revenue versus Expenditure**

The relation between revenue and expenditure can be explained in many ways.

Both revenue and expenditure have shown an increasing trend in some years and decreasing in others. However, in most cases, the revenue has been more than the expenses. Deficits occurred only in 1996/97 and 1998/99 budget years in the periods covered in this study.

The revenue has fluctuated over the years in absolute terms. For instance, it was as high as Birr 4.3 million in 1996/97 and as low as Birr 1.7 million in 1997/98. This decline was attributed to the little attempt made in revenue collection on the one hand and the lifting of checkpoints (*kellas*) on the other. The gap between budgeted revenue and actual performance was also visible. Actual performance was as high as 96% in 1995/96 whereas it was as low as 34% in 1997/98.

The expenditure has also shown striking variations. It was as low as Birr 1 million in 1996/97 and as high as 4.9 million in 1996/97. In the latter year, the revenue was less than the expenditure leading to the fiscal gap of more than Birr 0.6 million. Actual performance was also varying. It was 84% in 1996/97 but only 19% in 1997/98.

Most expenditures were spent on salary, followed by car repair, fuel and lubricants.

Salary constituted more than 50% of total recurrent costs in most budget years. Whereas the amount spent on capital projects was a small portion of total municipal costs though the municipality was praised for constructing some access roads and installing traffic light recently at one of the busiest roads in the town.

The wider gap between the budgeted items and their actual performance was caused by lack of capacity of the municipality to establish realistic targets. On other hand, the collection of revenues over and above targets shows that the municipality could not estimate its revenue bases. Whereas performances less than targets indicate the overstatement of municipal capacity or unsought interventions. Thus , in some budget years there were budgeted items which were not totally implemented. This includes the plan for the purchase of solid waste tanks in 1995/96, the construction of low cost houses in 1995/96 and 96/97 and gravel road pavements in 1994/95, 1995/96, 1997/98 and 1998/99.

## **8.5 Record Keeping**

Finance regulations urge municipalities to record their revenues and expenditure properly because proper recording helps to know the amount of revenues and expenses at each time during a fiscal year. It also helps to prepare realistic budget which is based on the municipal income and its financial obligations. It helps to make sound financial decisions for better resource management.

Accordingly, Jimma municipality records its financial resources more or less as per the finance regulations and especially, since the introduction of UDSS-FMSS finance procedure manual in 1998. The manual aims at improving financial management in areas

such as billing, purchases, cash management, payroll function and bank reconciliation.

The municipality maintains its accounts on a single entry cash basis (a system which recognizes income only when cash is received and expenditure when cash is paid). The single entry accounting was first adopted by the then Ministry of Housing and Urban Development (now the Ministry of Works and Urban Development). The ministry urges municipalities to follow suit. But there was no justifiable reason to adopt the method. Cash based accounting systems conceal the extent of revenue default or outstanding debts. Accruals accounting on the other hand, can complicate and give misleading impressions on the scale of revenues.

### **8.5.1 Recording Revenue Accounts**

Revenues are collected using receipts which have sequential numbers. The amount is then recorded on a book of daily revenues. Individual entries are then totaled at the end of each month. Then grand total is calculated together with the amount forwarded from the previous month. Total expense is deducted from the revenues and bank reconciliation is made at the end of each month.

Only an authorized person collects the money. The accuracy of the collected money is then verified by the inspector and chief accountant. The municipality has a bank account where it deposits its revenues when they are collected.

## 8.5.2 Cash disbursement

Payments more than Birr 100 are made in checks from the bank account. Payments are made to those who have legal claims or their legal delegates.

In most cases, original invoices are received by ensuring their correctness and completeness. Invoices are then attached to expense voucher and are kept at the finance section. As per the finance regulation, all expenditures must be checked to make sure their authorization by an official and to ensure that they are not more than the authorized amount. It is also verified to make sure whether the vouchers are accompanied by relevant documents.

The finance regulation also urges that only Birr 500 should be kept at the municipality's treasury. However, more than this amount has been kept in the box at Jimma municipality. Maintaining petty cash could have been effective in paying minor emergency purchases and could also reduce administrative cost in processing checks for small amounts.

Books are not also closed monthly, as they are required. As per the regulation, all payments must be made in their budget years alone. But some times expenses jump to the subsequent budget years. The reason was weak financial planning that did not take into account the capacity of the municipality.

