



ADDIS ABABA UNIVERSITY COLLEGE OF LAW AND GOVERNANCE Studies
CENTER FOR FEDERAL STUDIES

Assessment of Fiscal Capacity of Urban Local Government on Municipal Revenue in Oromia regional State: the Case of Sebeta City.

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A Thesis Submitted to Department of Federal Study, Addis Ababa University, In Partial Fulfillment of the Requirement for the Degree of Master of Arts (MA) in Federal Studies

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List of Acronyms

CSA-----	Central Statistics Authority
EFY-----	Ethiopian Fiscal Year
IBEX-----	Integrated Budget and Expenditure System
MDG-----	Millennium Development Goal
MWUD-----	Minister of Works and Urban Development
NUPI-----	National Urban Planning Institute
OBFED-----	Oromia Bureau of Finance and Economic Development
OFED-----	Office of Finance and Economic Development
ONRS-----	Oomia National Regional State
OSZSF-----	Oromia Special Zone Surrounding Finfine
ONRSRA-----	Oomia National Regional State Revenue Authority
OSZSFRA-----	Oromia Special Zone Surrounding Finfine Revenue Authority
RONRSC-----	Revised Oromia National Regional State Constitution
SRA-----	Sebeta Revenue Authority
SM-----	Sebeta Municipality
ULGDP-----	Urban Local Government Development Program
ULG-----	Urban Local Government
ZOFED-----	Zonal Office of Finance and Economic Development
Ganda -----	Kebele

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Annex 1: Description of Each of the Municipal Revenue Titles

Annex 2: Interview Questionnaire for key informants

ABSTRACT

The 1995 constitution is the base for fiscal decentralization in the country, which provided for the division of power on expenditure and revenue-raising responsibilities of the central government and the regional state. Fiscal decentralization is one component of decentralization that gives authority to local governments to collect revenue through taxes and responsibility over spending decisions. As proclamation No. 65/2003 of the urban local government proclamation of Oromia regional state, municipalities of the region have powers and responsibilities over municipal revenue and expenditure. Even though fiscal decentralization has given revenue raising and spending decision powers to lower levels of government, the implementation process has often been a daunting task for many local authorities in the region. Although the region decentralized municipal revenue to its cities/towns on revenue raising and expenditure management are not efficiently and effectively exercised. Insufficient revenue collection and weak expenditure management leads to financial incapability such that public infrastructure and services could not be financed amply. Sebeta municipality faces the problem of financial capacity to deliver infrastructure and services to its citizens. While a number of studies have documented the financial incapacities of Ethiopian ULGs, they have been focused on state revenue which ULGs lack fiscal autonomy both on its revenue raising and expenditure but they did not give much emphasis on municipal revenue. Municipals in the region have full autonomy over municipal revenue, even though there is little interference on the tariff setting, because the Regional Revenue Authority set the upper and the lower limit. Therefore, the main focus of this paper is to assess Fiscal capacity of ULG on municipal revenue: the efficiency and effectiveness of revenue collection and expenditure management of Sebeta Municipality. To obtain edifying data the paper used a positivist survey study. Municipality financial documentation and questionnaires were the main sources of secondary and primary data respectively. Descriptive statistical methods were applied in the analysis of data to arrive at measures of efficiency and effectiveness in revenue collection and expenditure management of the municipality. The study revealed that the municipality is not efficient and effective in its revenue collection and expenditure management. The main explanation for such inefficiency comprise; weak assessment of taxable sources, poor organizational structure, inadequate accounting system, absence of clear operational guidelines, poor planning and data base management, and lack of skilled manpower. To resolve such challenges, the paper recommend the following actionable measures; Establishing Tax payers data base systems, improving planning and implementing capacity, Expanding and exhaustively raising the revenue base of local revenue sources, Establishing appropriate guidelines and methods of revenue collection, strengthening valuation, enforcement and tariff setting effort, installing accounting system that produces timely and reliable information, encouraging community participation in planning and resource allocation and revising municipal organizational Structure.

Chapter One

Introduction

The title of the study was Assessment of Fiscal Capacity of Urban Local Government on Municipal Revenue in Oromia Regional State, the case of Sebeta city, from revenue raising efficiency and on its expenditure management perspectives. The main objective of the study is to assess local government fiscal Capacity on municipal revenue, and to assess efficiency on its expenditure management, i.e. revenue raising capacity and efficient allocation of the existing financial resource in the city. Fiscal capacity relates to the ability of the local government both to raise enough revenues from the local economy and then to determine how to spend those revenues in efficient way. And also Local government fiscal autonomy refers to the ability of the local government to set tax rates and establish the revenue base without higher level of government influence as well as having the ability to provide the service levels that are demanded by the jurisdiction's citizens. In the thesis paper this all would be analyzed systematically.

Having the main objective, the researcher would tried to set level of problem, conceptual definition, significance of the study and scope of the study, description of the study area and organization of the thesis would be described. And also literature reviews, the theoretical back ground which related with study area were analyzed.

1.1. Back Ground of the Study

According to the 1995 Constitution, the Federal Democratic Republic of Ethiopia (FDRE) comprises of nine regions and two cities Administration. It deals with a federal structure which comprises of the federal government and the member regions where each has equal powers and rights as set forth in the Constitution. The 1995 constitution is the base for fiscal decentralization in the country, which provided for the division of expenditure and revenue-raising responsibilities between the central government and the regional state.

The 1995 Constitution of Ethiopia instituted radical reform of governance structures, including devolution of significant resources and responsibilities from central agencies to nine regional states. An explicit goal of the new constitution is to bring government closer to the people

through a process of decentralization intended to increase public participation and responsiveness to local needs. A corollary goal is to ensure that Ethiopia's more than eighty's of identified ethnic groups are formally represented in the country's political and resource allocation processes.

Oromia Regional Government is one of the nine regional states consisting of the federal state of Ethiopia. The region structured itself in four tiers: council of regional state at the apex, de-concentrated Zonal Administration, decentralized Woreda/Urban Administration, and the rural Kebeles at lower tier where people are assumed to directly participate in decision making.

Regarding Urban dwellers, there are about 564 cities and towns in the region graded *1st to 4th* grade, (Socio Economic Profile of the City, 2006). In Oromia urban centers are graded on population size: - Grade one (greater than 90,000 residents), Grade two (From 45,000 to 89999 residents), Grade three (From 10,000 to 44,999 residents), Grade four (From 2,000 to 9999 residents), (Megeleta Oromia, proclamation No. 65/2003). Sebeta is one of the Oromia towns that emerged before the Italian invaded Ethiopia in 1935. Sebeta is the administrative capital of Sebeta Awas District of Oromia special zone surrounding Finfine situated at about 24 km west of Addis Ababa along Jimma road. As the town is close to Addis Ababa, a number of factors, which were much related to the development of the capital also contributed to the fast growing and development of Sebeta town. Sebeta got municipal status in 1953E.C and currently has got first grade (Grade 1) status in 2001E.C. Located within an approximate geographical coordinates of $8^{\circ}53'38.50''N$ $8^{\circ}59'58.17''N$ latitude and $38^{\circ}35'11.91''E$ $38^{\circ}39'33.75''E$ longitude, With regard to relative location, it shares common boundaries with Addis Ababa in the North, north east and east, Burayu town in the North and rural villages of Sebeta Awas district to the south and west. Total area that is covered with the current base /topographic map of the town is estimated about 99sqkm. According to the Master plan of the town which was revised in 2006 E.C Sebeta has about 9900 hectares of a reserved total area. It is the largest industrial zone in the special zone of Oromia surrounding Finfine.

According to the population census of the town Administration and Office of Finance and Economic Development, the total population of the town for the year 2007 E.C was 148,051 (77,680 males & 70,370 females). While CSA projection for the same year indicated based on 1999 census the town population has estimated about 63,391 which only included the earlier two Keble's Sebeta 01 and Alemgna 02, but the six kebles were not included in the CSA census, due

to these kebles are under the rural Sebeta Awas wereda at the time of CSA census but, after 2001 E.C the town expands by including these rural kebles under the Urban administration.

Sebeta city is among 1st grade cities in the region. City administrations as Woreda/District administrations are categorized under local governments. Ideally, local governments presuppose the political, administrative and fiscal autonomy, which could be enhanced through decentralization. Fiscal decentralization, the component of decentralization, envisages fiscal autonomy by which urban local governments assume powers of revenue generating and expending as per their local priorities. These administrative structures are responsible for basic public services provisions in the cities. This in turn necessitates existence of fiscal autonomy which gives the urban local governments capacity to make decision on their own revenue sources, manner of collection, and administration. Fiscal decentralization is one component of decentralization that gives authority to local governments to collect revenue through taxes and responsibility over spending decisions. Even though fiscal decentralization has given revenue raising and spending decision powers to lower levels of government, the implementation process has often been a discouraging task for many local authorities in Ethiopia. In Ethiopia, decentralization has been implemented since 1991. Municipalities in Ethiopia have given full autonomy over municipal revenue and expenditure. However, revenue raising and expenditure management are not efficiently and effectively exercised, especially in lower level government units in Oromia regional state. Insufficient revenue collection and weak expenditure management lead to financial incapability such that public infrastructure and services could not be financed amply. Sebeta municipality faces the problem of financial capacity to deliver infrastructure and services to its citizens. It is interesting to know what the driving factors are in this case.

The thesis therefore, would make an attempt to examine the fiscal capacity of Sebeta City in this sense and its practice. Fiscal capacity in this thesis was defined as the capacity to raise revenue potential of the city efficiently and allocating and utilizing it in efficient manner and also Fiscal autonomy implies the authority of urban local government to introduce tax bases, determine the rates thereon, and collect revenues under their administration and autonomy in allocating the yields acquired as per its priorities.

Finally, the thesis is organized under five chapters. The first chapter deals with the introduction, background of the study, statement of the problem, objectives the study, research question, significance of the study, research methodology and description of the study area. The second

chapter dealt with literature review on the issue. The third chapter discuss and analyze fiscal capacity of the study area. Chapter four concludes the finding of the thesis and also forward recommendations on the problems identified by the study.

1.2. Statement of the Problem

A series of the federal proclamation and the 1995 constitution of Ethiopia let the basis for the decentralization of decision making power and responsibilities to the regional governments. Accordingly, Oromia regional government is accorded extensive power and function. The region also enjoys a substantial degree of fiscal decentralization. Oromia regional government constitution and proclamations also further promote the decentralization process to the local government by establishing the power, duties and responsibilities of local governments. In ONRS urban local government has a highly decentralized fiscal autonomy over Municipal revenue and the way of its expenditure. The establishment of urban administration in Oromia Regional state is based on the principle of subsidiarity. These urban local governments have a responsibility to raise the revenue potential of the municipality as much as possible efficiently and have the responsibility to allocate it in efficient way as per the preference of the city dwellers. But, often in Sebeta city administration municipality revenue fluctuates over times, and not enough to cover the increasing service demand by the residents. Provision of public goods and services show severe deficiencies, especially, the provision of potable water supply, housing, straight light, roads, Sanitation, Education, health services and sewerage lines are limited both in quality and quantity. Moreover, Municipality's budget mainly are allocated on recurrent expenditure, especially on salary, allowance, Entertainment and fuel which has minimal role in the development of the city in comparison to capital expenditure.

Sebeta Municipality has a power over collection of municipal revenue which includes: - the power to introduce, to set rates, adjust and collect rentals and service charges in line with federal and regional policies and laws and use the revenue for the development of the city. Hence, Municipalities are urban local government and dependent on local revenue sources.

Though the municipality prepares its annual plan every year, it however does not meet its plan at the end of the year. There is a big gap between planned and actual collection in the past years.

However, the growth rate in expenditure has always increasing at increasing rate above the rate of growth in revenue, which results in budget deficit in the future. Inadequacy of revenue

collected by the municipality to implement the expenditure assignment is the main problem that the City is encountered. In the study area rural urban migration and urban to urban (especially from Addis Ababa to Sebeta) is very high due to better employment opportunity and least housing cost calling for increased provision of adequate urban infrastructure and social services notwithstanding the weak revenue rising practices compared to potential revenue sources available.

According to National Urban Planning Institute (2001), an urban area is said to be efficient and effective when it provides those urban services that directly affect the quality of urban life, which include social services, physical infrastructure and municipal services. Unfortunately, provision of these services have consistently failed to keep pace with increasing service demand in urban areas because municipal revenues are not large enough to cover the cost of the increasing service demand due to rapid urbanization and resultant population pressure.

Municipal services are those public services, which are rendered and controlled by the urban administration. These include potable water supply, street light, Roads construction, sewerage lines, sanitation, garbage collection and disposal, public markets, abattoir service, recreation and cultural places, municipal services, etc. The delivery, efficiency and sufficiency of these public services are crucial in determining the quality of urban environment and life. But in the study area supply of municipal infrastructure shows deficiency.

These all could be due to a combination of, weak revenue raising capacity, or lack of expenditure management capacity and lack of planning and budgeting, and weak follow up system of its implementation by the Municipality as per powers listed in the urban proclamation.

It is interesting to know what the driving factors are in this case. For this reason the researcher is inspired to undertake the research to assess Fiscal capacity of City administration and to forward on how to the city administration improve municipality's revenue raising capacity to cover its expenditure, and how the city administration correct the allocation of its budget on capital expenditure and its implementation. In addition to the above objectives it is aimed to forward on how to the city council and different stakeholders play significant role in deciding on municipal revenue collected as per its dwellers preference and to create the mechanism in place to ensure accountability in financial administration to get reasons for public goods and services deficiencies in Sebeta city.

1.3. The Research Objectives

Main Objectives of this study is to assess fiscal capacity of the study area particularly on municipal revenue and expenditure management how could be exercised by the city administration. I.e. to assess efficiency and effectiveness of municipal revenue raising capacity and its expenditure in Sebeta Municipality, then by examining the main problems the research forwards a solution to correct the inefficiency on revenue generation and expenditure performance of the city.

Along with this main objective the study specifically aims to:-

1. To assess the effectiveness of the municipality's revenue collection system based on selected year's performance.
2. To assess why municipal revenue fluctuate over time and lack to cover municipal expenditure needs.
3. To examine the efficiency in the allocation of available financial resources based on specific years expenditure.
4. To assess the capacity of municipalities in utilizing it limited resources based on selected year's performance.

1.4. Research question

1. How efficient is the city revenue authority in collecting municipal revenue potential of the city?
2. How efficient is the City administration in the allocation of the available financial resource?
3. Why municipality revenue fluctuate over time and lack to cover municipal expenditure needs.
4. How efficient is the Municipality in utilizing its limited financial resource?

1.5. Significance of the study

Since there is no a general local study that was conducted to assess the capacity of the city administration on municipal revenue collection and the capacity to utilize the available financial resource based on the preference of the dwellers in Sebeta City administration. It hoped that the finding of the study would forward on how the city administration will increase its revenue raising capacity and the way of ensuring efficient allocation of the existing resource. It may

excite further researches by showing the extent of city's fiscal autonomy, revenue generating capacity, expenditure management and its practice.

So, the researcher hopes that the result of the study would help the Regional government, city administration, revenue authority and city council, to take the necessary action on the problem.

1.6. Scope of the study

The thesis main area of focus is the assessment of Fiscal Capacity of Urban Local Government on municipal revenue, in Oromia Regional state, the case of Sebeta City, from revenue raising capacity and the efficiency on its Expenditure perspectives (its expenditure practice, revenue collection capacity and etc). Even though the study focused on assessment of Fiscal capacity of urban Local Government on municipal revenue, from revenue raising capacity and the efficiency on its expenditure management perspectives, due to given time and resources the thesis could not able to cover the topic in a very wide ranging way. Therefore, to achieve the objective of the study the thesis will limit itself on assessment of fiscal capacity on municipal revenue particularly on revenue rising and expenditure responsibility and exploring the problems leads to inefficiencies in case of Sebeta city.

1.7. Research Methodology

In this study, descriptive research design was used to assess the existing municipal revenue and expenditure assignment practice in the study area. This method was mainly used to analyze pattern of revenue raising and its expenditure for consecutive year under study (1997-2007EFY). Both quantitative and qualitative data were gathered and analyzed to resolve the research question. Quantitative data of the municipal including financial data of revenue and expenditure were collected to analyze the efficiency in revenue collection and effectiveness in expenditure management. In addition qualitative data were collected from the respondents using structured interview questionnaire to get more insight to the research question.

Research design, Data type and collection instruments, sampling frame, selection of respondents and method of analyzing data are presented as follows.

1.7.1. Research Design

Research design implies the way study is planned and conducted, the problem procedures and technical employed to answer the research question (Mcmilan and Schumacher, 1984) stated. Likely the research type is a descriptive research which tries to assess fiscal capacity of the city

regarding municipal revenue collection and its expenditure based on past year performance in Sebeta City administration. Since the descriptive types of research observe the social reality, phenomenon and events it would be better to use to describe the problems arise there from.

1.7.2. Method of data collection

The study was conducted to assess fiscal capacity of the city regarding municipal revenue collection and its expenditure management, based on past year performance in the area under study. In this study both quantitative and qualitative data were collected through primary and secondary data collection techniques. To support the qualitative statement the study was supplemented by quantitative data generated from primary data and secondary method of data collection. The study would assess past Municipal revenue performance and its expenditure practices. In order to further comprehend the concept of fiscal decentralization, literatures on urban LG taxation, revenue autonomy, expenditure practice thoroughly examined. These further would be supported by interviews with various officials and personnel from the city administration council and municipality, Revenue Authority, Office of Finance and economic Development, and Mayor Office of the city at city level and Zonal Finance and Economic Development Office, Zonal Revenue Authority, Oromia Revenue Authority Bureau at the regional level . Since this study employed by in depth interview, answers why? How? In what way?, and to what extent?

1.7.3. Sample Technique

As the study seek the in depth information based on the position and experience of Officials and experts to select sample respondents from selected offices, it would relied on non-probability sampling to select key respondents or informants purposively selected official and experts of city administration, Finance and Economic Development Office, Revenue Authority, Municipality, members of City Council, Manager of Infrastructure Provision Department, and concerned staff at city level and official and experts of Zonal Finance and Economic Development Office, Zonal Revenue Authority, Oromia Revenue Authority Bureau at the regional level were selected purposively.

1.7.4. Sample size

Totally, 27 respondents were selected as a representative of the study population (purposively selected officials and experts at city administration level, Zonal and at regional level).

1.7.5. Source of data

The research uses secondary and primary data. Legal documents regarding revenue and expenditure responsibility of urban local government, Sebeta city administration official Municipality expenditure and actual revenue performance reports, potential source of municipal revenue titles, City council budget disbursement approval minutes, proclamations and regulations, etc, were the main source of secondary data. Primary data was created through carrying out in-depth discussions with key informants by designing semi-structured questionnaires. Well-informed key informants were drawn from the selected City administration, zonal and regional level heads/process owners and experts on the bases of their experience, position and responsibility. Accordingly, discussions would be made with Heads/Process owner and experts of Sebeta city Revenue Authority and Office of Finance and Economic Development, Municipality, Mayor Office and city council at the city level would be discussed. And also discussions would be made with Heads/Process owner and experts of zonal and regional level Finance and economic development and Revenue Authority. In addition, in order to get a wide variety of information, discussions also held with members of Finance and Budget Committees of the city council.

1.7.6. Data Analysis, Interpretation and presentation

The data generated through in depth interview with purposively selected officials and experts were first translated and described in to English. In the study, descriptive statistical techniques were employed for the analysis of data obtained from both primary and secondary sources. Simple statistical tools like percentage and average were used in the analysis and presentation of quantitative data. The manufactured or synthesized data were then represented in the form of tables, graphs and diagrams describing trends, patterns and cause and effect.

1.8. Limitation

The proper execution of the paper would be limited by absence of appropriately recoded data that has direct relation with municipal revenue and expenditure assignment practice in the study area, though the researcher has been used the maximum effort to keep the quality of research output. This study as uses qualitative data, it needs in depth, clear comprehensive questioner and interview. And also use non probabilistic sampling. Due to this the researcher would come on some bottlenecks. These are:-Secondary data in relation to municipal revenue and expenditure

was not compiled in efficient manner and government official and staff those who interviewed were reluctant to give relevant information.

Chapter Two

Conceptual Framework on Fiscal decentralization and Fiscal capacity

2.1. Fiscal Decentralization

Decentralization is a process of government policy that transfers responsibilities, resources, and/or authority from higher to lower levels of government. Thus, lower levels of government are the recipient of the transferred responsibilities, powers and resources. Decentralization in contemporary political discourse is enhancing public participation. Public participation in political decision making is becoming the pillar of governance which cannot be imagined without decentralizing power to the lower tier of governance. Decentralization thus ensures the political, administrative and fiscal autonomy of local government (Boadway and Shah, 2000, p.532). What is decentralization then? Why countries opt for it? The term decentralization is the anti-thesis of centralization. Centralization is the act of consolidating power under a central control, while decentralization is a process of redistributing or dispersing functions, powers, people or things away from a central location or authority to lower level of governance (Campbell, 1990:225).

Decentralization is the concept which seems widely studied and practiced in contemporary governance. Yet, there is no common definition and understanding of it. Decentralization has not only an administrative value, but also has a civic dimension (Ialar, 1899:743-744). The basic idea behind decentralization is therefore, giving autonomy to local government and achieving smaller more responsible and responsive governments that provide public goods and services to the local constituents and hence makes them accountable to voters. When governments are truly accountable to voters, consumers tend to be more willing to pay for the services they receive. Further, some countries embarked the processes of decentralization owing to the growth of distrust of centralized regimes while others indulged in to it for mitigation separatists demand that seem to flash in one or another part of the world, (Duant, 2007).

Often the case decentralization is a response to the problem of centralized systems like economic decline, government inability to fund services and its general declines in performance of overloaded services. Further decentralization addresses the demands of minorities for greater say in local governance. It can also be taken as a remedy for the general weakening legitimacy of the

public sector. Some countries also try to design and implement decentralization policy aiming at to escape global and international pressure triggering at their inefficient, undemocratic and overly centralized system. Generally speaking the major objectives of decentralization can be reduced in to accommodation of diversity, (Johnson, 1999:4). Improving efficiency of government service provision, and mechanism to resolve conflicts erupted from actual or perceive inequalities between various regions or between a region and the central government (Brancati, 2010).

By definition decentralization is a mixture of political, administrative, and fiscal functions and relationships. Thus its designing process should consider the questions “who, what, when, where, why and how” for the proper implementation of the concept, (Ibid: 27). Consequently the issues that should carefully be analyzed and properly identified in the process of decentralization designing, among others, would be its initiation, operation, size, and the degree of powers to be decentralized.

The types of decentralization chosen within a country depend on political structures and administrative issues of a particular country, while their impacts differ depending on types, objectives and conditions of decentralization opted for. Accordingly political, administrative, fiscal and market decentralization can appear in different forms, (Neven, n.d.:4).

Political decentralization is sometimes called political power devolution which connotes “who decides”. In a more comprehensive understanding “it is a transferring of power and authority for making socio-political-economic decisions from central government to local governments and communities. Therefore, political decentralization aims to give citizens or their elected representatives more power in public decision making (Kauzya, 2007:4).

Administration decentralization is another aspect of decentralization which in turn seeks redistribution of authority, responsibility and financial resource for providing public services among different levels of government. Administrative decentralization can further be viewed in de-concentration, delegation and devolution. De-concentration is the redistributing of decision making authority among different levels of government under the supervision of the central government ministries or regional state.

The other dimension of administrative decentralization is devolution. Black’s law dictionary defines the term “devolution” as “the act of instance of transferring one’s rights, duties, or powers to another... the federal government’s devolution of powers to the state. This presupposes

the existence of tiers of governments. The transfer of authorities to lower tiers of governments is often referred to as devolution. Devolution usually transfers responsibilities for services delivery to municipalities that elect their own mayors and councils, raise their own revenues, and have independent authority to disburse, (Neven, n.d.:3). Hence, in contrast to de-concentration, devolution amounts to the true sense of administrative decentralization.

Fiscal decentralization can be defined as decentralizing revenue raising and expending power to lower level of government while maintaining financial responsibility, (Vasquez and McNab, 1997, p.5). Fiscal decentralization is also called “fiscal federalism “. Fiscal decentralization has different forms and indicators which would help to measure the degree of fiscal autonomy granted to urban local governances.

In **whole mark**, the most complete forms of decentralized government’s envisage privatization and deregulation, (Neven, n.d.:4). Privatization ranges in scope from leaving the provisions of goods and services entirely to the market, or to public private partnership in which government and the private sectors cooperate to provide services or infrastructures. Deregulation, on its part, reduces the legal constraints on private participation in service provision or allows competition among private suppliers for services (Ibid). These components together enhance market decentralization and then create conducive environment for public private partnership in service provisions. Various researches indicate that decentralization improves macroeconomic management, enhances good governance, has negative effect on corruption, and put local governance under constituent pressure and thus managing resources and delivering services effectively based on public preferences (Gomes, 2012:1). Fiscal decentralization enhances financial decision making autonomy which in turn motivates participation at local level and then strengthens accountability and transparency in public revenue administration (Sharma, 2004). It may also lead to have more creative, innovative and responsive programs by allowing local experimentation. Above all, decentralization helps to alleviate and controlling of important economic and social activities (Neven, n.d.:4).

However, decentralization may not always be efficient, especially for standardized, routine, and network based services. It may also result in the loss of economies of scale control over scarce financial resources by the central government. Administrative responsibility may be transferred to local government without adequate financial resources and make equitable distribution provision services more difficult. Moreover, distrust between public and private sectors may

undermine cooperation at the local level (Sharma, 2004:9). It is also said that “spillovers, common pool problems, and problem from soft budget constraints result in inefficiency losses associated with decentralization (Neven, n.d:6). It may also adversely affect the quality of public goods through increasing incident of corruption (Boadway and Shah, 2009:533-534).

The possible suggestion to remedy these defects is that decentralization planners should assess the lowest organizational level of government at which functional can be carried out efficiently and effectively, i.e. urban local government. That is why decentralization is praised by many for it plays significant role in democratization process by ensuring participation of local communities in decision making, thus increases government responsiveness to the public demands. Fiscal decentralization is there to warranty fiscal autonomy of urban local governance. Fiscal autonomy assumes the authority of urban local government to introduce tax bases, determine rates thereon, collect revenues there from and autonomy in allocating the yields acquired as per its priorities (Boadway and Shaha, 2009).

In general, Theoretical arguments surrounding fiscal decentralization have been the subject of investigation by different Writers. The first argument postulates that fiscal decentralization can improve economic performance through strengthening a country’s governance. A growing body of literature has emerged in recent years that recognize a positive association between decentralization and governance. (Inman & Rubinfeld, 1997 cited in Fekadu, 2011:14) assert that fiscal decentralization has been shown to strengthen social capital and encourage political participation that usually leads to a higher level of accountability for government behavior. By fostering the emergence and strengthening of democratic institutions, fiscal decentralization reduces opportunities for malfeasance and misallocation of public resources. Resources that would otherwise be diverted are then available for investment and for the provision of public goods, thereby enhancing long-term economic growth (McNab, 2001).

For Agrawal and Ribot, 1999 Cited in Abdulwaheed, 2012:44, decentralization is an act in which a central government formally cedes powers to actors and institutions at lower level in a political administrative and territorial hierarchy. Such devolving of political power and administrative responsibilities to lower levels of authority involves the creation of realm of decision. I.e. local authorities empowered with decisions and resources to deliver welfare services in meaningful ways to the local population.

(Robertson, 2000 Cited in Abdulwaheed, 2012:44), also posited further that if decentralized governance is carefully planned, effectively implemented and appropriately managed, it can result in significant improvement in the delivery of welfare service to people at local level therefore can be conceived as a political process in which the objective of which is the transfer of responsibilities, resources and/or political authority from higher to lower levels of government

On the other hand, establishing effective expenditure control system is another important component of expenditure management. According to United Nations Center for Human Settlement (1992), whoever is responsible for authorizing expenditure on a particular budget item must have regular and up-to-date information on the total amount spent and therefore, ascertain whether the balance is still available for commitment? This means the expenditure must be brought promptly to account in the local government's ledgers and that statements of spending to date must be provided on a regular basis to those controlling expenditure on each item. Local government officials also have to be made accountable for the allocation decisions that they make and for the efficient delivery of services. That is an appropriate balance between autonomy and accountability of the officials has to be struck.

Giugale and Webb (2000) state that sub national governments must have their own revenues that are adequate to cover their current expenditure effected by their own actions, especially by changing tax rates, but also imposing new taxes, by changing the tax bases and by varying administrative effort. The underlying concept with respect to this idea is that proper revenue administration assists local governments in the collection of tax and non-tax revenues effectively.

Anderson (2003) states that expenditures are monetary disbursements by the government, including funds transferred to other units of government. Fiscal policy and fiscal management need a good understanding of how the expenditure side of the budget is planned, prepared and executed (Potter and Diamond, 1999). With this in mind, public expenditure management entails appropriate planning and spending within the budget processes; strengthening the expenditure control systems, evaluating and monitoring the expenditure control systems and evaluating and monitoring effectiveness of established systems. The same argument is affirmed by Dancorry (1997), public expenditure management techniques could be; defining objectives setting, publishing quantified targets, monitoring and publishing performance. Nice (2002), also states that budgeters must decide which services and programs deserve generous support, which ones

receive modest support, and which ones should receive little or nothing. The idea indicates that setting goals and priorities is essential before public expenditure takes place.

According to Giugale and Webb (2000), economic efficiency calls for greater autonomy of sub national governments in expenditure and taxing decisions. With regard to this, those sub national governments that are given autonomy for own revenue generation and expenditure decisions should accomplish their responsibilities efficiently and effectively. But the reality doesn't show the same result in all sub-national/urban local government with nearly equal efficiency in the achieving the objectives of fiscal decentralization due to many bottleneck.

The other argument also raised by Abdulwaheed and Samihah, 2012, they explain the importance of 'Fiscal Discipline' in the efficient and effective delivery of welfare service by local government and they argue that through decentralization transferring resource and power to local government by itself is not enough for efficient provision of welfare service to the public by local government. These objectives can only be realized through aggregate '**fiscal discipline**' in the cause of using the concept decentralization among the different tiers of government and also there are other researcher such as Lawal, 2000, Olowu, 2001, Ajayi, 2002, Akindele, 2004 cited in Abdulwaheed and Samihah, 2012:53, who argued on the issue in this way, local governments most often do not spend what is approved for service delivery in the budget, instead they prefer to divert resources to other programs. but not only lack of fiscal discipline which leads urban local governments for inefficiency in achieving the objectives of fiscal decentralization there may be lack of fiscal capacity both to raise enough revenue from own revenue source and also lack of capacity to utilize the existing resource efficiently.

We find that both arguments on whether fiscal decentralization by itself enough to achieve its objectives or there is prerequisite for fiscal decentralization are inconsistent conclusions.

Many researchers researched the inefficiencies of Urban Local Government is due to lack of fiscal autonomy. This is may be true on state function if urban local government lack fiscal autonomy on state function but urban local government in Oromia region had full autonomy on municipal function both on revenue raising and on its expenditure; here also they failed to meet their objective. So this necessitate the problem should be researched. And also others put shortage of revenue as the cause of inefficiencies in achieving expenditure assignment by ULG.

Yet, it has not been conducted any significant research pertaining to the fiscal capacity of urban local government in the region on municipal revenue, its expenditure and revenue potentials of the municipalities in the region and so the case to Sebeta municipality.

2.1.1. Expenditure Assignment

Expenditure Assignment: both theory and practice strongly suggest that expenditure responsibilities need to be stated as clearly as possible to enhance accountability and reduce unproductive duplication of authority and legal challenges. On this side, decentralization draws its argument largely on efficiency grounds, though it is also argued that lower level governments have some degree of distributional and stabilization roles.

2.1.1.1. Objectives of Fiscal Decentralization and Expenditure Assignment

One way to examine the adequacy of expenditure assignment is to see how well the present assignment responsibility fits the fundamental rules for the ideal assignment of responsibilities in a decentralized system of government. There is no absolute way for deciding which level of government should be responsible for particular public services. The adequacy of any assignment has to be judged interim's of how well it achieves the goals or objectives set up by the government in its decentralization strategy. Commonly accepted objectives for fiscal decentralization include those of an efficient allocation of resources via a responsive and accountable government, an equitable provision of services to citizens in different jurisdictions, and promotion of economic growth (Jorge: Martinez- Vasquez, 1994), but most of the time these objectives not achieved simply by decentralizing responsibilities to lower level of government and not given enough attention to prerequisite for decentralizing fiscal power to lower level of government.

2.1.1.1.1. Efficient Allocation of Resources

The efficiency provision of government services requires that government satisfy the needs and preference of tax payers as much as possible. This is best achieved by the 'subsidiarity principle'. Responsibility for the provision of services should be at the lowest level of government that can discharge the service effectively. This is generally determined by the size of "benefit area" and economic diseconomies of scale and scope associated with various services (Oates 1972, 1990). The benefit area for sanitation services is clearly the local

community, but for air traffic control the benefit area is the national territory. Leaving the supply for public services with wider benefit area to smaller units of government is likely to result in the inefficient under provision of services; for example, a territory hospital providing regional services is solely financed by a single municipality. Efficiency in the provision of public service is enhanced when consumption benefits are linked to costs of provision via fees, service charges, or local taxes (Birds, 1976; Bahl and Linn, 1972).

2.1.1.1.2. Equitable Provision of Services to Citizens

Decentralization in financial spheres has been revealed as important aspect (Musgrave, 1959). A key argument for fiscal decentralization is that the intended beneficiaries (such as service users) are able to exert more effective pressure on service providers (i.e. the local governments) because the decision makers are physically available (Pokhavel et al., 2006). The division of authority for budgetary management and preference matching is especially important in the ability of a district to improve the efficiency and effectiveness of service delivery through improved resource allocation (Shah; 1998).

2.1.1.1.3. Promotion of Economic Growth

Fiscal decentralization is considered to be essential for the effective implementation of the Millennium Development Goal (MDG), a road map set out in 2000 by 147 heads of state and governments to achieve universally accepted human values and rights such as freedom from hunger; the right to basic education, the right to health and a responsibility to future generation by 2015 at the grass roots level (Bradhan and Mookherje, 2003; cited in Salihu Abdulwaheed, 2012:47).

2.1.1.2. Steps in Assigning Expenditure Responsibility

Although there is no single best manner in which to assign expenditure responsibilities across different level of government levels, there are a number of steps that should be followed in the assignment of expenditure responsibilities (Martinez-Vazquez, 1998):

- Determine the appropriate roles of the public and private sectors.
- Establish a formal assignment of expenditure responsibilities and did this before determining the other component of the system of inter governmental fiscal relations. The lack of clear,

formal (legislated) expenditure assignment-conflict in the legislative frame work- is a common short coming of fiscal decentralization reforms.