In principle, without prior knowledge and approval of inspectors, no payment is to be made. However, there is an incident of this type in the municipality. As the result, the number of uncleared receipts and vouchers had increased over time. For instance, a report compiled by UDSS (1999) indicates that out of 7 million Birr which was uncleared in Oromia regional state, Jimma accounts for 16%, Assela 12%, Nazerath 10% Gimbi 10% Hagere mariam 8% and Shashamane 8%. One of the reasons for this is the fact that payments are

made in the name of 'emergency'. The same report indicates the duration of uncleared vouchers in the municipality. See table 8.2

**Table 8.2** Uncleared vouchers.

No.	Years	Birr	%
1	Below 1	715,778	63.3
2	1-5	111,777	9.9
3	6-10	115,864	10.2
4	Above10	191,239	16.2
<b>Total</b>		1,134,239	100

**Source:** The review of urban finance of selected towns in Oromia, 1991 E.C.

There are also a number of reasons for the increase of unchecked vouchers:

1. advance payment without verifying the receipts of previous expenditures.
2. unbudgeted expenditures effected by the 'order' of zonal administration.
3. frequent change of mayors without settling payments.

### **8.5.1 Purchasing**

The objective of purchasing is to acquire appropriate equipment, machinery and other materials at reasonable costs as per purchase regulation which enables to avoid wastages and embezzlement. Thus purchases must be made by taking into account the quality, size and services of the material to be purchased. To accomplish this there are three types of bidding methods:

1. the purchase of small materials using petty cash funds

2. limited tender which is based on Performa invoice of bid offer. The number of offer must be made at least by three bidders so that least bidders be selected for the sake of municipal advantage.
3. Official tender which is announced on the media and which takes more weeks to receive offers ( Wondimagegn Girma and et al. ,1999:23)

Purchase requests must be advanced by filling out 'purchase requisition'. The form is sent to the mayor for approval. Then it is given to purchasing section. The purchase section announces through its auction committee. When requests are advanced, the reasons, the urgency of the material and the amount must be specified.

In Jimma, pursuant to purchase directives, the committee advertises its purchase needs for potential bidders for goods requiring more than Birr 1000. However, this was not strictly followed in some cases. For instance, Birr 366659.48 was spent for car repair and market place maintenance respectively in 1994/95 budget year without observing purchase regulations.

Municipalities are also required to use their properties economically. However, municipal properties (especially machinery) are not kept properly at Jimma. The writer observed a lot of smashed cars, dozers, graders, fire fighting trucks, pick ups and lorries scattered in the municipal compound. They were not even collected at appropriate places let alone, maintenance and utilization. See table 8.3.

**Table 8.3** Machinery and Equipment of the municipality.

No.	Type of machine/equipment	Q/y	Remark
1.	Garbage dumping truck	3	Only two were working
2.	Meat (cold) truck	3	Only two were working
3.	Fire hydrant trucks	2	Only one was working
4.	Vacuum trucks	1	-
5.	Minitractor with a trailer	1	Used to transport water to construction sites and municipal
6.	New 4 wheel drive	1	gardens
7.	Funeral service car	1	
8.	Ambulance	1	Not functioning
9.	Freight trucks with trailer	1	Used to transport tar and other Bulk purchase from port?
10.	Seven-seater service car	1	
11.	Five- seater service cars	1	
12.	Two-seater service car	2	In hopeless situation
13.	Defunct service cars	2	One is not working
14.	Motor bicycles	2	Only one is in working order
15.	Loader	3	Incur high maintenance costs
16.	Dozer	2	Incur high maintenance costs
17.	Grader	1	Incur high maintenance costs
18.	Roller	1	It is very old
19.	'Tar melter'	2	One is not functioning
20.	Stone crushers	1	
21.	Hollow block machines	7	Five are manual and two are electrical

22.	Stone drilling compressor	1	
23.	Battery recharger	1	
24.	Welding machine	1	

**Source:** the municipality of Jimma.

## 8.6 Inspection and auditing

Inspection is aimed at ensuring appropriate record keeping that can avoid the misuse and mismanagement of cash and properties. Inspection can be divided into two: Financial control and administrative control (Kalifa Abasimal, 1999). Financial control includes appropriate property management, making sure that accounting records are accurate, complete, up to date and suitable to ensure the possibilities of fraud, accuracy and reliability of financial accounts. Whereas administrative control focuses on the efficiency of performance, observance of rules and regulations regarding recruitment selection, promotion, transfer etc.

The financial control enables to get timely financial report that can indicate the status of cash, the amount of uncleared financial document, revenue collection, unused budget and uncollected taxes and charges of municipalities. To this effect inspection laws urge that:

- The revenue collectors should use receipts of consecutive serial numbers; they should sign and receive unused receipts, return used receipts on time.
- should deposit the collected money in bank daily
- should record revenues and expense daily and indicate the balance.
- close entries and prepare financial reports.

If internal financial control is not strong, the following problem may arise:

1. cash and properties are subject to embezzlement.
2. documents remain uncleared.
3. revenue and expenditure accounts remain unrecorded properly

In Jimma internal control is rather weak. It is not supported by qualified staff. Auditing is not also applied regularly. Auditors come from Oromia Audit Bureau and from the Zonal Bureau of Works and Urban Development. However, they come after a long period of time. For instance, auditors from the region came after four years. Thus there are occasions where misuse of finance and properties occur. The following audit report indicates this situation

Table 8.4 Misused and illegally handled municipal resources.

Year	Misused Cash	Uncleared Voucher	Arrears	Expenditure Without Receipts	Properties Bought Without Auction	Misused Properties
1988 E.C.	16433.05	1010571.16	2,000,0000	42074.85	366659.48	1129957.44

Source: Kalifa Abasimal (auditor) , 1999.

## **CHAPTER 9**

### **SUMMARY AND RECOMMENDATIONS**

#### **9.1 The Summary of Major Findings**

Municipal management is a broader area of discipline which is concerned with the management of a complex bundle of urban activities that take place in urban settlements. One of such activities is the financial management. Financial management could be considered as the management of financial resources. In practice, however, it is much more than this simple definition. In the municipal context, it is concerned with the identification of revenue bases, its mobilization, allocation and utilization.

Municipalities require financial resources to finance their activities. These activities include provision of services, regulation of public behaviour and planning and coordination of development. Service provision includes roads, street lighting, waste disposal, drainage and sewerage, education, health care, housing, parks, fire protection, public transport, social welfare and public utilities such as electricity, telecommunication and postal services. Regulative function includes maintenance of law and order, traffic management, licensing of commercial and industrial activities, consumer protection, environmental protection, vehicle licensing, safety inspection and employment regulation. Development planning consists of physical planning and development, investment promotion, economic development and employment generation.

The major source of revenues to manage these activities are taxes, charges, fees, grants and loans. But the effectiveness and the magnitude of these sources depends on a variety of factors. It depends on administrative efficiency, the economic basis of the city,

legal and political environment, the size of population and tariff structure. These factors vary from county to country and even among cities within a country.

In this paper the review of municipal finance is made by taking Jimma municipality as a case in point. The financial management of the city is rather weak which is reflected in a poor revenue basis, collection practice, allocation and utilization process. The municipality depends only on its local resources as there was no regular grants from either regional government or federal government. The revenues from these sources were small and declined in real terms because of tariff stagnation.

The revenue collection also faced problems such as failure to identify taxpayers, subjective tax assessment process, lack of skilled and motivated tax collection and financial management staff.

Little effort was made to improve the collection mechanism until the UDSS – FMSS introduced the Finance Procedure Manual in recent years. The manual however, focuses on the utilization of existing resources. It did not suggest the possibility of expanding other revenue bases. Even then, there was large amount of outstanding arrears. As of 1999/2000, a crude information shows that there was more than 2 million Birr outstanding. But still the accounting system does not generate aggregate information on the extent and age of arrears and no strong measure was taken against defaulters. Moreover, all staff in the finance department were not well aware of the manual because sufficient copies were not distributed.

Tax assessment and imposition did not also take place on time in some budget years. Thus, to improve the financial management, the introduction of manual alone does not yield the required result unless the overall municipal management is changed. Such areas which require radical change include the change of organizational structure, provision of more

autonomy, stable and professional leadership and strong legal base to enforce laws.

One of the sources of revenues of urban centres is the urban land lease holding. Jimma is one of the towns where lease holding was introduced. However, the amount of investment was not as expected. There has been a complaint from the investors over the price of the commercial land which was said to be high. Though the negotiated lease price is more appropriate for investors, the facilities at most of the peripheral plots are not commensurate with the prices offered.

Businessmen in the town are also reluctant to venture into new investment because they suspect the political environment. Thus, the level of investment is very low. Moreover, the new business activities concentrate on the commercial sector, particularly in trade and catering activities. Hence, the demand for such trades has been already saturated.

The budget process is more of reactive than proactive whereby no attempt was made to set realistic targets. Performance evaluation and monitoring against plans was a missing element. Therefore, there was a wider gap between targets and actual performance in many budget items in every fiscal year. Technical departments prepare municipal budgets with no public participation. Public participation could have strengthened the budgeting process and implementation because, other things remaining constant, projects which involve public participation are more sustainable than others.