- Follow the subsidiary principle in the allocation of functions.
- Assign the responsibility to fund distributive program to the central government.
- Assign the responsibility to provide the stabilization function to the central government.
- The subsidiary principle and the nature of market failure should determine which level of government is best situated to ensure the efficient provision of other government services.
- Assure that the expenditure assignment recognizes the multi-dimensional nature of expenditure responsibilities, including the responsibility to set policy norms and regulation; to finance, to provide; and to produce a certain government services.
- Assure that the expenditure assignment recognizes the multi dimensional nature of expenditure responsibilities of various government levels, especially when different aspects of a functional responsibility are shared by different government levels. Then assure that the legislative frame work is followed in practice.
- Ensure that minimum standards of local services provision are assured via penalties and rewards, and make sure that local governments operate in frame work in which they are accountable.

2.1.2. Revenue Assignment

Tax Assignment: Tax assignment considers which level of government should tax what and how. The decentralization of expenditure responsibilities brings with it the need to decentralize revenue raising responsibilities. Otherwise, as many agree, the lower levels of government would be dependent up on funding from the central government and the full benefits of decentralized decision making and political accountability would not be achieved. Kim (2000:282), for instance, argued that when major portion of the locally determined expenditures is financed by the local tax, accountability to their voter's acts as a strong disciplinary primary force for rational decision making, and thus leads to efficient resource allocation, but practically this was not simple as its theory and also not achieved its objectives in most urban local governments in Oromia regional State.

In centralized decision making, the central government collects and transfers revenues to local governments. Such arrangement reduces the role of local governments simply to asking for more and more fund from the center without being accountable to their local vicinity, (Gomes,

2012:4). The generation of funds from central government to local government further creates allocative inefficiency and disparities among local units in receiving funds as well, (Ibid). These conditions, if persisted, may lead to social grievances and political instability. Thus, fiscal decentralization is praised for its avails remedy for such insistence not happen by devolving the power of revenue assignment to local governments and at the end ensuring their fiscal autonomy. The contentious issue, which could probably be the 'hard rock' in fiscal federalism, is the extents or degrees of taxation local governments would be assigned with. If local governments have fully to rely exclusively on revenue extracted from their jurisdictions, the necessary evils follow are social unfair in getting services and inefficiency. This is due to the fact that natural resources and other revenue bases are, most often, unevenly distributed among local territories. The one which has more natural and revenue sources will be benefited more and hence create unfair social service provisions among citizenry. This unfair social service distribution mandates the central government to arrange revenue transfer mechanisms to mitigate the internal disparities among local territories. The revenue to be transferred in turn forces the central government to retain certain revenue sources and decision making powers for economic stability, allocative efficiency and distributive equity, (Schneider, 2003:5). In addition to this, it has been argued that tax assignment should be seen in light of externalities or spillover effects and convenience in tax administration, Solomon, 2006:118-119.

2.2. Indictors of Efficiency and Effectiveness of Municipal Revenue collection

Efficiency and effectiveness have very different meanings. According to Gianakis and McCue (1999) efficiency of a revenue source refers to the cost of Administering/collecting it. I.e. the administrative costs borne by the government, such as record keeping, valuation, assessing, collecting, auditing and enforcement are ultimately borne by the tax payer and including the compliance costs borne by the tax payer.

Revenue collection efficiency and effectiveness can be measured by using different methods. The methods can be quantitative and qualitative. Among the major quantitative measures of efficiency is ratio analysis, including the ratio of municipal revenue administration cost to the total actual revenue collected can be employed as a quantitative measurement to evaluate efficiency. On the other side, the ratio of the actual revenue collected to the revenue planned can alternatively be used as another measure of efficiency. By analyzing how much revenue is mobilized from relatively own resources, it is also possible to measure revenue collection

qualitatively. Effectiveness on the other side can be measured quantitatively by observing assessment and valuation of taxable sources.

A tax organization, which collects the highest amount of taxes from the existing resources in the fastest possible time duration and with the lowest possible collection costs, can be regarded as an efficient organization.

On the expenditure side, efficiency can be examined on the perspective of ensuring local economic development. Planned budget comparing with its actual performance can be used as measure of effectiveness of the expenditure system. Whether the city administration is exercising its responsibilities efficiently particularly, revenue collection and expenditure management in the right way can be evaluated using both quantitative and qualitative measurement. The quantitative indicators that are used to evaluate effectiveness can also entail the level of delay in collection that is, collection lag, level of objectivity in assessment and valuation of taxable sources and number of defaulters. Level of use of statutory laws to enforce payment can be used as the qualitative indicator to test effectiveness. And also, achievement of planned objectives with planned expenditure can be used to evaluate whether the expense system is effective or not, (Bailey, 2004).

2.3. Municipalities Revenue Collection Strategies

Municipality administrations are among the local urban governments and dependent on local revenue sources to finance public infrastructure and services. According to Gianakis and McCue (1999), evaluating current tax structures and exploring alternative revenue options in a productive manner require an integrated and comprehensive approach. Hence, an integrated revenue administration system is concerned with establishing revenue performance standards, documenting revenue performance, comparing actual with expected performance, initiating corrective action and designing controlling mechanisms.

According to United Nations Center for Human Settlement (UNCHS) (1992), municipal governments should continuously monitor their progress in revenue collection. A strict timetable must be set for each tax or charge stipulating the period within which payment is due, intervals at which reminders are automatically sent to defaulters and date at which legal proceedings or other sanctions shall be taken.

Moreover, in the case of taxes and charges for which a taxpayer have a regular continuity liability, it is necessary to keep an account in respect of each taxpayer, showing the amounts due,

amounts paid and any outstanding balance due to the municipality. To be effective in revenue collection, municipal administration should design and implement the points mentioned above.

Giugale and Webb (1999), state that revenue managers should examine the equity of their revenue structures in light of the distribution of goods and services provided, and the efficiency of their revenue sources in terms of the costs of compliance, the costs of administrations, and their effects on private economic activity. Moreover, some options available to local government managers have been identified including broadening existing sources through rate increases or optimization strategies, and developing new revenue sources. Tax base expansion can also enable municipal governments make existing revenue sources more productive. Nice (2002), states that by monitoring and analyzing revenues on an ongoing basis, officials can detect problems early. This in turn may enable officials to begin corrective actions early and prevent avoidable damage. From this, one can understand that continuous monitoring and evaluation of revenue collection progress is one of the key strategies that local authorities can implement in order to achieve effectiveness in their revenue collection endeavors.

On the other side, Anderson (2003) states that one of the ways of evaluating municipal revenue options is that local government/municipalities should be structured in a manner that minimize disincentives to revenue mobilization. The concept behind this idea is that municipalities should be structured in a way that motivates the staff so that revenue collection can be performed in a better manner.

The revenue of municipalities could be improved depending on the overall operation of taxation. Moreover, it could be raised by improving the system or method of collection, improving coverage, capacity building, expanding the tax base, increasing the tax rate, and introducing new tax.

Chapter Three

3.1. Municipal Decentralization in Ethiopia

A unique feature of the expenditure assignments in Ethiopia is the distinction between the so called “State” and “Municipal” functions. Both types of expenditures are administered by the urban local government, but the state functions are delegated from the region to the local authorities and therefore the ULG receive grants from the remaining regions to finance the state functions while municipal functions are funded by their own local revenues. Unlike rural Woredas, municipalities in Ethiopia enjoy full retention of own-revenues from direct and indirect tax sources ostensibly to finance municipal functions. The legal framework for municipalities assigns various municipal or own-source functions to these urban centers such as management of urban land use, central markets and abattoirs, as well as waste removal and street lighting.

According to article 37 of proclamation No. 65/2003 Revenue Sources of the Urban Local Governments are. The urban local government may introduce, adjust and collect taxes, rentals and service charges in line with Federal and-Regional policies and laws and use the revenue for the development of the city. Revenue from urban land and property tax shall be the exclusive of the concerned urban local government. Urban local government may raise funds from own income generating schemes, Voluntary contributions and donations. The urban local government shall receive funds from the regional government for works it carries out on behalf of the Regional Government. With the prior approval of the Regional Government, urban local governments can borrow money from Federal and Regional Governments as well as from accredited financial institutions for capital expenditures in observing the limits of macroeconomic stability set by the Federal Government. Urban local governments may borrow from a city fund or similar institution.

Given a long tradition of centralized administrative experience, this has not helped Weredas and municipalities to be independent and responsible for many functions and responsibilities at the local level. In this regard, inadequate financial resources and the absence of in-country training programmes that local governments need cannot help the development of independent and viable local government administrations and municipalities, (Meshesha 2014).

According to UN-HABITAT, Municipal/urban management and governance were generally neglected area until recent years in the present federal structure in Ethiopia, which is more

problematic since urban growth is rapid. The government initiated its focus on Ethiopia's cities and towns after 2000. The focus was on developing institutional and organizational frameworks and on capacity building (Ministry of Works and Urban Development, 2007)

The 1995 constitution of Ethiopia instituted radical reform of governance structures, including devolution of significant resources and responsibilities from central agencies to nine regional administrations; an explicit goal of new constitution is to bring government close to the people through a process of decentralization intended to increase public participation and responsiveness to local need. In many respects Ethiopia's decentralization process faces a unique set of challenges, balancing reform, representation and growth goals within a framework of national reconstruction, (Guyani, De Groot, Tessema, Ayenew and Connors, 2001:3)

According to National Urban Planning Institute (2001), an urban area is said to be efficient and effective when it provides municipal services that directly affect the quality of urban life, which include social services, physical infrastructure and municipal services. Unfortunately, provision of these services have consistently failed to keep pace with increasing service demand in urban areas of Ethiopia because municipal revenues are not large enough to cover the cost of the increasing service demand due to rapid urbanization and resultant population pressure, even though Ethiopian urbanization is rapid, there is no local study to assess the revenue potential of municipal revenue of Ethiopian cities and also Oromia urban local government and on how to efficiently allocate and utilize the existing revenue to meet needs of those municipal services.

3.1.1. Revenue Sources of Oomia National Regional State

The decentralization of expenditure responsibilities brings with it the need to decentralize revenue raising responsibilities. Any government in any where cannot discharge its responsibilities and exercise the powers vested in it without raising public revenue. The sources of public revenue can be tax and non tax sources, and grants. All sources can be utilized either at the federal or state levels. However, in a federation, the entire revenue sources can either be given to the center or to the states, or can be divided between them based on the method of taxation powers distribution a country opted for, (Solomon, 2006). In most federations, matters pertaining to revenue assignment powers and revenue transfers are constitutionally entrenched. By the same token, the FDRE constitution has well addressed these issues: the FDRE constitution divides the taxation powers in to three categories; 'the federal power of taxation' 'the state power of taxation' and 'the concurrent power of taxation'. Accordingly, regional states

are empowered to levy and collect taxes and other duties on revenue sources reserved to them, (Art 52 (2), FDRE Constitution). The revenue source reserved to the region presented below.

3.1.1.1. Oromia Regional State Taxation Powers

Tax assignment in federal system of government considers which level of government should tax what and how. The 1995 FDRE constitution is a base for fiscal decentralization in the country, which provided for the division of expenditure and revenue-raising responsibilities between the central government and the regional state. The profound revenue sources, especially in developing economy, are undoubtedly tax. The FDRE constitution takes this in to account while carefully regulating the powers of taxation in the country. Arts 96, 97, 98 and 99 of the constitution stipulate exclusive federal taxation powers, exclusive regional governments' taxation powers, concurrent powers of taxation and undesignated power of taxation respectively. The lists under article 97 of the FDRE constitution entitled 'state power of taxation' enumerates those tax bases shared from the federal tax competence based on different category of tax payers or particular thing (Endawke, 2009).

The FDRE constitution assigns the power to levy and collect income taxes to both tiers of governments, in which each of them is conferred with exclusive power over specific sources. Accordingly with respect to personal income tax from employment, income from employees of the states and from employees of private enterprises is subject to the exclusive authority of the states (Art.97 (1)). The exclusive taxation powers reserved to regions also belong to the ONRS. Thus, the ONRS has exclusive taxation powers over the taxpayers categories mentioned under Art 97 of the FDRE Constitution. This implies that states are constitutionally empowered to levy and collect income taxes from employees of public bodies of the respective region public enterprises owned by the regional states, and employees of private enterprises situated in their tax jurisdictions. The categorization of income tax herein with respect to tax on wages at emoluments, the constitution allocating them on the identity of the employer (Tadesse, 2010:8), while it opts for a set of formula in allocating income tax power between the two levels of governments. There are sales and excise reserved to the states. The states can levy and collect excise and sale taxes against public enterprises owned by them (Art.97 (7)). In addition, the states can levy and collect these taxes from individual traders within their jurisdiction (Art.97 (4)).

The FDRE constitution gives the state a power to levy property taxes upon houses which are privately owned, land which is used by usufructuaries and royalties from the use of forests (Art.97(2), (6), and (10)) (Endawke, 2009), levy and collect taxes on the incomes of private farmers and farmers' incorporative associations, (Art 97 (3), Ibid), profit and sales taxes on private sole proprietors, (Art 97 (4), Ibid), income from transport services rendered on water within their territory, (Art 97 (5), Ibid). The states are also empowered to levy and collect taxes and royalties on small scale mining activities (Art. 97(8)). One of the most important property tax of the state could be revenue from land lease payment from investment, for the constitution provides that land is publicly owned (Ibid). Finally, states are constitutionally authorized to determine and collect fees and charges regarding to licenses issued and services rendered by their agencies, (Art 97 (9), Ibid fix and collect royalty for use of forest resources, (Art 97 (10), Ibid). ONRS is one of the nine regions constituting the Ethiopian federation

3.1.1.2. Concurrent power of Taxation

The concept of concurrent powers differs from federation to federation. Constitutionally, however, the concurrency of power signifies that the center as well as each state has the right to enact laws concerning the subject-matter under its jurisdiction (Ibid). Concurrent powers are powers that are held by both the federal government and the states or provinces that make up a federalist nation. They exist because states and federal governments have similar needs. In the United States, the federal government can tax its citizens and the states can tax their residents. This means that one person will pay both the federal income tax and the income taxes imposed by the state in which the person lives, (Alexander, n.d.). The first concurrent power held by both the federal government and state governments is the right to levy taxes. The federal government can impose excise taxes, income taxes, and sales taxes on goods, as per the U.S. constitution. Likewise, states and localities can impose a general sales tax, an excise tax, import duties, or a property tax. On some goods, like gasoline, national and state taxes are included in the price (*Rainer Benz*, n.d.). In USA, both the center and states can impose freely on the same type of tax upon the same subject of taxation if it falls under concurrent power of taxation (Solomon, 2006). The other jurisdictions' experiences further reveal that the legislative organs of both level of government can issue law pertaining to taxes fall within the ambit of concurrent powers.

Concurrent power of taxation in FDRE constitution is entirely different from the above case. Under FDRE constitution federal government and regional states have enjoyed concurrent power of taxation by virtue of Art 98. The question is as to what is meant by concurrent power of taxation how this will be put in practice. The reading of the provision simply imply that federal government and regional states are jointly levied and collect income taxes derived from items listed there in. This means in other words, neither the federal government nor regional government can levy and collect these taxes independently (Ibid). This begs the practicability question by itself.

Indeed, the FDRE constitution seems significantly differ from the prevailing practices elsewhere. “Article 98 of the Federal Constitution grants concurrent powers of taxation between the Federal Government and the States. Concurrent taxation powers should be jointly levied and collected by the Federal and the States (Federal Constitution, Art.98). But the Constitution is not clear whether the phrase “jointly levy and collect...”implies : (1) the Federal Government deals with individual State or (2) the Federal Government and the States sit together in a round table and collectively determine the tax rate, deductions and exemptions on tax-by-tax-base on consensus base” (Solomon, 2006 cited in Ghebrehiwet,2014:230-231)

Generally, the literal application of the provisions under Art 98 is rather unclear and hence vulnerable, to administration difficulties and tax evasion problems. The main problem here is lack of clear assignment on concurrent power of taxation, (Solomon, 2006).

The FDRE Constitution provides the source of concurrent taxes under Article 98.

These sources are:

- Profit, sales, excise and personal income taxes on enterprises they jointly establish,
- Taxes on profits of companies and on dividends due to shareholders, and
- Taxes on incomes derived from large-scale mining and all petroleum and gas operations and royalties on such operations (Ibid).

3.1.1.3. The Oromia Regional State Tax Laws

The FDRE constitution is the bases for the regions tax laws. In accordance to the FDRE constitution regional states have a power to enact tax laws. Basically, sources of tax laws can be legislative, administrative and judicial, (Hoffman, 2006). Legislation embraces constitution in it.

So, the main tax source of the ONRS is the FDRE constitution. The Revised Oromia National Regional Constitution details the taxation powers of the region under art 47(2) (h-q). The lists are almost the derived from article 97 and 98 of the FDRE constitution.

Based on the RONRSC, there are a number of proclamations and regulations dealing with taxes in the region. The most prominent are: the Oromia Regional Government Income Tax Proclamation No 74/2003 as amended, Turnover tax proclamation no 76/2003 as mended, Oromia Regional Government Administration Stamp Duty proclamation No 77/2004 as amended, Oromia Regional State Mining Income Tax Proclamation No 92/2005, Rural Land Use Payment and Agriculture Income Tax of Oromia Regional State proclamation No 99/2005 as amended, Oromia Regional Government Income Tax Regulation no 37/2007, etc. These are some of the major tax laws in action through which the region has been levying and collecting revenues. These tax laws empower the ONRS to decide, collect and administer taxes in its tax jurisdiction from its assigned tax bases.