No legislative measures have been taken to upgrade urban centres by defining their roles and the line of accountability. To this effect, the issuance of Proc. No. 26/99 of Oromia regional state could minimize the problem though it is not yet effective despite its promulgation a year ago. Even then, the legislation does not define the role of the regional Bureau of Works and Urban Development regarding its relation with municipalities. It is

recalled that the Regional Bureau of Works and Urban Development supervises and controls municipalities on issues such as budgets, revenues, master plan preparation and implementation and manpower issues. The Bureau used to accomplish these supervisory tasks through its zonal offices.

The level of staff salary is also very low. Thus the staff is demotivated by the salary and by lack of career development prospects.

As the result the financial position of the city is not satisfactory. This is reflected in low per capita income and expenditure which has shown declining trends in real terms. Whereas the demand for urban public service has grown many fold because of population pressure. This is reflected in the low level of infrastructure because the municipality is incapable of maintaining the old ones and constructing the new ones. Indeed, the problems are the cumulative effect of policies of successive regimes.

Though municipalities were recognized to administer urban centres by legislative decrees issued since 1940s, most of these regulations are still applicable. The laws of 1970s and 1980s made municipalities to serve political purposes than enabling municipalities to provide their traditional urban services. Even now, mayors are elected on their political expediency and submission. They lack managerial skills. For instance, the mayor of the town is a graduate of plant science. He could be more effective if he had been assigned to manage agricultural activities than managing urban centre.

In summary, the most pressing financial problems facing the municipality are the following:

- 1 lack of personnel to effectively manage financial resources.
- 2 lack of revenue and expenditure recording and absence of cash control

- 3 lack of objective tax assessment, small number of collectors and delay in revenue collection time table in some budget years.
- 4 reluctance of taxpayers and lack of legal support to arrest the defaulters.
- 5 old tariff regulation

These problems had adverse impact on:

- the provision of adequate services
- the improvement of the life of residents
- the construction of new infrastructure and upgrading of the existing ones

## **9.2 RECOMMENDATIONS**

Each municipality, large or small, needs to design its revenue in the most optimum manner considering the degree of power granted to it, its revenue base, administrative efficiency and the expenditure responsibility.

Improving revenue base and its collection is the objective of almost all municipal governments. This calls for:

1. the expansion of revenue bases
2. improving revenue collection and recovering arrears
3. providing incentives
4. effective budget preparation and implementation
5. promoting investment
6. tariff rate revision
7. strengthening legal power

8. creating strong accountability

9. devolving power

10. strict financial control

1. Improving the revenue bases. This can be done in two ways. The first method is to expand the revenue bases, that is, to search for new sources. This can be done by attracting more investors. The other method is to improve the existing ones. The latter includes improving revenue collection efficiency and focusing on the most lucrative bases such as business tax, land rent and similar sources which constitute the largest share in the municipality's revenue account.
2. Increasing collection efficiency includes minor improvements like establishing collection timetable and strictly adhering to it. During tax collection periods, municipal office must remain open for long hours in a day. This will avoid the possibility of queuing up for long hours to pay taxes.  
  
Arrears recovery requires aggressive campaign which in turn needs legal enforcement mechanism. See no.7 below.
3. There must be financial rewards to tax collectors. Where salaries are as low as they are in Jimma, it is not surprising to notice low morale and lax behaviour in revenue collection and utilization. Therefore, specific bonus (commissions) must be introduced. Incentives must encompass not only tax collectors but also assessors, treasurers, accountants and regular taxpayers as well. This is because where there is no gain from successful administrative performance, effectiveness is likely to suffer. Furthermore, there must be a mechanism

designed by regional government which rewards those municipalities which make an effort to identify their revenue bases, collect effectively and utilize appropriately. This can create a sense of competition among urban centres to effectively manage their resources. It can also be used as a criterion to provide grants.

4. As discussed in this paper earlier, budget preparation was not proactive. Most budgets were prepared by looking at the performances of the past. To avoid this, the municipality must be able to forecast its revenue and expenditure especially; regarding major sources and expenses. For instance, the amount to be raised from trade license can be estimated based on the number of business community. Whereas the revenues from charges can be estimated on the basis of the number of consumers and partially based on the level of inflation. This will help to prepare more realistic revenue budgets. There should also be budget performance evaluation which should take place quarterly or semi annually.
5. The level of investment was not upto expectation in the town. Therefore, aggressive popularization of the potential for investment must be made to attract more business ventures. To this effect, speedy decision making regarding urban land provision, popularizing the areas of investment and the provision of related information must be made.
6. One major impediment to improved collection may lie with the structure of the tax and charge. People are more willing to pay taxes when they feel that they are being taxed fairly (relative to their neighbours). Taxpayers are easily

convinced when they understand how the tax is levied and tax related legislations. Any attempt of tax and charge reform has to deal with these problems. The following are examples of the kinds of specific issues which arise.