3.1.2. Revenue Administration in Oomia Regional Government

Before it has been organized at the authority level Oromia revenue authority used to collect tax and offer services to the public at the core process level being structured in the then Oromia Finance and economy bureau. The region in a holistic manner was mandated to collect revenue that the economy generates where power to do so has emanated from the constitution. The organ responsible for revenue administration in the region is the Oromia regional Government Revenue Authority, which has been reestablished with new format in 2012. Legally speaking, the authority is expected to establish modern revenue assessment, collection and administration systems. The new format was designed aiming to have good revenue administration which is well equipped organizational set up, then staffed with professionally competent, ethically proven employees. This is for the fact that from its nature, the Authority needs high discipline standard and ethical value to protect public treasury from corruption and embezzlement. Making its working procedures transparent and ensuring accountability in its structural set up a straightforward expectation. The authority is accountable to the president of the region.

Delivering equitable and efficient quality services, enforcing tax laws and preventing tax fraud and evasion are other objectives of the Authority. The ultimate goal of the authority is increasing the public revenue in the region. To achieve this, the authority has responsibility to undertake

study on tax law, enforcement mechanism and submit recommendations to the regional government. Studying revenue potentials to expand tax sources of the region is also another duty of the authority. Collecting and administering various service charges in urban administration is also the realm of the authority. By virtue of Art 2(1) of proclamation no 134/2008, the Authority organized its branches at cities/towns to levy, collect, control, and administer revenues generated there from. According to proclamation no 134/2008, studying and identifying the revenue potentials in municipalities as well as to expand their revenue sources is the duty of the Authority. Though the Authority restructured in new arrangement, its whole structural set up has been functioning under the name of Oromia Revenue Authority.

3.1.3. Status of Urban local Government in Oromia Regional State

As proclamation No. 65/2003 of the urban local government proclamation of Oromia regional state municipalities of the region has the following powers and responsibilities, having based upon the provision of Article 103 (1) of the constitution of Oromia National Regional State which stipulates that· adequate power for self-rule shall be given to lower bodies. The main objective is to streamline the operation and organization of urban local government on the bases of Good governance and democratic principles so as to enable them to create huge development capacity for the development of the Region and improvement of the living standard of residents; As sub article 8 of 2 "Municipal Service" includes water and sewerage service, road construction and maintenance, fire and emergency service, civil Status activities, Land development and management, city sanitation and beautification service, services for residents, and other services to be designated as such by the urban local government. Municipal administration has the authority issued from the Oromia Regional State (proc. No.65/2003 and 74/95) to levy, determine, and collect taxes, fees and service charges within the boundary of the city.

And also urban local governments in the region has an autonomy over budget allocation, social and economic issues based on article 8 of this proclamation, an urban local government shall have the following specific powers: To initiate, adopt and execute its vision, goals, values and operation systems, To initiate, adopt and execute: the Economic and social developmental plan and budget of the city, To introduce, adjust and collect taxes and service charges under its Jurisdiction in accordance with the law, To administer urban land and House under the

administration of the city government in accordance with law, To manage its human resource in accordance with the law.

3.1.4. Fiscal Responsibility of Sebeta ULG

Sebeta City administration is responsible for both state and municipal function. City administration is responsible for state functions under the direct supervision of the City mayor, while the Municipality manager is responsible for coordination of ‘Municipal Services’ and reports to the mayor and City council accordingly. As underlined in preambles of the respective legislations, the overriding objective of bringing urban governments close to the people is to enhance efficiency in the provision of municipal services and improving governance of cities/towns in the Region. However, the task of delivering efficient services and ensuring good governance in a specific town calls for existence of adequate institutional capacity at local level, which hardly exists in Sebeta today. Even though Sebeta City administration is responsible for both state and municipal function the thesis focus was on municipal function.

3.1.4.1. Municipal Revenue Administration in Sebeta City Administration

According to proclamation no.65/2003 article 46 cities in Oromia national regional state has a power to establish city court which was the most important mechanism to enforce municipal related cases.

According to this proclamation the city court shall have exclusive jurisdiction over the following cases: Implementation of urban planning laws; Housing and urban land use; City taxes, rentals, service charges and other payments; Environmental sanitation; Municipal services; and Traffic petty offence violations committed in the city. But Sebeta city was unable to establish city court. The organ responsible for revenue administration in the city is Sebeta Revenue Authority. Frequently, Sebeta city Revenue Authority has been organized to perform the same functions as Oromia National Regional State Revenue Authority. Legally speaking, the authority is expected to establish modern revenue assessment, collection and administration systems.

As clearly depicted in the proclamation, studying and identifying the revenue potentials in municipalities as well as to expand their revenue sources is the duty of the Authority. Providing equitable and efficient quality services, enforcing tax laws and preventing tax fraud and evasion are other objectives of the Authority. The ultimate goal of the authority is increasing both state

and municipal revenue in the city. To achieve this, the authority has responsibility to undertake study on new tax sources, valuation and assessment of taxable sources, planning and evaluating performance to improve collection rate.

As per the proclamation no 132/2007, Revenue office has also mandate to collect municipal revenue from its entire sources. Sebeta Municipality has a number of Revenue items (titles) which are categorized under five major financial sources of revenue such as tax based, Rent, user charge, service fees and other income etc.

According to article 37 of proclamation No. 65/2003 Revenue Sources of the Urban Local Government

1. The urban local government may introduce, adjust and collect taxes, rentals and service charges in line with Federal and-Regional policies and laws and use the revenue for the development of the city.
2. Revenue from urban land and property tax shall be the exclusive of the concerned urban local government
3. Urban local government may raise funds from own income generating schemes, Voluntary contributions and donations.
4. The urban local government shall receive funds from the regional government for works it carries out on behalf of the Regional Government.
5. With the prior approval of the Regional Government, urban local governments can borrow money from Federal and Regional Governments as well as from accredited financial institutions for capital expenditures in observing the limits of macroeconomic stability set by the Federal Government.
6. Urban local governments may borrow from a city fund or similar institution, Accordingly Sebeta city revenue generated from municipal revenue sources in the past eleven years indicated below show fluctuation.

Table1. Trends of Municipal Revenue in the year 1997-2007 EFY.

No	Year	Plan	Actual	%
1	1997EFY	7,774,802	6,198,911.57	79
2	1998 EFY	10,092,020	10,087,926.10	99
3	1999 EFY	25,206,977	25,460,434.85	101

4	2000 EFY	75,162,250	69,921,960.03	93
5	2001 EFY	117,657,611	93,438,447.57	79
6	2002 EFY	178,381,800	92,027,941.02	51
7	2003 EFY	75,063,765	50,237,366.45	66
8	2004 EFY	128,415,899	78,729,050	61
9	2005 EFY	99,000,000	79,691,584	80.49
10	2006 EFY	160,000,000	116,156,753.40	72.59
11	2007 EFY	165,318,793	181,426,162.30	109.7
	Total	1,042,073,917	803,376,537.29	77.09

Source: - Sebeta city Administration Revenue Authority Office, 2008EFY.

3.1.4.2. Municipal Expenditure Practice in Sebeta City Administration

Expenditure assignments in Sebeta urban local government is distinguished between the so called “State” and “Municipal” functions. Both types of expenditures are administered by the city administration, but the state functions are delegated from the region to the local authorities and therefore the City administration receive grants from Oromia Regional State to finance the state functions while municipal functions are funded by own local revenues/Municipal Revenue/. Unlike State Function, Sebeta City administration enjoys full retention of own-revenues from direct and indirect tax sources ostensibly to finance municipal functions. The legal framework for City administration assigns various municipal or own-source functions to this urban center such as management of urban land use, central markets and abattoirs, as well as waste removal and street lighting.

In providing infrastructure and services, urban local government expends their financial resources in the form of recurrent and capital expenditure. The recurrent expenditure (sometimes called the routine expenditure) is concerned with the regular operation of services like salaries of personnel, per diem, fuel, official entertainment, purchase of short life equipment and stock, and the costs of routine repair and maintenance. Capital expenditure is normally concerned with the creation of long term assets such as construction of roads, schools, health centers and other infrastructural facilities. Table 2 depicts the recurrent, capital and total expenditure of Sebeta municipality.

Table 2 - Municipal Expenditure In Terms Of Recurrent and Capital (2003-2007EFY)

Year	Recurrent Expenditure	Capital Expenditure	Total Expenditure	Percentage of recurrent expenditure	Percentage of capital expenditure
2003	28,798,614.68	22,661,087.68	51,459,702.36	56%	44%
2004	39,191,492.01	17,411,303.42	56,602,795.43	69%	31%
2005	36,460,096.56	29,150,715.73	65,610,812.29	56%	44%
2006	74,551,588	89,006,247.88	163,557,836.18	46%	54%
2007	60,908,811.71	103,446,147.41	164,354,959.12	37%	63%
Total	239,910,602.96	261,675,502.12	501,586,105.38	48%	52%

Source: Sebeta Office of Finance and Economic development, 2008EFY.

From the above table we observe that the trend of expenditure in the past shows that recurrent gets more emphasis than that of capital expenditure, even though there is improvement in the allocation of budget to capital expenditure in recent years. And also there is fluctuation between actual and planned expenditure over the years under study.

3.1.5. Description of the study area

Sebetea city administration is one of Oromia National regional Government grade one city found in the special zone of Oromia surrounding Addis Ababa. According to the Master plan of the city which was revised in 2006 EFY, Sebetea had about 9900 hectares of a reserved total area. It is the largest industrial zone in the special zone of Oromia surrounding Addis (City Socio-economic profile of 2006EFY).

A. Population

Many ethnic groups live together in Sebetea city. These include Oromo, Amahara, Tigre, Gurage, and Silte and others have found in the city. According to the population census of the town and Office of Finance and Economic Development, the total population of this town for the year 2007 EFY was 148,051 (77,680 males & 70,370 females), (City Socio-economic Profile of 2006EFY). While the CSA projection for the same year indicated on the report of the year

1999E.C the town population has forecasted about 63,391 which was only indicating the earlier two Keble's, Sebeta 01 and Alemgna 02.

B. Topology

Sebeta is one of the eight urban areas under reform of Oromia the special zone surrounding Addis Ababa situated at 24k.m. south west of Addis Ababa along Jimma road. Located within an approximated geographical coordinates of $8^{\circ}53'38.5''\text{N}$ - $8^{\circ}59'58.17''\text{N}$ latitude and $38^{\circ}35'11.91''\text{E}$ - $38^{\circ}39'33.75''\text{E}$ longitude. With regard to relative location, it shares common boundaries with Addis Ababa in the North, North-East and East, Burayu city in the North, rural villages of Sebeta Awas district to the South and West.

C. Administration

Sebeta city was emerged before the Italian invaded Ethiopia in 1935 and got municipal status in 1953(City Socio Economic Profile, 2006EFY). This establishment paved the way for late similar expansion in the area became base for Sebeta to emerge as a City. According to the revised master plan of 2006EFY the City Kebele's was increased in to eight Kebele's by expanding to the rural kebles of Sebeta Awas district, which is previously only two Kebele's and the City has served as the administration, cultural, social and political center of the district.

D. Economy

The main economic base and activities are trades and investment. Many of them are micro and small scales enterprises, private business, industry, Hotels; cereal marketing stores, flourmills, pastries, cloth making (weaving and sewing) and livestock products marketing are high contribution to city economic development.

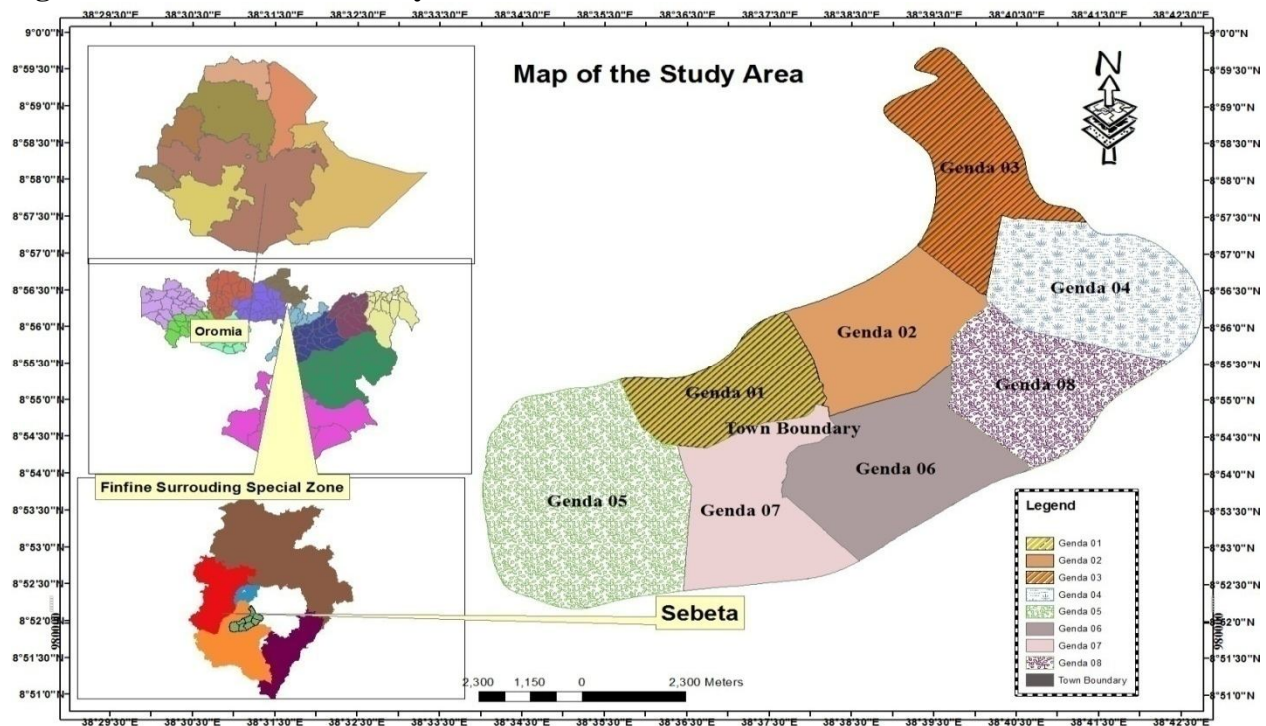
E. Trade

Many of the residents of the city are earning their livelihood by engaging in the trade. According to the data from Trade and Market Development Agency of the city shows that in the year 2007EFY Sebeta city administration surrounding had 3434 of total private traders. From these 13 are whole seller with total capital of 30,894,354 and 1282 retailers with registered capital of 617, 359 and 1866 are service giving with total capital of 72,439, 174 and while 36 are industries with a capital of 199,147,544 and 327 are others with capital 40,913,325 (Sebeta City Trade and Market Development Agency).

E. Investment

Because of its proximity to the national capital of Ethiopia Addis Ababa, Sebeta city has attracted many of investors that many investment projects are operating in the city. Various investors are registered on different investment category of projects. Manufacturing 356, agro industries 52, social service 82, commercial 87, Hotel and Tourism 47, real state 15 and flower farm 20, a total of 659 investment projects are registered in city investment office (Sebata City Investment Office. 2007 EFY).

Figure 1: Location of the study area



Source: Sebata Urban Land Development and Management Office, 2008EFy

Chapter Four

Data Presentation, Discussion and Analysis

4. Analysis of Municipal Revenue Performance

4.1.1. Municipal Revenue Sources and performance

The basic revenue sources of municipalities are defined in Oromia National Regional State proclamation no. 65/2003. The main source of Sebeta municipal revenue is categorized under **five** major financial sources of revenue such as: - (i) Tax Based, (ii) Rent, (iii) Service Charges, (iv) property and service sales and (v) Other capital receipts. Under these five major categories there are 1701 up to 1799 potential municipal revenue codes, but the actual performance shows that out of the total revenue sources, currently the city collecting revenue from only 25 municipal revenue codes. These five major categories which is currently collected by the municipality contains the following items, Tax based include property/building tax, assurance, entertainment tax and other taxes, Municipal revenue from rent includes urban land rent, residential house rent, business building rent, shed rent, market place rent, machine rent, investment land rent, lease payment and other rent, Municipal revenue from service charge includes professional trade and license, Bus station service, sanitation service, engineering service charges, Municipal revenue from sales of goods and services includes, Bid document and design preparation, car plate sales and rent, house maintenance and ownership transfer, plan service, funeral service, lorry service, outdoor advertisement fees, title deeds and registration fee, the last one is Other Income which includes public contribution, sales of movable and immovable property. Although the source of revenue is too many, most of them are less utilized as a revenue source, and the revenue items listed above is less contributing to the revenue of the City compared to their potentials.

For example, when we take Property/Building tax, revenue from urban land/ property tax shall be the exclusive of the concerned urban local government. Basically, property tax is considered as good local tax in the sense that particularly Land/Building on it cannot easily be moved out of the taxing jurisdiction. It is highly visible enough to ensure accountability and transparency. However, it has been observed that property taxation is one of the most lucrative yet still the least utilized source of tax revenue to support the urban government in study area.

The main aim of any property/building tax system is to raise enough revenue for provision of services by the local authority. These necessitate land to be taxed as a base resource to encourage a more effective management and use of the scarce resources to generate maximum revenues. Property taxes are usually compulsory charges/levies that relate specifically to the ownership, occupation, or improvement of land or of land and building. The practice of property tax in Sebeta municipality is at its infancy stage because, the City does not working on it. Despite great potential for increasing revenue through property taxation, it wasn't actually implemented, which doesn't play significant role in provision of infrastructure in the city. Property tax is the single most important local source of municipal revenues. However, its income potential has not been fully exploited by urban local government units.