- a. Assessment biases in favour of higher income may discourage taxpayers from complying.
  - b. Progressive business tax rates will induce to understate the base in order to reduce tax liability. Unexpected tariff increase which is not systematically related to changes in income creates disobedience. The attempt being done to revise tariff at Jimma will involve political cost if it will not be based on ability to pay. The solution to towards this is the simplification of tax system and more standardization in assessment practices.
7. Strengthening legal power. This calls for two options. The first is to empower the municipality so that it can take legal actions on its own without going to formal courts as it does now. The second option is to strengthen the legal department with qualified and motivated staff to enable it to play its role effectively. In both the cases the ultimate goal is to create a threat of enforcement action which includes seizure of property, imprisonment, discontinuation of services etc.
8. Accountability.
- One of the most important concepts in financial management is public accountability. Urban funds are public money. Therefore, those who are engaged in the management of these resources owe due accountability and

- responsibility to taxpayers. They must act not only within law but also within ethical norms.
9. Empowering municipalities can also improve urban management in general and urban finance in particular. But the success of power devolution depends on the capacity of the urban centre to assume fully the responsibilities that are vested on it. Decentralization should not be a transfer of problem from the higher level of government to the lower level of government in the absence of revenues, qualified staff and enabling environment. To this effect, the municipality must be staffed by trained and motivated employees. This in turn calls for the change in current salary structure which is too low to attract qualified staff.
  10. Finally, there is no substitute for properly assigned administrative systems which are systematically executed. Proper record keeping, proper system of accounts, regular monitoring of performances and timely auditing and inspection are critically important.

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## ***ANNEXES***

## **Annex 1**

The sources of revenue items established by Regulation No. 161/1971

1. annual license fees on business and profession;
  - business permit fee;
  - intent to continue business fee
2. market taxes and charges which includes
  - monthly market stall fee
  - monthly vehicle parking
  - animal overnight storage fee
  - animal market stall fee
  - animal purchase certificate fee
  - loading unloading charges
  - fees on embarking of passengers
4. charges on fuel and lubricants
5. nonstationary traders license fee
6. charges and fees on municipal services
7. refuse collection and disposal fee
8. business establishments (based on license category)
9. rent on dwelling house in accordance with their category
10. inspection, advising and directing fees on:
  - refuse removal
  - unsanitary conditions created in hotels, restaurants and bars
  - removal of animals left or lorry parked in unpermitted areas
11. charges for sanitary services
  - cleaning of septic tank
  - identification of dogs against rabies
  - burial permit fee
  - charges for abattoir services including slaughter, transport and inspection

12. charges for electric light and power
13. property assessment fees
14. technical service fees on :
  - house plan permit
  - fence permit
  - building permit
  - title deed fee
15. Contract registration fee on:
  - title issue or transfer of title deeds and land registration
  - transfer of to motor vehicles
  - registration of rental contracts
  - contracts dealing with property
  - registration of contracts of construction
  - registration of other contracts
16. immovable property taxation
  - rented or non-rented land
  - rented building
17. public notice posting charges
18. registration of marriage, divorce, death and identifications
19. weapons registration and control
20. management and control of stray animals
21. water service charges



How about liquid waste collection?

- The municipality does not have its own vacuum trucks
- Most houses do not have latrines
- No sufficient public toilets

How about fire fighting?

- About 41 houses were burnt in recent years
- The municipality has two fire extinguishing trucks but both of them do not function. Therefore, the municipality borrows trucks from the Ethiopian Air line ( Jimma branch) when fire breaksout

How about slaughter service?

- Sufficient but it is not as clean as expected because it doesnot have its own pipe water.

How about urban transport?

- Anbessa city buses are very old, thus most residents use taxis whose charge is high. Many people also use horse drawn carts
- Yet, buses also serve to transport rural people.
- Crowded roads because of cars pedestrians congestion in the central part of the city
- The recently installed traffic light

How about traffic congestion?

infront of commercial bank of Ethiopia is a positive development in minimizing traffic problems.

How about health services?

- The municipality does not have ambulance. Only The Ethiopian Red Cross Society stretches supporting hands during hazards

Given all the situations above, are the services you get commensurate with what you pay?

-No, only water and electric supply is better even though there is frequent power interruptions in the town. Water supply is also interrupted when there is electric blackout.

### Annex 3

#### Tax and charge revenues and their bases

Description of tax or charge	Basis of tax or charge
1. Trade license	
i. Fee for commercial and retail business	- annual fee according to class of business
ii. Fee for other trade and industries	- annual fee according to class of business
iii. Fee to establish a new business	- one-off fee
iv. Fee to continue a business	- annual fee according to class of business
2. market place tax	
i. market stall fee	- monthly fee except for sale of animals
3. live stock trade fee	
i. storage of animals	- fee for overnight stay market
ii. sale of animals	- fee for use of market stalls
4. loading/ unloading on municipal roads or areas	- % value of products and passengers
5. refuse collection charge	- added on annual business fees as a percentage of the fee
	* only traders pay the refuse fees
6. slaughter house fee	- butchering charge
7. technical services	- charge for valuation of property to divide between heirs
	- measurement of plot
	- preparation of house plan (according to value)
	- issue of title
	- issue of copy deed
	- issue of building permit (by class of land)
	- issue of fence permit( by class of land)
	- land subdivision(by class of land)
	registration of land sale (% of value)

8. agreement service	<ul style="list-style-type: none"> <li>- registration of car sale (% of value)</li> <li>- registration of rent contract</li> <li>- registration of construction contract</li> </ul>
9. land rent and building tax	<ul style="list-style-type: none"> <li>- annual rent levied on land and building tax as % of value of land occupied</li> </ul>

#### Annex 4: Questionnaires

### ADDIS ABABA UNIVERSITY SCHOOL OF GRADUATE STUDIES

#### QUESTIONNAIRE 1

The objective of this questionnaire is to gather information from Finance and Budgeting department staff regarding the source of revenues, its collection, utilization and administration in the municipality of Jimma. 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 financial management of the municipality and tries to indicate ways and means to minimize them.

#### Part I

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

## Part II

### Questions

1. What are the sources of revenues of the municipality?
2. Explain the nature of each revenue source in terms of :
  - a) base
  - b) buoyancy
  - c) collection
  - d) rate
3. Who authorized the municipality to levy taxes and charges?
4. Of the following, which can be cited as a problem(s) in tax revenue collection?
  - a. The reluctance of tax payers
  - b. Rate determination problems
  - c. Tax payers hide their revenue books
  - d. Shortage of tax collection staff
  - e. Negligence of tax collection staff
  - f. Corrupt practices of tax collection staff
  - g. Others
5. What is the measure taken to solve the problems?
6. What is the criteria for levying taxes on:
  - a. Businesses?
  - b. Buildings?
  - c. Others?
7. What is the role of tax paying community in determining the amount of taxes?

8. Is there arrears(s)? How much is it? For How long it is over due?
9. What are the problems related to revenue collection from charges, fees and other non-tax sources?
  - a. rate determination (subjectivity)
  - b. failure to pay on the part of the clients
  - c. low rate
  - d. others
10. What measures were taken?
11. Are there grants given from the higher tiers? If yes, on what basis it is given?
12. Are there NGOs which perform some municipal functions thereby sharing municipal financial obligations.
13. Does the community make financial, material and labour contribution in some municipal programmes?
14. Does the municipality have a power to revise tariff rates?
15. Are there joint revenues, which the municipality shares with other government bodies (zonal, regional or federal)?
16. What sort of revenue(s ) do you share?
17. Does the municipality raise revenue from tourism? If not, why?
18. Are there illegal (non-licensed) trades? If yes, why the municipality failed to legalize them?
19. What measures must be taken to improve the sources of revenues and its collection?

20. What are the types of expenditures?
21. Explain the nature of each expenditure title in terms of:
  - significance (priority)
  - the size of budget allotted to it
  - its recurrence
22. Does the revenue match with the expenditure?
23. If your answer to question No. 22 is No, i.e. revenue is less than expenditure in some budget years, from which source do you finance the deficit?
24. Is the budget released on time? If not why?
25. Who are the stakeholders in the budget preparation i.e., what does the process of budget preparation look like? Where does it start and stop?
26. What are the major problems encountered in managing expenditure management? Are the following factors part of the problem?
  - a. Failure to prepare realistic budget
  - b. Record keeping problems
  - c. Fraud
  - d. Lack of motivation
27. Had the municipality been encountered the misuse of financial resources? How much? When? Were measures taken? What type? Was the money or the properties recovered?
28. Is there budget ceiling? If yes, how much?