The other potential revenue source of the City is house rent and business building rent this source also has a potential to provide ample amount of revenue to the city, but its actual collection is also shows very low performance. The other potential revenue source of the City is outdoor advertisement (To erect emblems and sign boards), but the City only collecting from PLC owners which come to the municipality for trade license renewal and the majority of this source was not considered. The gap between planned and actual collection clearly indicates that the municipality was not efficient in its revenue collection performance. Besides, poor assessment of some revenue sources has proved that the municipality is not effective in revenue collection. Though the municipality prepares its annual plan every year, it however does not meet its plan at the end of the year. One reason for this is that revenue targets are usually set as a fixed percentage of previous year's collections rather than setting targets based on the total potentially collectible taxes.

As in the case of assignment of functions, these are generally appropriate sources of revenue for municipalities, and Sebeta municipalities have received permission to levy various other types of local fees as well, such as vehicle loading or unloading fees. Again, revenue generation at the municipal level is limited and plagued by several problems. The sub-sections below examine the key factors that determine the revenue generation potential of Sebeta municipality that is, the tax base, the tax rates, collection efficiency, enforcement, and the capacity of staff working on revenue administration. The discussion shows that there is considerable room for improvement in each of these areas.

4.1.2. Revenue Sources and Collection Analysis of Sebeta Municipality

Although the source of revenue is too broad, most of them are less utilized as a revenue source, and the revenue items listed below is less contributing to the revenue of the City compared to their potentials. According to the data obtained from the field work, it clearly shows that the municipality did not attempt to exhaust its revenue sources when it prepares its annual revenue collection plan. As the data obtained shows, the revenue sources of the municipality, urban land rent, land lease, assurance and other payments accounted for the greatest amount of the total revenue. In other words, as compared to other revenue sources, the performance of the above mentioned revenue sources had a greater contribution towards revenue generation in the last five years (2003 to 2007). Table's listed below indicates the sources of revenue, trends and their respective contribution to total revenue in the last five consecutive years.

Table 3: Sources of Revenue and their trends for the year 2003EFY

Acc. no.	2003				
	Sources of Revenue	Planned revenues	Actual revenue	Act. Vs Plan (%)	% to total An. revenue
1702	Assurance	5,515,173.10	3,547,168.05	64%	7%
1721	Urban land rent	5,166,319.89	9,614,184.39	186%	19%
1722	Residential houses rent	1,218,102.01	2,382,959.07	196%	5%
1723	Business building rent	313,972.81	554,547.70	177%	1%
1724	Market veranda rent	103,247.97	120,100.96	116%	0%
1725	Market place rent	38,236.67	89,717.24	235%	0%
1726	Stable livestock market place rent	546,531.14	893,669.24	164%	2%
1728	Rent from machinery	180,216.76	103,095.00	57%	0%
1729	Other rent	97,890.92	18,841.33	19%	0%
1730	Investment land Lease Revenue	25,256,199.33	9,428,825.98	37%	19%
1731	Residential Land lease revenue	21,113,606.98	8,718,941.24	41%	17%
1741	Business and professional services registration and licensing fee	822,271.51	482,062.11	59%	1%
1742	Building and Fence Construction Permit License	2,203,342.16	1,414,108.21	64%	3%
1744	Permission for driving on prohibited roads	75.24	-		

Acc. no.	2003				
	Sources of Revenue	Planned revenues	Actual revenue	Act. Vs Plan (%)	% to total An. revenue
1745	Traffic fines for violation of traffic rules and regulations	10,758.55	1,682.92	16%	0%
1746	Fines for violation of rules and regulations	521,909.07	1,044,288.14	200%	2%
1747	Bus terminal services	1,255,182.69	36,747.39	3%	0%
1748	Environmental protection fee	-			0%
1749	Other charges	1,244,369.00	1,217,824.80	98%	2%
1751	Sanitation services	1,622,536.42	362,655.00	22%	1%
1752	Technical services fee	514,337.18	806,447.38	157%	2%
1753	Supervision of building and construction works	5,720.01	-	-	-
1754	Design and tender document preparation	603,518.41	53,528.00	9%	0%
1757	Water service	6,226.02	689,430.75	11073%	1%
1768	Car plate sales and rent		50.00		0%
1772	Transfer of title deed fee	305.42		0%	0%
1773	Registration fee for land acquisition	-			0%
1774	Renewal of land, building title deed, plan & maintenance of houses	2,940,280.87	3,986,009.63	136%	8%
1775	Debt suspension, cancellation of registration, foreclosure service	241,305.96	449,361.50	186%	1%
1776	Abattoir service	555,279.64	887,486.09	160%	2%
1777	Funeral service	-			0%
1779	Loading and unloading charges	14,701.40	82,379.28	560%	0%
1782	Emblems and sign board and any advertising service fee	177,805.45	26,666.00	15%	0%
1789	Other sales of property and services	1,039,732.49	3,076,937.63	296%	6%
1792	Community contribution & other capital receipts	1,734,609.93	147,651.42	9%	0%
Total		75,063,765.00	50,237,366.45	67%	100%

Source: Sebeta Municipality Revenue Authority, 2008EFY

Table 4: Sources of Revenue and their trends for the year 2004EFY

Acc. no.	2004				
	Sources of Revenue	Planned revenues	Actual revenues	Act. Vs Plan (%)	% to total An. revenue
1702	Assurance	9,435,123.75	776,157.29	8%	1%
1721	Urban land rent	8,838,320.50	6,968,560.02	79%	9%
1722	Residential houses rent	2,083,877.15	1,832,698.03	88%	2%
1723	Business building rent	537,131.34	399,073.53	74%	1%
1724	Market veranda rent	176,632.23	135,111.86	76%	0%
1725	Market place rent	65,413.68	60,001.80	92%	0%
1726	Stable livestock market place rent	934,982.25	836,396.21	89%	1%
1728	Rent from machinery	308,307.18	243,069.67	79%	0%
1729	Other rent	167,467.63	14,796.55	9%	0%
1730	Investment land Lease Revenue	43,207,232.44	17,854,708.61	41%	23%
1731	Residential Land lease revenue	36,120,261.51	31,427,052.45	87%	40%
1741	Business and professional services registration and licensing fee	1,406,707.16	351,298.50	25%	0%
1742	Building and Fence Construction Permit License	3,769,384.13	2,305,883.36	61%	3%
1744	Permission for driving on prohibited roads	128.72	-		
1745	Traffic fines for violation of traffic rules and regulations	18,405.28	-		
1746	Fines for violation of rules and regulations	892,859.86	653,479.47	73%	1%
1747	Bus terminal services	2,147,313.20	3,037,191.00	141%	4%
1748	Environmental protection fee	-	-		
1749	Other charges	2,128,813.59	456,527.73	21%	1%
1751	Sanitation services	2,775,766.35	779,944.52	28%	1%
1752	Technical services fee	879,906.19	454,418.68	52%	1%
1753	Supervision of building and construction works	9,785.55	-		
1754	Design and tender document preparation	1,032,473.64	18,955.00	2%	0%

Acc. no.	2004				
	Sources of Revenue	Planned revenues	Actual revenues	Act. Vs Plan (%)	% to An.total revenue
1757	Water service	10,651.22	492,521.24	4624%	1%
1768	Car plate sales and rent /		100.00		0%
1772	Transfer of title deed fee	522.50		0%	0%
1773	Registration fee for land acquisition	-			0%
1774	Renewal of land, building title deed, plan & maintenance of houses	5,030,107.54	2,957,000.63	59%	4%
1775	Debt suspension, cancellation of registration, foreclosure service	412,815.98	35,033.40	8%	0%
1776	Abattoir service	949,948.80	885,718.17	93%	1%
1777	Funeral service	-			0%
1779	Loading and unloading charges	25,150.54	16,717.80	66%	0%
1782	Emblems and sign board and any advertising service fee	304,182.01	36,246.40	12%	0%
1789	Other sales of property and services	1,778,730.15	5,478,883.89	308%	7%
1792	Community contribution & other capital receipts	2,967,496.94	221,504.25	7%	0%
Total		128,415,899.00	78,729,050.06	61%	100%

Source: Sebeta City Revenue Authority, 2008EFY.

Table 5: Sources of Revenue and their trends for the year 2005EFY

Acc. no.	2005				
	Sources of Revenue	Planned revenues	Actual revenues	Act. Vs Plan (%)	% to An. total revenue
1702	Assurance	2,300,116	2,058,726	89.51%	2.58%
1721	Urban land rent	8,690,725	7,726,052	88.90%	9.67%
1722	Residential houses rent	2,316,270	1,436,512	62.02%	1.80%
1723	Business building rent	586,914	541,170	92.21%	0.68%
1724	Market veranda rent	178,943	175,704	98.19%	0.22%
1725	Market place rent	82,170	104,567	127.26%	0.13%
1726	Stable livestock market place rent	938,774	987,789	105.22%	1.24%
1728	Rent from machinery	286,174	75,894	26.52%	0.10%
1729	Other rent	19,981	6,255	31.30%	0.01%
1730	Investment land Lease Revenue	46,774,542	37,727,453	80.66%	47.24%
1731	Residential Land lease revenue	11,986,170	8,211,047	68.50%	10.28%
1741	Business and professional services registration and licensing fee	562,112	211,378	37.60%	0.26%
1742	Building and Fence Construction Permit License	3,164,512	1,957,393	61.85%	2.45%
1744	Permission for driving on prohibited roads		7,660		0.10%
1745	Traffic fines for violation of traffic rules and regulations		2,716		0.00%
1746	Fines for violation of rules and regulations	972,437	803,037	82.58%	1.01%
1747	Bus terminal services	4,822,992	6,918	0.14%	0.01%
1748	Environmental protection fee				0.00%
1749	Other charges	796,673	4,547,627	594.68%	5.93%
1751	Sanitation services	1,007,800	2,303,952	228.61%	2.88%
1752	Technical services fee	639,393	339,122	53.04%	0.42%
1753	Supervision of building and construction works				
2005					

Acc. no.	Sources of Revenue	Planned revenues	Actual revenues	Act. Vs Plan (%)	% to An. total revenue
1754	Design and tender document preparation	22,632	123,350	545.02%	0.15%
1757	Water service				0.00%
1768	Car plate sales and rent /				
1772	Transfer of title deed fee				0.00%
1773	Registration fee for land acquisition				
1774	Renewal of land, building title deed, plan & maintenance of houses	4,263,613	3,732,057	87.53%	4.67%
1775	Debt suspension, cancellation of registration, foreclosure service	39,940	65,169	163.17%	0.08%
1776	Abattoir service	1,265,196	803,971	63.55%	1.01%
1777	Funeral service				0.00%
1779	Loading and unloading charges	34,330	19,753	57.54%	0.02%
1782	Emblems and sign board and any advertising service fee	66,191	82,107	124.05%	0.10%
1789	Other sales of property and services	521,243	3,758,987	721.16%	4.71%
1792	Community contribution & other capital receipts	6,660,157	1,795,029	26.95%	2.25%
Total		99,000,000	79,611,406	81%	100%

Source: Sebeta City Revenue Authority, 2008EFY.

Table 6: Sources of Revenue and their trends for the year 2006EFY

Acc. no.	2006				
	Sources of Revenue	Planned revenues	Actual revenues	Act. Vs Plan (%)	% to annual total revenue
1702	Assurance	34,678,249	14,431,197	41.61%	12.43%
1721	Urban land rent	12,765,332	8,021,197	62.84%	6.91%
1722	Residential houses rent	2,422,247	1,727,401	71.31%	1.49%
1723	Business building rent	858,139	470,881	54.87%	0.41%
1724	Market veranda rent	304,856	162,128	53.18%	0.14%
1725	Market place rent	159,011	46,436	29.20%	0.04%
1726	Stable livestock market place rent	1,684,317	972,436	57.73%	0.84%
1728	Rent from machinery	1,516,990	188,420	12.42%	0.16%
1729	Other rent		592,682		0.51%
1730	Investment land Lease Revenue	43,338,660	41,979,999	96.87%	36.17%
1731	Residential Land lease revenue	13,530,702	22,521,256	166.45%	19.40%
1741	Business and professional services registration and licensing fee	398,259	1,821,023	457.25%	1.57%
1742	Building and Fence Construction Permit License	3,687,930	3,931,046	106.59%	3.39%
1744	Permission for driving on prohibited roads		200		0.00%
1745	Traffic fines for violation of traffic rules and regulations	19,550	28,616	146.37%	0.02%
1746	Fines for violation of rules and regulations	1,607,210	810,893	50.45%	0.70%
1747	Bus terminal services	13,034	218,242	1674%	0.19%
1748	Environmental protection fee				0.00%
1749	Other charges	7,600,664	2,784,000	36.63%	2.40%
1751	Sanitation services	4,340,883	2,810,808	64.75%	2.42%
1752	Technical services fee	638,941	1,005,733	157.4%	0.87%
1753	Supervision of building and construction works				0.00%
Acc.	2006				

no.	Sources of Revenue	Planned revenues	Actual revenues	Act. Vs Plan (%)	% to annual total revenue
1754	Design and tender document preparation	232,404	1,660,072	714.3%	1.43%
1757	Water service		16,550		0.01%
1768	Car plate sales and rent /				
1772	Transfer of title deed fee		950		0.00%
1773	Registration fee for land acquisition	10,000,000		0.00%	0.00%
1774	Renewal of land, building title deed, plan & maintenance of houses	7,033,464	4,951,412	70.4%	4.27%
1775	Debt suspension, cancellation of registration, foreclosure service	122,785	945,360	769.9%	0.81%
1776	Abattoir service	1,431,213	784,825	54.8%	0.64%
1777	Funeral service				0.00%
1779	Loading and unloading charges	34,543	18,727	54.21%	0.02%
1782	Emblems and sign board and any advertising service fee	154,398	285,336	184.8%	0.25%
1789	Other sales of property and services	5,546,716	2,811,381	49.17%	2.35%
1792	Community contribution & other capital receipts	5,879,503	157,546	2.68%	0.14%
Total		160,000,000	116,156,753	73%	100%

Source: Sebeta City Revenue Authority, 2008EFY.

Table 7: Sources of Revenue and their trends for the year 2007EFY

Acc. no.	2007				
	Sources of Revenue	Planned revenues	Actual revenues	Act. Vs Plan (%)	% to annual total revenue
1702	Assurance	17,687,630.78	19,172,778.94	108%	11%
1721	Urban land rent	11,334,201.28	10,503,006.10	93%	6%
1722	Residential houses rent	2,395,430.87	1,715,419.99	72%	1%
1723	Business building rent	607,846.35	645,496.60	106%	0%
1724	Market veranda rent	215,841.09	573,855.31	266%	0%
1725	Market place rent	67,440.59	110,501.12	164%	0%
1726	Stable livestock market place rent	1,038,596.19	903,295.15	87%	0%
1728	Rent from machinery	518,154.64	364,624.00	70%	0%
1729	Other rent	1,028.25	142,106.25	13820%	0%
1730	Investment land Lease Revenue				0%
1731	Residential Land lease revenue	96,214,972.72	66,346,776.70	69%	37%
1741	Business and professional services registration and licensing fee	2,612,636.65	8,225,851.64	315%	5%
1742	Building and Fence Construction Permit License	5,211,677.22	3,742,082.38	72%	2%
1744	Permission for driving on prohibited roads	290.47		0%	0%
1745	Traffic fines for violation of traffic rules and regulations	41,515.94	10,320.41	25%	0%
1746	Fines for violation of rules and regulations	986,614.57	1,419,898.53	144%	1%
1747	Bus terminal services	13,813.08	55,063.00	399%	0%
1748	Environmental protection fee		1,500.00		0%
1749	Other charges	4,014,812.39	37,889,450.72	944%	21%
1751	Sanitation services	6,133,158.00	4,523,337.13	74%	2%
1752	Technical services fee	1,291,414.89	1,852,665.79	143%	1%
1753	Supervision of building and construction works				0%
Acc.		2007			

no.	Sources of Revenue	Planned revenues	Actual revenues	Act. Vs Plan (%)	% to annual total revenue
1754	Design and tender document preparation	2,272,270.32	680,960.91	30%	0%
1757	Water service	24,036.02			0%
1772	Car plate sales and rent /	1,036.36	2,745.00		0%
1768	Transfer of title deed fee				
1773	Registration fee for land acquisition				0%
1774	Renewal of land, building title deed, plan & maintenance of houses	7,191,070.50	7,605,202.57	106%	4%
1775	Debt suspension, cancellation of registration, foreclosure service	550,859.51	986,485.55	179%	1%
1776	Abattoir service	745,158.55	291,416.96	35%	0%
1777	Funeral service			0%	0%
1779	Loading and unloading charges	20,457.41	33,171.35	162%	0%
1782	Emblems and sign board and any advertising service fee	769,431.74	270,603.43	35%	0%
1789	Other sales of property and services	3,181,087.28	6,527,619.12	205%	4%
1792	Community contribution & other capital receipts	176,309.34	6,829,927.65	3874%	4%
Total		165,318,793	181,426,162	110%	100%

Source: Sebeta City Revenue Authority, 2008EFY.