29. Is there emergency budget?
30. Is budget transfer is possible from one program to another?
31. Do you contract out some of the municipal functions to the private contractors? Why?
32. Are there both internal and external auditors? How frequently does auditing take place?
33. Does the municipality raise revenues from the checkpoints (kellas)? What are the major items from which revenues are raised?
34. In many towns in Ethiopia, business registration fees have been takeover by zonal bureau of Industry, Tourism and Trade. Is this true in Jimma? How much loss of revenue from this source?
35. Did the municipality raise more revenues from land rent as it had expected since the issuance of urban land lease holding proclamation?
36. What are the issues and problems surrounding the implementation of lease holding policy in Jimma?
37. What do you think are the reasons for the flourishing of few types of businesses such as catering (hotels), cafeterias and pastries. Do you think that this sector could contribute to the development of the town?
38. Who collects and uses the payroll tax collected form the employees of the municipality?
39. Do you have conclusive remarks?

Thank you,

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**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 municipality of Jimma. 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 financial management of the municipality and will indicate ways and means to minimize same. 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. The municipality has sufficient financial resources to satisfy the demand for public services.
  - a. Strongly agree
  - b. Agree
  - c. Strongly disagree
  - d. Disagree
  - e. No. Comment
  
2. Tax imposition is based on the ability to pay.
  - a. Strongly agree
  - b. Agree
  - c. Strongly disagree
  - d. Disagree
  - e. No comment
  
3. The municipality gives orientation to create public awareness before it starts tax collection
  - a. Strongly agree
  - b. Agree
  - c. Strongly disagree
  - d. Disagree
  - e. No comment
  
4. Taxes are collected on time
  - a. Strongly agree
  - b. Agree
  - c. Strongly disagree
  - d. Disagree
  - e. No comment
  
5. There is sufficient number of tax collection staff.
  - a. Strongly agree
  - b. Agree
  - c. Strongly disagree
  - d. Disagree
  - e. No comment

6. Tax and charge collectors create nuisance on tax payers
- a. Strongly agree                      b. Agree                      c. Strongly disagree
- d. Disagree                              e. No comment
7. Tax and charge collectors are free from corrupt practices
- a. Strongly agree                      b. Agree                      c. Strongly disagree
- d. Disagree                              e. No comment
8. The amount and quality service you get is commensurate with the charges and taxes you pay.
- a. Strongly agree                      b. Agree                      c. Strongly disagree
- d. Disagree                              e. No comment
9. Do you pay contributions other than taxes?
- a. Yes                                      b. No
10. Is the contribution necessary ?      a. Yes                      b. No
11. If you believe that the municipality is in short of finance, do you suggest other sources?                      a. Yes                      b. No
12. If your answer to question no. 10 is yes, list your options
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
13. It is believed that there are illegal traders who do not pay tax. If the municipality will be able to legalize these traders, it can raise more money from taxes and charges to be



d. Disagree

e. No comment

19. Do you know why you pay taxes?

a. Yes

b. No

20. If your answer is no, why?

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21. Do you know tax laws and regulations?

a. Yes

b. No

22. If your answer is no, why?

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23. Do you agree if the government will exempt you from tax levies?

a. Strongly agree

b. Agree

c. Strongly disagree

d. Disagree

e. No comment

24. Is the recently increased tariff for water and electricity appropriate and timely?

a. Strongly agree

b. Agree

c. Strongly disagree

d. Disagree

e. No comment

25. Do you get sufficient urban services such as water supply, road maintenance,

sanitation services etc.?

- a. Strongly agree
- b. Agree
- c. Strongly disagree
- d. Disagree
- e. No comment

26. If your answer to question no. 25 is C or D what do you think are the reasons?

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27. If you have grievances over tax levies, to whom do you appeal?

28. Jimma is known for its coffee production and trade. As you know, coffee is the major foreign currency earning cash crop in Ethiopia. What will be your answer, among the following, if you evaluate Jimma in light of coffee trade?

- a. It has contributed a lot to the development of the town
- b. Though more revenue has been raised from the trade, no significant development is visible in the town.
- c. Since coffee trade is seasonal, it cannot contribute much
- d. It did not contribute much because coffee trade is affected by international price fluctuations.
- e. All of the above
- f. Other comments

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29. According to the federal arrangement in Ethiopia, Jimma town is the capital of Jimma zone in the Oromia regional state. This arrangement contributes to the development of the town?

- a. Strongly agree
- b. Agree
- c. Strongly disagree
- d. Disagree
- e. No comment

30. The municipality is accountable both to the woreda council and the zonal Bureau of Works and Urban Development. This forces the municipality to be answerable to two masters at a time. Do you think this trend should continue?

- a. Yes
- b. No
- c. No comment

31. As is learnt, most businesses which are opened after 1991 are mostly engaged in catering (hotel services) pastry and cafeteria. What do you think are the reasons?

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32. Do you agree if the municipality borrows money from financial institutions to finance its development projects?

- a. Yes
- b. No
- c. No comment

33. If your answer for question No. 32 is B, why?

- a. The municipality is incapable to manage it
- b. The municipality is incapable to pay it because of high interest rates
- c. All are the reasons

d. No comment

e. Other reasons

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

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35. If the municipality introduces increased tariff rates that takes into account the ability to pay, do you agree?      A. Yes      b. No

36. If your answer to question No. 35 is B, what are the reasons and what options do you suggest?

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37. Do you think that the municipality's finance staff has sufficient record keeping ability?

a. Yes

b. No

38. If you compare the current municipal government of Jimma 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

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39. Do you think that the municipality will cover most of its costs by recovering arrears?

a. Yes

b. No

c. I don't know

40. Do you maintain your revenue and expense accounts and show to tax assessors and collectors?

a. Yes

b. No

41. If your answer is B, why?

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42. Do you think that if the municipality contracts out most urban service provisions to

private contractors, will it reduce its administrative burdens and costs?

- a. Yes
- b. No
- c. No comment

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

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44. Which of the following can describe Jimma

- a. It is administrative town
- b. It is industrial town
- c. It is service providing town
- d. It is commercial centre
- e. All
- f. No comment
- g. Other comments

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45. Jimma is said to be given zonal status in which case it will be directly accountable to the council of Oromia. What do you think are the advantages and disadvantages of this arrangement?

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46. The council of Jimma town had signed an agreement with an Italian town, Napoli. Do you know the content of the agreement and its contribution to the development of the town?

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47. Do you have conclusive remarks?

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**QUESTIONNAIRE 3**

The objective of this questionnaire is to gather information regarding the internal organization of the municipality and its relation to other government organs (parastatals, zonal and woreda administration etc.).

**Part I**

1. Your position \_\_\_\_\_

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

## **Part II**

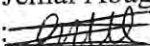
1. What does the organizational structure of the municipality look like?
2. Who elects the municipal council?
3. Who elects (selects) the mayor?
4. To whom is the mayor accountable?
5. What does the relation between the mayor and the council look like?
6. What are the criteria to select both the council members and the mayor?
7. What is the role and capacity of both the council and the mayor in winning the debates on financial issues with the higher offices?
8. How many major sections exist in the municipality?
9. What type of criteria are used to select the heads of each major section?
10. Is the power of decision making sufficiently distributed all along the sections?
11. It has been reported that the organizational structure of Jimma, which was effective since 1985/86, has many problems. May you explain the problems?
12. Are there additional organizational problems?
13. What measures were taken to solve the problems?

14. How can you describe the relation between the municipality and the urban community?
15. How can you describe the relation between the municipality and the following organs of government?
  - a. Zonal administration
  - b. Zonal bureau of works and urban development
  - c. Woreda council
  - d. Electric Power Corporation
  - e. Telecommunication
  - f. Water Supply and Sewerage Authority
  - g. NGOs, if there are any?
16. What problems did you face in your interaction with those offices?
17. Did Jimma benefit from the federal arrangement?
18. Jimma is said to be given zonal status in which case it will be directly accountable to the council of Oromia. Will Jimma benefit from this arrangement? How?
19. Jimma municipality had signed an agreement of cooperation with an Italian town, Napoli, some years ago. What were the issues of agreement? How much has it been effective?
20. Do you have conclusive remarks?

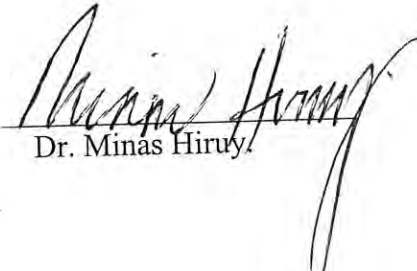
Thank you

## **Declaration**

This thesis is my original work and has not been presented for a degree in any university, and that all sources of materials used for the thesis have been acknowledged.

Name: Jemal Abagissa  
Signature:   
Place: Addis Ababa University  
Date : June 2000

The thesis has been submitted for examination with my approval as an advisor.

  
Dr. Minas Hiruy