Table.8: Sources of Revenue and their Contribution to Total Revenue from 2003-2007EFY

Acc. no.	Sources of Revenue	Planned Revenue	Actual revenue	Actual vs Plan	Cont. to Total rev.
1702	Assurance	69,616,292.63	39,986,027.96	57%	8%
1721	Urban land rent	46,794,898.67	42,833,000.01	92%	9%
1722	Residential houses rent	10,435,927.03	9,094,991.05	87%	2%
1723	Business building rent	2,904,003.50	2,611,169.33	90%	1%
1724	Market veranda rent	979,520.29	1,166,900.83	119%	0%
1725	Market place rent	412,271.94	411,223.16	100%	0%
1726	Stable livestock market place rent	5,143,200.58	4,593,586.20	89%	1%
1728	Rent from machinery	2,809,842.58	975,103.33	35%	0%
1729	Other rent	286,367.80	774,681.92	271%	0%
1730	Investment land Lease Revenue	158,563,513.03	106,990,987.22	67%	21%
1731	Residential Land lease revenue	178,965,713.22	137,225,074.26	77%	27%
1741	Business and professional services registration and licensing fee	5,801,986.32	11,091,613.94	191%	2%
1742	Building and Fence Construction Permit License	18,036,845.51	13,350,513.01	74%	3%
1744	Permission for driving on prohibited roads	365.71	7,860.00	2149%	0%
1745	Traffic fines for violation of traffic rules and regulations	90,229.77	43,335.50	48%	0%
1746	Fines for violation of rules and regulations	4,981,030.50	4,731,596.52	95%	1%
1747	Bus terminal services	8,252,334.97	3,354,161.39	41%	1%
1748	Environmental protection fee	-	1,500.00	0%	0%
1749	Other charges	15,785,331.98	46,895,430.40	297%	9%
1751	Sanitation services	15,880,143.77	10,780,696.80	68%	2%
1752	Technical services fee	3,963,992.26	4,458,386.93	112%	1%
1753	Supervision of building and construction works	38,137.56	123,350.00	323%	0%

Acc. no.	Sources of Revenue	Planned Revenue	Actual revenue	Actual vs Plan	Cont. to Total rev.
1754	Design and tender document preparation	4,140,666.37	2,413,515.91	58%	0%
1757	Water service	40,913.26	1,198,501.99	2929%	0%
1968	Car plate sales and rent /		150.00	0%	0%
1772	Transfer of title deed fee	1,864.28	3,695.00	198%	0%
1773	Registration fee for land acquisition	10,000,000.00	-	0%	0%
1774	Renewal of land, building title deed, plan & maintenance of houses	26,458,535.91	23,231,682.42	88%	5%
1775	Debt suspension, cancellation of registration, foreclosure service	1,367,706.44	2,481,409.62	181%	0%
1776	Abattoir service	4,946,795.99	3,653,417.22	74%	1%
1777	Funeral service	-	-	0%	0%
1779	Loading and unloading charges	129,182.35	170,749.30	132%	0%
1782	Emblems and sign board and any advertising service fee	1,472,008.19	700,959.35	48%	0%
1789	Other sales of property and services	12,103,076.06	21,653,809.32	179%	4%
1792	Community contribution & other capital receipts	17,418,076.21	9,151,658.32	53%	2%
	Total	627,820,774.69	506,160,738.21	81%	100%

Source: *Sebeta City Revenue Authority, 2008EFY*

As depicted in table 8, the land rent tax, Investment land lease, Residential land lease, Assurance and other payments accounted 9%, 21%, 27%, 8% and 9% of the total revenue sources respectively. These five revenue sources contribute more than 74% to the total revenue collected by the municipality. Other revenue sources contribute insignificant amount to the total revenue. This shows that the revenue from each source is not properly planned and collected. To put it more clearly, due to inefficient assessment and coverage, revenue sources such as property tax/building tax, vehicle related fees, transfer of title deed fee, business building tax, soil dumping space license, market place rent, abattoir service fee, penalties, municipal service fee and fees from registration on public records, and fees from erecting emblems and sign boards have not been properly considered.

4.1.3. Sources of Revenue that are not Captured under the Existing System:

Table 9: Municipal Revenue Titles contributing less than 1% to the total Five years revenue (2003-2007EFY)

Ac. no.	Revenue Sources	actual Collected 2003-2007EFY	Contribution to Total Rev.
1701	Property/Building tax	-	0.00%
1703	Entertainment Tax	-	0.00%
1719	Other taxes	-	0.00%
1727	Funeral service vehicle rent	-	0.00%
1732	Support from NGOs	-	0.00%
1733	Support from Private individuals	-	0.00%
1734	Public contribution	-	0.00%
1743	Soil dumping space license	-	0.00%
1755	Contract registration and confirmation	-	0.00%
1756	Road services fee	-	0.00%
1758	Sewer service	-	0.00%
1759	Fire brigade and emergency services	-	0.00%
1761	Vital statistics service	-	0.00%
1762	Driving licenses fee	-	0.00%
1763	Garage services	-	0.00%
1764	Annual vehicle inspection agencies fee	-	0.00%
1765	Driving instructor and vehicle title deed	-	0.00%
1766	Valuation of vehicle	-	0.00%
1767	Registration of driving instructors and others registration	-	0.00%
1769	Vehicle parking fees	-	0.00%

1771	Permission for change of type of vehicle services	-	0.00%
1773	Registration fee for land acquisition	-	0.00%
Ac. no.	Revenue Sources	actual Collected 2003-2007EFY	Contribution to Total Rev.
1777	Funeral service	-	0.00%
1778	Loading and unloading charges	-	0.00%
1781	Provision of park services	-	0.00%
1791	Sales of movable and immovable property	-	0.00%
1799	Others	-	0.00%
1968	Vehicle plate sales and rent	150	0.00%
1748	Environmental protection fee	1,500.00	0.00%
1772	Transfer of title deed fee	3,695.00	0.00%
1745	Traffic fines for violation of traffic rules and regulations	43,335.33	0.01%
1744	Permission for driving on prohibited roads	7,860.00	0.02%
1753	Supervision of building and construction works	123,350.00	0.02%
1779	Loading and unloading charges	170,748.43	0.03%
1725	Market place rent	411,223.16	0.08%
1782	Emblems and sign board and any advertising service fee	700,958.83	0.14%
1729	Other rent	774,681.13	0.15%
1728	Rent from machinery	975,102.67	0.19%
1724	Market veranda rent	1,166,900.13	0.23%
1757	Water service	1,198,501.99	0.24%
1754	Design and tender document preparation	2,413,515.91	0.48%
1775	Debt suspension, cancellation of registration, foreclosure service	2,481,409.45	0.49%
1723	Business building rent	2,611,168.83	0.52%
1747	Bus terminal services	3,354,161.39	0.66%
1776	Abattoir service	3,653,416.22	0.72%
1752	Technical services fee	4,458,386.85	0.88%
1726	Stable livestock market place rent	4,593,585.60	0.91%
1746	Fines for violation of rules and regulations	4,731,596.14	0.93%
	Total	33,875,247.06	6.69%

Source: Source: Sebeta City Revenue Authority, 2008EFY.

The above table 9 depicts the fact that the city was not able to generate significant revenue from more than 48 revenue sources. And also unable to generate any revenue from more than 28

revenue sources, even they did not plan on these revenue sources when they prepared annual revenue plan.

The major reason for low performance is that the city was not able to fully provide the corresponding services of the revenue titles. According to the interview made with Sebeta Municipality head Ato Tola Gelashe and Sebeta revenue Authority process owner Ato Kuma Shuma the main bottleneck was lack of awareness on how to plan and collect these revenue sources. Even they did not have well information on these revenue sources from what type of services, fees and taxes are collected and on their valuation technique. And also they haven't valuation expert. The other major problem is lack of enforcement, both offices respond on enforcement mechanism exist on municipal revenue. According to their response it is difficult to enforce municipal revenue due to lack of clear laws, rules and regulation in relation to municipal revenue comparatively with state revenue. According to proclamation no.65/2003 article 46 cities of Oromia regional national state has a power to establish city court which was the most important mechanism to enforce municipal related cases but Sebeta city was unable to establish city court.

Although citizens are required to have building and fence construction permit license, most constructions are undertaken without license. The same is true for soil, sand, stone etc dumping license along roads. No business owners' sign board and advertisement are registered before fixing it on the land. Generally the main problem identified during field study and from respondent was weak organizational capacity both having well organized record keeping (information about tax payers) and enforcement mechanism are the main bottleneck.

Each of the above revenue item individually has contributed less than 1% to the total municipal revenue collected or no revenue have been collected within five years of 2003-2007 EFY. All together comprises 6.69% of the five year total revenue collected. Such types of municipal revenue need special consideration by the city administration.

A. Vehicle Related Municipal Revenues

Though the following municipal revenue codes are coded under municipal revenues as per the chart of accounts issued by MOFED, the services are being provided by state functions and the corresponding revenues are treated as internal revenue sources by the transport office.

But bus station, parking and Office construction and maintenance expenditure was allocated from municipal budget for long period of time in the city. So, the city should get services fund

from this revenue sources. The city administration needs to have discussion with the concerned office of transport to reach agreement with these revenue sources.

Table 10:- Municipal Revenue sources with a Contribution of 1%-5% to the five year total revenue

Account Code	Description	Total of three Year (2003-2007 EFY)	Contribution to total rev.
1722	House rent	9,094,990.09	2%
1792	Public contribution	9,151,658.32	2%
1751	Sanitation service	10,780,696.65	2%
1741	Fence and House Building construction license	11,091,613.25	2%
1742	Restricted Area Parking license	13,350,512.95	3%
1789	Other Asset and service sales	21,653,809.04	4%
1774	House maintenance & Ownership Transfer, plan Service	23,231,681.83	5%
Total		98,354,962.13	19%

Source: Sebeta City Revenue Authority, 2008EFY.

The above revenue items have contribution of **19%** to the total five year municipal revenue and the city need to confirm that potentially available revenue is collected exhaustively from such revenue items that have relatively good potential. During discussion with revenue collection and investigation process owner of Sebeta revenue authority it is understood that the main problem in collecting the above revenue item are lack of information about tax payers and lack of skilled man power. The city is recording revenue collected from Abattoir service in a wrong account title funeral service in the IBEX. Such coding errors need to be corrected.

Table 11:- Source of Municipal Revenue with a Contribution of greater than 5% to the five years total revenue (2003-2007 EFY)

Account Code	Description	2003-2007	Contribution to the total revenue
1702	Assurance	39,986,027.28	9%
1721	Urban Land Rent Revenue	42,832,999.51	8%
1749	other payment	46,895,430.17	9%
1730	Investment land Lease	106,990,986.59	21%
1731	Residential Land Lease Rev.	137,225,073.39	27%
	Total	373,930,517.17	74%

Source: Source: Sebeta City Revenue Authority, 2008EFY.

The above table depicts the contribution of such five revenue items to the total municipal revenue in the period between 2003 –2007 EFY was about 74% indicating that municipal revenue is dependent on very small number of revenue items (tax base). Out of these, residential land lease and Investment land lease are contributing more than 48 %. However, still the city needs to work more to enhance revenue from such sources.

B. Land Related Revenue

In the above tables, it is shown that urban land rent (1721) and land lease (1730 & 1731) has contributed 8% and 48 % respectively to the total five years municipal revenue. This contribution is very high as the city’s lion share of revenue has been collected from land. However, the city derived all such amount of revenue from newly supplied land. Availability of existing land holders data is limited. Both revenue items need improvement in the urban land data (cadastre) and files management system, their valuation also needs professional and well organized record keeping. Without changing the rate of rent, inner city land grade has to be changed or revised as more infrastructures are invested in many places within the city can contribute more to increase in the land value.

Tariff rates for land rent varies depending on the grade of the area, the grade of an area itself is differentiated based on infrastructural developments. This means that the cost of infrastructure invested is reflected by the grade of the area. The higher the cost and type of infrastructure, the higher grade will have the area. The benefit derived from the increase in value of the land should be captured by the city administration through land value capturing mechanism like tariff rating. The rate of the tariff should change regularly in line with the increase in the value of the land. Despite the increase in the value of the land, the city is not changing the tariff rate or the land grade.

The revenue item does not have strong enforcement mechanism and well organized data system for which arrears are increasing from time to time. For example tax arrears or uncollected revenue from Investment land lease was about **93,361,819.43** birr up to 2008 EFY, the detail of this attached as annex on the back of this paper.

C. Property/Building Tax -1701

From the above table 11, it is shown that municipal revenue items coded under 1701-1719 are for municipal tax revenues that are related with property taxes, basically building tax. In the past times, cities charge building tax under the revenue item of floor and roof tax as a certain percentage of the value of a building. However, as any other city in the region, Sebeta couldn't utilize these revenue sources. The tax, in its current forms, is inefficient, out dated and incapable of producing substantial revenues. In addition, it is inequitable being neither uniformly applied nor based on market values that vary widely by location within the city. The problem of property valuation and also related with lack of trained manpower are other major bottlenecks.

The tax is levied based on the rental/market value of buildings located within the administrative boundary of a city. The rental/market value of buildings also depends on the services provided by the municipality. Urban buildings that are near to the infrastructure facilities have high value than those of far from the services.

There are four key components in property tax administration: (i) Identification of all properties, (ii) Keeping the records so that the tax roll can be continuously updated, (iii) Valuation and revaluation, and (iv) Collections, enforcement and appeal. Valuation of building listed as one of the majore challenges of the city administration for long period. Poor administration of the

property tax is usually considered as the main reason why revenues are so low in developing and transition countries. In the case of Sebeta City administration, a tax titled Business and professional services registration and licensing fee is being collected.

In relation with this business and professionals license fee, the city is collecting the so called “municipal service tax” that has no tax base nor revenue account code and title. It is being recorded as other charges coded 1749, which is one of the codes provided for revenue generated by charges.

D. 1702 Assurance

Municipal tax revenue includes Assurance and entertainment tax. Assurance is a tax levied on provision of confirmation of ownership of buildings. Assurance is usually provided to lenders or banks for confirmation of ownership of a building held as collateral for bank loans. The city of Sebeta is charging banks only when they request debt suspension. However, a letter of confirmation of suspension provided by the municipality includes assurance of ownership and even registration of the loan agreement that is based on the collateral (building) suspended until loan settlement.

E. 1703 Entertainment tax

Entertainment tax is a tax levied on cinema, theatre, nightclubs and similar businesses. The tax is added on the entrance tickets that the business owner shall declare to the municipality together with copies of the tickets. No revenue is so far collected since the city was not able to impose the tax. According to Sebeta Revenue authority this revenue sources was not collected in Sebeta due to limited information on these revenue source.

F. Residential Houses Rent

Residential houses rent coded 1722 also contributed very low to the total **five** year municipal revenue collected. The rental houses revenue in this study regards the revenue from the rental houses built by the municipality for various services (residential, commercial). As existing trend of the municipality, unlike the other sources of municipal revenue, the rental value of the houses is set by the revenue authority, based on the size and type of services for which the house is built. The houses have been rented through contracting with the renters on a monthly basis. However,

their rental value is very low compared with current market prices. The total contribution from both revenue titles to the total municipal revenue collected during similar period need to be improved. According to the respondent the main problem here is lack of market information and skilled man power on valuation of these properties.

G. Service charges

Service charges/user charges are sources of municipal revenue that can be assessed according to the principles of the benefit received by users that are, the beneficiaries who are charged for the services they received. As per the regulation, the services charges of municipalities include abattoir, marriage, contract and birth certificate registration fee, sanitation service charges, Debt suspension, cancellation of registration, foreclosure service, Transfer of title deed fee, Building and Fence Construction Permit License, etc are potential revenue sources but their collection performance is very low.

Abattoir service includes slaughtering and meat transporting services. The slaughtering service includes the cattle, sheep and goat slaughtering. But the abattoir is not well developed to provide slaughter service as needed as by the service demanders including sheep and goats slaughter services. The capacity of the abattoir is very low either due to out-dated machineries and equipment, lack of skilled manpower and also weak illegal slaughter control system. Because of this the city is losing very large amount of revenue. From the above [table 12](#), the contribution of abattoir to the total revenue seems very low.

Together with the above mentioned service charge items, the city of Sebeta need to readjust the revenue plan and tax payer information, strengthening enforcement mechanism, capacity building and communicate with the service rendering departments/sections.

H. Urban land Rent 1721

Urban land rent revenue was collected from land occupiers on a land held before lease proclamation. This revenue source require well organized land information system which shows the exact amount of land owned before lease proclamation, the owner of the land, area of the land, level of the land location, and etc data's are crucial for the enforcement of this revenue sources which is inexistence in Sebata city.

I. Business building Rent 1723

Business building rent revenue was collected from municipally owned houses let out for commercial purpose, including cost saving houses (kuteba bet), kebele houses, and government owned houses. Sebeta Revenue Authority has no full information regarding such properties including their condition and value. Therefore, the city is not able to generate enough revenue from this source.

J. Emblems and Sign Board and any advertising service fee

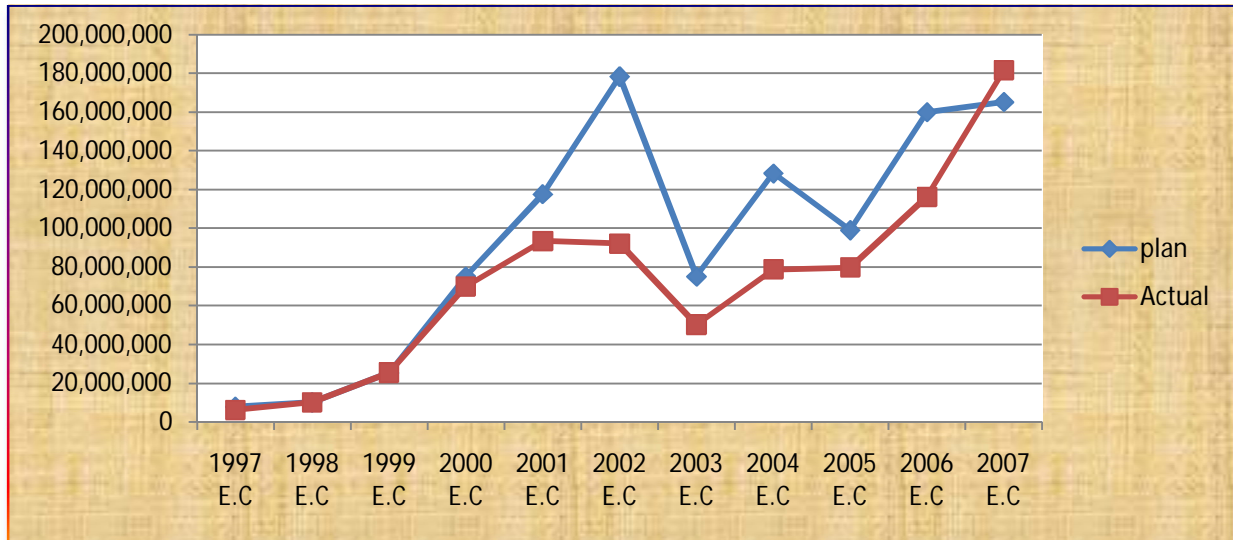
A fee collected from owners of emblems, sign boards and advertising services fixed either on the land or at the top of buildings. Announcements using high volume loud speakers must be licensed and charged a fee and hence can be recorded under this code. But, it is observed that, during interview with Sebeta Revenue Authority the practice in Sebeta city shows that they are only collecting from PLC owners when they came to municipality for renewal of their license. Any individual business is installing sign board and advertisements freely in any space within a city. No registration, licensing and enforcement mechanism.

4.1.4. Analysis of Revenue collection

As defined in proclamation No 65 of 2003, the major responsibility of municipalities among others is assessment and collation of allowable municipal revenues. The revenue of municipalities could be improved depending on the overall operation of taxation. Moreover, it could be raised by improving the system or method of collection, improving coverage, capacity building, expanding the tax base, increasing the tax rate, and introducing new tax.

When the revenue collection trend of Sebeta Municipality for the last eleven years is observed, a fluctuating trend is revealed. Its growth rate is characterized by ups and downs throughout the whole period (1997 to 2007), although with a generally upward drift. The actual revenue collected and its growth pattern is shown in Fig. 2.

Fig.2 - Revenue Actually Collected For the Last Eleven Years



Source: Sebeta Municipality Revenue Authority, 2008EFY

As shown in the above figure the remarkable decline in the revenue collection of the municipality is that of the year 2003. This shows that the revenue collection system of the municipality is not designed in a way that encourages the sustainable way of collecting its own revenue. According to the data obtained from the field work, the main reasons for such inadequate revenue collection system are; poor assessment of taxable sources (for example some revenue sources such as property tax/building tax, soil dumping space license, supervision of building and construction work, sewer service fees and vehicle related fees and etc were not assessed for the years 1997 to 2007, weak enforcement procedures, weak record keeping, inadequacy of qualified personnel and obsolete municipal charges. To summarize, there is a need to reform the revenue collection system of the municipality. This could be achieved through taking measures like recruiting competent staff, revising the tariff structure, improving planning and recording system, strengthening enforcement mechanisms for defaulters and improving assessment mechanisms.

4.1.5. Efficiency and Effectiveness of the Municipal's Revenue Collection System

Revenue collection efficiency and effectiveness can be measured by using different methods. The methods can be quantitative and qualitative. Among the major quantitative measures of efficiency is ratio analysis, including actual collection to planned revenue and administration cost to total revenue collected. By analyzing how much revenue is mobilized from own resources, it is also possible to measure revenue collection qualitatively. Effectiveness on the

other side can be measured quantitatively by observing assessment and valuation of taxable sources.

According to the eleven years revenue collection performance of Sebeta Municipality, the total revenue collected amounted to 803,296,359.29 birr. The revenue planned to be collected for the last eleven years (1997 to 2007) was 1,042,073,917 birr. A comparative analysis of planned and actually collected and percentage of collection of each year (1997 to 2007) of Sebeta Municipality are summarized below.

Table 12: Municipal Revenue collection performance for the last Eleven years

No	Year	Plan	Actual	%
1	1997 EFY	7,774,802.00	6,198,911.57	79
2	1998 EFY	10,092,020.00	10,087,926.10	99
3	1999 EFY	25,206,977.00	25,460,434.85	101
4	2000 EFY	75,162,250.00	69,921,960.03	93
5	2001 EFY	117,657,611.00	93,438,447.57	79
6	2002 EFY	178,381,800.00	92,027,941.02	51
7	2003 EFY	75,063,765.00	50,237,366.45	66
8	2004 EFY	128,415,899.00	78,729,050.00	61
9	2005 EFY	99,000,000.00	79,611,406.00	80
10	2006 EFY	160,000,000.00	116,156,753.40	72.59
11	2007 EFY	165,318,793.00	181,426,162.30	109.7
	Total	1,042,073,917.00	803,296,359.29	77

Source: Sebeta Municipality Revenue Authority, 2008 EFY.

From the above table, the average collection rate of revenue is 77%. During the eleven years period (1997 to 2007), the percentage of revenue collection ranged between 51% and 109.7%. When the gap between planned and actual collection is observed, it is extremely high and this

shows high inefficiency of revenue collection of the municipality that is, on average about 23% of the revenue planned remain uncollected. From this, it is easy to suggest that the municipality is not efficient in its revenue collection performance. In the years 1997, 2001, 2002, 2003, 2004 and 2006, the gap between revenue planned and actually collected shows a significant difference from that of other years. Other years do also have discrepancies between planned and actual revenue collected. Interestingly enough never has revenue planned to be collected ever been fully achieved in any of the enumerated years except in the year 1999 and 2007, that is, throughout the period under discussion, the municipality did not achieve its target plans.

The other major quantitative measures of efficiency are ratio analysis, the ratio of administration cost to total revenue collected. Sebeta city administrative costs of municipal revenue collection was derived by estimating the resource spent on the administration and collection of municipal revenue by different offices

The city does not measure the overall size of the administrative costs of taxation. This is the reason why it is very difficult to find data which allow analyzing administrative cost for each revenue source or whole tax system.

The analytical studies focused on problems of administration and compliance costs are not for disposal in the Sebeta City Administration. Very rough estimation of administrative costs of municipal revenue collection is used for the year 2002-2007EFY. These estimations were gained by taking 50% of the budget allocated to Sebeta Revenue Authority and Sebeta Municipality who are directly engaged on the collection and administration of municipal revenue. And also there other offices which were devoted their human resource and financial resource for the collection and administration of municipal revenue indirectly/partly, 15% of the budget allocated for Office of Trade and Market Development, 10% of the budget allocated for Sebeta Office of Finance and Economic Development and 10% of the budget allocated for Sebeta Investment office, their cost is estimated based on the time and resource spent on municipal revenue administration and collection. These data is impossible to split per particular revenue sources and therefore it's used only for estimation of the total administration cost of municipal revenue. The lack of data constrains researcher solved the problem by using rate of employee's number engage in tax problems from selected office employees.

However the researcher was meet two crucial problems:

At first, offices which have many different activities (typical example is Office of trade and market development, Office of Finance and Economic Development and Investment office,), and do not have clear evidence of percentage share devoted to tax collecting

The second problems result from total expenditure of Sebeta Revenue Authority. We cannot simply identify costs associated with particular operations of revenue administration. It means, difficulty of costs dividing among state revenue and municipal revenue administration.

Table 13-: Administrative costs of the tax service as % of the total tax revenue (2002–2007)

Year	Administrative cost (in Birr)	Actual revenue Collected	Administrative costs as % of the total revenue
2002	16,732,000.00	92,027,941.02	18%
2003	14,399,307.34	50,237,366.45	29%
2004	19,595,746.01	78,729,050.00	25%
2005	18,230,048.28	79,611,406.00	23%
2006	37,275,794.00	116,156,753.40	32%
2007	30,454,405.86	181,426,162.30	17%
Total	134,846,781.48	598,188,679.17	23%

Source: Sebeta city Office of Finance and Economic Development, 2008EFY

From the above table it can be observed that, the general trend of administration cost was lower than the actual revenue collected, which ranges between 17% - 32% of the total actual revenue collected. But the trend of administration cost shows increasing trend in the year under study. We can analyze that the relationship between administration cost and revenue collected was not proportional in the year 2005 and 2007. The increase in administration cost in some years result in increasing in the performance of actual revenue collected but not consistence over the years under study.

4.1.6. Methods of Revenue Collection by Municipality

Revenue collection effort can be achieved by improving the methods of revenue collection. Among the important methods, a careful study of local sources of revenue and assessing each source of revenue is important. According to the data obtained during the field work, Sebeta Municipality lacks an organized system of revenue collection and record keeping system. Performance standards are not well established. Additionally, actual revenue collected does not compare well with planned and when deviation between actual performance and planned is detected, corrective actions have not been taken regularly. Though the municipality prepares its

annual plan every year, it however does not properly consider all the possible available sources of revenue. For example, as questionnaire data revealed, there are still unidentified taxpayers who should be paying tax to the municipality.

The assessment and collection of charges is also not properly performed by the municipality. Enforcement procedures were not implemented in a way that enhances the revenue collection process. To be precise, tax evaders are not strictly enforced to pay their tax as per the schedule. This is mainly due to lack of clear guidelines, enforcement mechanism and inadequate managerial system. Moreover, lack of professional manpower in relation to planning and management is another problem for the municipality. The basic reasons for such inadequacy of designing competent methods of revenue collection are limited institutional capacity and absence of appropriate guidelines.

4.1.7. Summary of List of Problems Related to Each Revenue Items identified during field study and from respondent:

❖ Revenue Code errors

- ✓ The city is recording revenue collected from Abattoir Service (1776) on Funeral Service (1777) a service which is in existence in the city.
- ✓ The city is recording municipal shed rent, market place rent and unknown revenue sources under other rent-1729 and other charges-1749 which is available for to collect compensation from investors for newly supplied land for investment.

❖ Land Rent/Lease

Land rent/lease revenue performance is below potential since there is no landholder's registration system that could help manage revenue collections including receivables from each landholder. Title deeds and forthcoming changes are not properly updated with revenue collection data. There is no clear tax payers information both ownership and value of the property subject to taxation.

- ✓ Regardless of sample investments in cities, specifically after ULGDP (2007EFY), there are no regular changes in inner land grading level that can change land rent/lease rate without changing the original legalized rate. Despite the increase in the value of the land, the city is not changing the tariff rate or the land grade.

❖ Vehicle tax

- ✓ Taxing property is the known efficient taxation system throughout the world. Vehicle owners are said to be better income groups. So taxing vehicle means transferring financial resource from richer groups to the poor through providing basic services. MUDHC is trying to modernize building tax. But vehicle tax is also one of potentially available tax. Vehicle related services are being provided by the respective branch offices of transport. But the question is to whom the revenue collected from such services must be recorded to.

- ❖ Market related revenues

Revenue items that can be related with market are Market Veranda rent (1724), Market place rent (1725) and Stable livestock market place rent (1726).

The city is not able to develop market area to suit for development of marketing, especially, for agricultural products.

- ❖ Municipal Houses Rent

The city has houses rented for residential or commercial purpose. However, according to respondent both head of Sebeta Municipality and revenue authority has no full information regarding such properties including their condition and value. Therefore, the city is not able to revise their rent fairly.

- ❖ Low service rendering capacity

The following are some of municipal services that are being provided by a city with limited capacity and given no emphasis for their potential to generate municipal revenue.

- ✓ Abattoir services: - because of low capacity, illegal slaughtering is expanding.
- ✓ Sanitation services: - Disposal of wastes (both solid and liquid) in to the streets by individuals is common and hence no control and billing mechanism.
- ✓ Emblems and sign board and any advertising service fee: - any individual business is installing sign board and advertisements freely in any space within a city. No registration, licensing and enforcement mechanism.
- ✓ Sewer service:-the city of Sebeta does not have well developed sewerage systems. Furthermore, during approval of construction, design of septic tanks is not given due considerations and hence individuals and organizations are disposing liquid waste to drainage system or even in to the road.

- ✓ Building and Fence Construction Permit License: - In Sebeta city, the revenue generated from such service is very low either because the service charge is very low or there is no enforcement mechanism to have such license.
- ✓ Soil dumping space license: - Every individual and organization is dumping soil, sand, stone, etc on the road causing traffic congestion and to aggravate depreciation of roads. No enforcement mechanism to have such license.
- ✓ Supervision of building and construction works: - Limited enforcement mechanism to have such service.
- ✓ Contract registration and confirmation. Except authenticating by office of justice to make the contract legally binding, registration and confirmation by municipalities is very limited and not enforceable.
- ✓ Renewal of building, land title deed, design & maintenance of houses: -The city of Sebeta uses fixed service charge that cannot be differentiated in accordance with the complexity and value of the building.
- ✓ Debt suspension, cancellation of registration, foreclosure service: - Usually fixed rate was also applied and hence cannot be differentiated in accordance with the complexity and value of the building.
- ✓ Service charge setting problems. The city of Sebeta prefers to use fixed service charges rather than charging variable tariffs or rates depending on the magnitude of the service.

There is no any systematic way of determining service charges like costing municipal services to determine cost recovery service charges. The city has no any information to decide whether the fixed charge can bring revenue amount that can cover at least the administrative cost of providing the service in question.

All municipal Service giving sections have no cost centers and the corresponding BI codes. Although the existing budget structure allows cities to have BI codes, all municipal service giving sections are not given this code that can easily help identify costs incurred. This cost can be used to determine service charges.

4.2. Review of ULG Municipal Expenditure Management

4.2.1. ULG Municipal Budgeting Process

Although basic responsibilities for budget preparation clearly lie with municipalities, the system under which budgets are prepared and reviewed differs widely in practice. As noted in the previous section, the final budget envelope appears to be limited by the revenue base. The budgeting process, however, can begin either with a determination of expected revenue or with estimated expenditure.

In Sebeta ULG, the preparation of an annual budget is common practice although there are no formal guidelines for budget preparation and approval. The budgeting process starts with a determination of expected available revenues and sometimes revenue plan prepared based on expenditure needs. Each municipal department then prepares a budget request independently and submits to planning and budgeting department for inclusion in the municipal annual plan. These requests are discussed in a management meeting of department heads and then discussed with city cabinet members. After final amendments the budget proposal is submitted to Sebeta city administration council for approval. The process does involve little community participation. It is a top down budgeting process only higher official are involved. In addition, there are no criteria as to what proportion of expenditure should be allocated for remuneration, services outlays, and basic infrastructure development. The other amazing issue here was both the zonal and Regional Finance and economic development office they don't care about municipal budget, its plan and expenditure, their concern was on state function.

4.2.2. Assessment of Municipal Planning and resource allocation system

Planning is anticipating future actions to be done. As the data obtained revealed, Sebeta Municipality used limited stakeholders participatory way of planning. Activities to be performed are included in the annual plan of the municipality. During planning process, only those municipal planning and Budgeting staff members who have better knowledge regarding municipal functions are involved in the planning process. The residents of the town little participate during the planning stage.

After identifying the activities to be performed annually, the municipality allocates budget to achieve the objectives identified. The budget allocated is approved by Sebeta City full council meeting. Once the budget is approved, the remaining task is accomplished by the staff of

municipality in cooperation with Sebeta Office of Finance and economic development. Involving residents is the best way that strengthens municipality planning and resource allocation in such a way that ensures appropriate and transparent allocation of public expenditure among competing priorities.

In providing infrastructure and services, municipalities expend their financial resources in the form of recurrent and capital expenditure. The recurrent expenditure (sometimes called the routine expenditure) is concerned with the regular operation of services like salaries of personnel, per diem, fuel, official entertainment, purchase of short life equipment and stock, and the costs of routine repair and maintenance. Capital expenditure is normally concerned with the creation of long term assets such as construction of roads, schools and other infrastructural facilities. Table 14 depicts the recurrent, capital and total expenditure of Sebeta municipality.

Table 14: Municipal Expenditure In Terms Of Recurrent and Capital (2003-2007EFY)

Year	Recurrent Expenditure	Capital Expenditure	Total Expenditure	Percentage of recurrent expenditure	Percentage of capital expenditure
2003	28,798,614.68	22,661,087.68	51,459,702.36	56%	44%
2004	39,191,492.01	17,411,303.42	56,602,795.43	69%	31%
2005	36,460,096.56	29,150,715.73	65,610,812.29	56%	44%
2006	74,551,588	89,006,247.88	163,557,836.18	46%	54%
2007	60,908,811.71	103,446,147.41	164,354,959.12	37%	63%
Total	239,910,602.96	261,675,502.12	501,586,105.38	48%	52%

Source: Sebeta Office of Finance and Economic development, 2008

The above Table statistics indicate that municipal expenditure amounted to **239,910,602.96** birr and **261,675,502.12** birr for recurrent and capital expenditure respectively in the last five years. The data in the table also shows recurrent expenditure has been given greater emphasis than that of

capital expenditure in the past, but recently capital expenditure gets more emphasis than that of recurrent expenditure. The percentage of capital expenditure has ranged between 31% and 63% for the period under analysis.

Municipal recurrent expenditure on the other hand varied from 37% to 69% for the whole period (2003 to 2007). In general the proportion of recurrent expenditure is 48% to the total expenditure and capital expenditure has the proportion of 52% for the last five years municipal expenditure. When the pattern of expenditure is observed, data shows that capital expenditure has an increasing trend for the years 2005 to 2007. On the other hand, recurrent expenditure has been fluctuating drastically for the period under discussion. The main reasons for the above inconsistent and inefficient resource utilization are poor planning, inadequate accounting system, poor expenditure control and inadequacy of qualified staff in the municipality.

Table 15: Resource allocation on sample selected expenditure items for the last four years

S.n	Expenditure Item	2004-2007EFY			
		Plan	Actual	Actual vs plan	% to Total Expenditure
Selected Recurrent Expenditure items					
1	Wages & Salary (incl. pension)	57,137,138.00	45,525,043.07	80%	10.1%
2	Fuel	19,442,186.00	15,446,137.34	79%	3.4%
3	Per diems	9,670,724.00	11,266,499.72	117%	2.5%
4	Official entertainment	1,377,935.00	1,930,832.48	140%	0.4%
5	Grants, contributions and subsidies to institutions	29,352,500.00	29,788,338.94	101%	6.6%
	Total	116,980,483.00	103,956,851.55	89%	23.1%
Selected infrastructure Exp. Items					
7	Potable Water Pipe line installation	4,800,000.00	2,397,233.58	50%	0.5%
8	Public toilet construction	5,178,000.00	2,624,465.00	51%	0.6%
9	Greenery and parking	800,000.00	640,076.56	80%	0.1%
10	Sewerage line construction	0	0	0%	0.0%
	Total	10,778,000.00	5,661,775.14	53%	1.2%

Source: Sebeta Office of Finance and Economic development, 2008EFY

The above table 15 shows that approved annual budget of the municipality and its outcome (i.e. in terms of what is budgeted and what is the budget outcomes) on some selected expenditure items in the past four years under study. The data reveal that average differential of 40% between approved and actual expenditure on the three selected municipal infrastructure (Potable Water network installation, Public toilet construction, Greenery and parking). Municipality's limited resource is spent much more on non developmental expenditure items comparatively with those necessity infrastructures. When we take budget allocated and spent on potable water supply, per diem, subsidies to offices (which is most of this items spent on per diem) and fuel are 2.39 million, 11.26 million, 29.78 million and 15.44 million respectively. Although, the cities potable water coverage were 65% (Sebeta city water Supply office, 2007) the budget allocated on potable water supply from municipality budget is very low in comparison to those expenditure items which is not more important for the well being of the city's residents.

4.2.3. Analysis of ULG Expenditure Management

Good public expenditure management requires budget planning and preparation. To be fully effective, the public expenditure management system requires effective means for achieving a resource allocation that reflects expenditure policy priorities and efficient delivery of public services. Municipalities in Oromia are one of such public institutions and they expend their financial resources to deliver service and infrastructure for their citizens. To investigate the case of Sebeta municipality, Table 16 statistics have been used.

Table 16: Analysis of Expenditure Management

Year	Recurrent Expenditure			Capital Expenditure			Total		
	Planned	Actual	%	Planned	Actual	%	Planned	Actual	%
2004	51,855,899	39,191,492.01	76	76,560,000	17,411,303.42	23	128,415,899	56,602,795.43	44
2005	42,600,000	36,460,096.56	86	78,526,255	29,150,715.73	37	121,126,255	65,610,812.29	54
2006	60,592,274	57,188,579	94	178,796,727	89,006,247.88	50	239,389,001	163,557,836.18	68
2007	62,188,579	60,908,811.71	98	121,071,533	103,446,147.41	85	183,260,112	164,354,959.12	90
Total	217,236,752	193,748,979.28	89	454,954,515	239,014,414.44	53	672,191,267	450,126,403.02	67

Source: Sebeta Office of Finance and Economic development, 2008EFY

The above table shows that budget utilization for both recurrent and capital budget are not efficient because, the budget approved for both expenditure items did not spent as its plan. Out of the total of 672,191,267 million birr, it used 450,126,403.02 million birr which accounts for 67% of the planned expenditure.

By observing the data in table 16, it is possible to understand some important facts. First, the recurrent expenditure of the municipality spent lies between 76% and 98% for the period under discussion.

Moreover, out of the total of 217,236,752 million birr, it used 193,748,979.28 million birr which accounts for 89% of the planned expenditure.

Second, when the pattern of the recurrent expenditure is observed, planned expenditure has shown increasing trend from year to year except for the year 2005. Third, actual recurrent expenditure has also increased for the last two years (although it shows decreased in 2005). Lastly, throughout the whole period, even though the municipality has not utilized its recurrent expenditure as planned, it has more or less a moderate level of utilization which averages 89% for the four years period under analysis.

Regarding the capital expenditure, the actual utilization of the budgeted expenditure lies between 23% and 85%. Despite the fact that recently the municipality has improved its budget allocation towards to capital expenditure than that of recurrent expenditure, its actual performance has proved that the municipality has not utilized its capital expenditure properly. More specifically, from the total of 454,954,515 million birr planned capital expenditure; the municipality has actually spent 239,014,414.44 million birr accounting for only about 53% of the planned expenditure.

As the data obtained portray, the municipality spent its capital expenditure for construction of coble stone roads, Ditch, electric power line, office building, youth centers, MSE shed, purchase vehicles, the maintenance of existing streets, and providing street lightning. To conclude, the average recurrent and capital expenditure utilized is 89% and 64% respectively and this has indicated that the municipality does not utilize its resources efficiently. The overall expenditure performance range between 44% and 90%, this shows a big difference between what is planned and what is spent. According to interview made with municipality and Office of Finance and Economic Development the main problems in utilizing existing resource is lack of integration between these two sectors was significant one. In this case the municipality blame OFED on

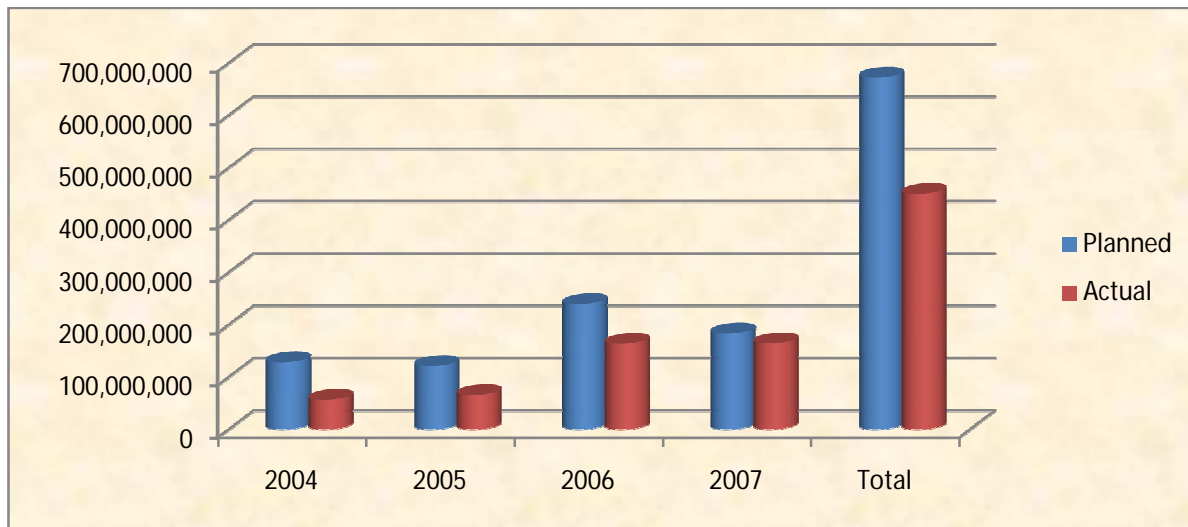
delayed purchase, tender and contracting with who won the bid was the main problem for not timely utilizing their budget. OFED on the other hand blame Municipality for not timely submitting purchase request and their purchase need both capital and recurrent and lack of planning and Budgeting as the reason for not utilizing their budget.

4.2.4. Evaluating Efficiency and Effectiveness of Expenditure Management

To see whether or not the municipality is efficient in its expenditure management, this research has used the ratio analysis of actually utilized expenditure to that of planned expenditure. Effectiveness has been evaluated by analyzing the achievement of the targeted or planned objectives of the municipality.

The total actual expenditure of the municipality for the year 2004-2007 EFY shows 450,126,403.02 million birr out of which 672,191,267 million was planned expenditure. Figure 3 indicates that the municipality utilized 67% of total expenditure that has been budgeted for the period under discussion.

Figure 3: Planned and Actual Expenditure Performance (2004-2007EFY)



Source: *Sebeta Municipality Office of Finance and Economic development, 2008EFY*

As the figure 3 shows, the municipality's expenditure pattern has been erratic. On the other hand, about 75% of the respondents explained that there were no well defined standards established to control the expenditure. In addition to this, the planning and budgeting department was not structured by the municipality in a way that enhances efficient planning and monitoring of expenditure. More specifically, as all of the respondents reflected, the municipality lacks skilled man power and accounting system to efficiently utilized its budget. And also, lack of integration

between various offices like Finance and Economic development office, office of construction and design and municipality. As a result of the above facts, the expenditure of the municipality shows fluctuations from year to year. From this it is easy to conclude that the fluctuation from year to year is mainly caused by lack of capacity, poor expenditure control, inadequate accounting system, weak monitoring and valuation system, inadequacy in reporting of financial performance and weak linkage between planning and budgeting.

From this, it is easy to understand that the municipality did not manage its expenditure properly for the last four years. Therefore, it is difficult to say that the municipality is efficient in its expenditure management.

Accordingly, as actual utilization of the budgeted expenditure is less, the municipality cannot achieve its targets or objectives effectively. Weak technical and managerial capacity of the municipality has negatively affected its expenditure management system. The weakness is caused by out dated organizational structure and staffing policies that do not attract skilled manpower. Moreover, the revenue actually collected does not squarely match with actual expenditure

Table 17 - Actual Revenue Collected and Expenditure Spent For the Last Four Years

Year	Actual Revenue Collected	Actual expenditure	Actual Expenditure compared to Actual Revenue Collected (%)
2004	78,729,050.00	56,602,795.43	72
2005	79,611,406.00	65,610,812.29	82
2006	116,156,753.00	163,557,836.18	141
2007	181,426,162.30	164,354,959.12	91

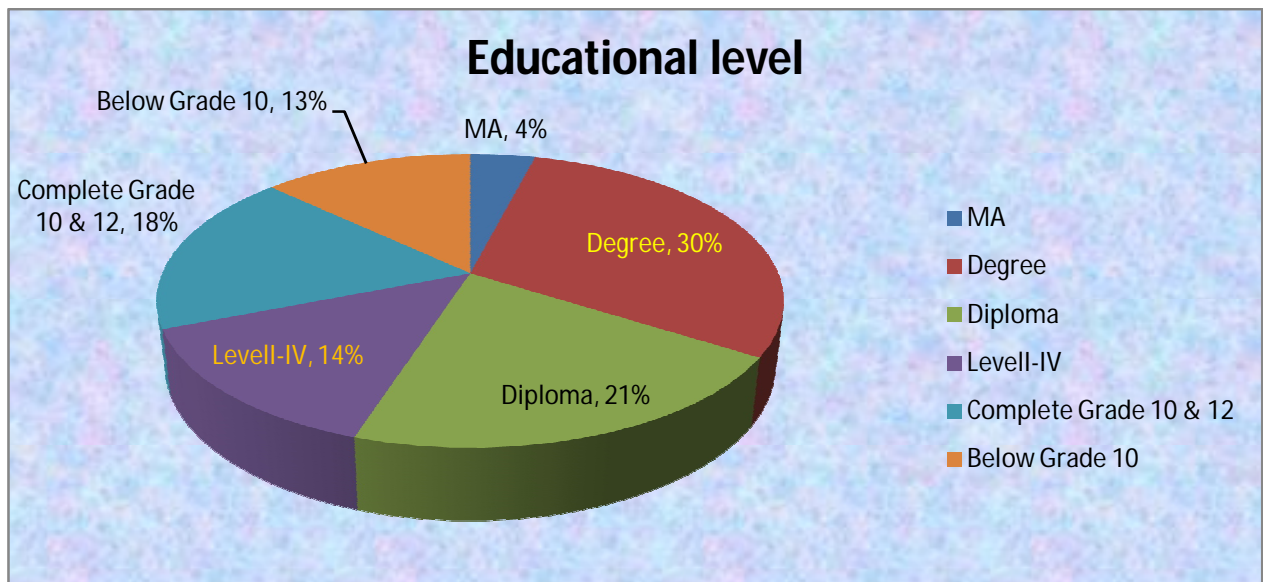
Source: Computed from Sebeta Municipality office of Finance and Economic Development Data, 2008.

From the above data, it is indicated that actual expenditure for the municipality is deviated from its actual revenue collected for the last four years. More specifically, the municipality has utilized its budget below what is actually collected, except in the year 2006 which is actual expenditure above the actual revenue collected.

4.3. A Review of Human Resources Capacity of Sebeta Municipality

The competence of staff plays a decisive role in the development efforts of urban local government and improving the level of municipal services. With the above fact in mind, when the manpower profile of Sebeta municipality is analyzed, it is difficult to say that the staffs engaged in performing municipal functions are competent and equipped with pre-requisite skills and knowledge. The educational status of majority of staff members is below degree level. More clearly, the following data indicates the education level of the municipal staff. As depicted in figure 4, the educational level of municipal staff is below the required level.

Figure 4 - Educational Backgrounds of the Municipal Staff



Source: Sebeta Municipality HRD, 2008EFY

That is, about 4% of the staff have MA, 30 % of the staff have Degree level, 21% of the staff members have diploma while 18% are grade 10 and 12 level, 14 of the staff have level I to level IV with 13% below grade 10 and 12 level. More than 66% of municipal staffs are below degree level. From the data above, it is possible to conclude that majority of the municipal staff are not competent and cannot effectively achieve the objectives of the municipality. The staffs required are not recruited and about 327 vacant positions are presented in the data which is about 48% of the expected total staff complement and about 52% vacant positions.

The technical staffs required for infrastructure development department are not recruited and about 25 vacant positions are presented in the data which is about 16 of the expected total staff complement. Planning and budgeting department of the municipality had only 3 positions, out the 3 position 2 position occupied currently. This also has negative impact in the achievement of municipal services. On the other side, salary and the organizational structure is not designed in a way that can attract skilled manpower.

Therefore, there is a need to restructure the organization so that qualified professional can be retained and municipal services and functions can be improved. As explained in the foregoing discussions, unless attention is given to institutional restructuring and acquisition of skilled man power, municipal services and functions could not be improved. The following data shows the municipality also has poorly structured salary scale and incentive system.

Table 18 - Salary Scale of the Personnel (In Ethiopian Birr)

Item	Salary Scale	Number of personnel	Percentage to total Personnel
1	615-1511	75	47.2%
2	1743-2628	38	23.9%
3	3001-4461	32	20.1%
4	5081-6741	14	8.8%
	Total	159	100

Source: *Sebeta Municipality HRD, 2008EFY.*

As table 18 indicates, the majority (71.1%) of municipal staff earn less than 2628 birr which is not enough to cover the basic necessities of the personnel. Out of the total of 159 municipal employees, only 8.8% earn monthly salary ranging from 5081 to 6741. 47.2% or nearly half of the total employees earn salary ranging between 615 and 1511. From this, it is clear to conclude that the salary scale of the municipal staff is not structured in a way that motivate the current staff or attract new ones.

Therefore, it is better to restructure and redefine the organizational structure and the salary scale of the staff.

Chapter Five:

Conclusion and Recommendation

5.1. CONCLUSION

The 1995 Constitution of Ethiopia instituted radical reform of governance structures, including devolution of significant resources and responsibilities from central agencies to nine regional administrations. Oromia Regional Government also devolved both Municipal revenue raising and expenditure assignment to their cities belong to the regions based on proclamation No. 65/2003. So, Sebeta municipality, like other municipalities in the region is expected to provide basic economic and social services to the citizens under its jurisdiction. Despite the fact that revenue sources have been identified, each of the revenue sources is not assessed and taxed carefully. Some revenue sources have not been assessed and this led the municipality to be ineffective in revenue collection. Moreover, poor planning and inefficient managerial system have negatively influenced the municipals revenue collection performance. The prominent revenue sources for the municipality, land rent tax, Investment land lease, Residential land lease, Assurance and other payments accounted 9%, 21%, 27%, 8% and 9% of the total revenue sources respectively. These five revenue sources contribute more than 74% to the total revenue collected by the municipality. Other revenue sources contribute insignificant amount to the total revenue. This shows that the revenue from each source is not properly planned and collected. To put it more clearly, due to inefficient assessment, enforcement and coverage, revenue sources such as property tax/building tax, Urban land rent, Business building rent, Building permit, transfer of title deed fee, business building tax, soil dumping space license, market place rent, abattoir service fee, penalties, municipal service fee and fees from registration on public records, and fees from erecting emblems and sign boards have not been properly considered.

Revenue collection trend of Sebeta municipality has shown great fluctuations. This suggests that the municipality has given little attention to comparing actual with expected performance on the one hand and fluctuations from year to year on the other as well as devising meaningful corrective measures timely to deal with deviations from the expected outcome. Particularly, revenue collection system like recruiting competent staff, strengthening enforcement

mechanisms for defaulters and improving assessment mechanisms are not designed properly in a manner that encourages sustainable way of collecting revenue.

According to the eleven years (1997 to 2007) revenue collection performance of Sebeta Municipality, the total revenue collected amounted to 803,296,359.29 birr. The revenue planned to be collected for the past eleven years was 1,042,073,917 birr which was 77%. The gap between planned and actual collection clearly indicates that the municipality was not efficient in its revenue collection performance. Besides, poor assessment of some revenue sources has proved that the municipality is not effective in revenue collection.

The main reasons for such inefficiency and ineffectiveness include lack of trained manpower, inadequate planning, and poor method of data base management or record keeping about tax payers. Even though the municipality is responsible to give municipal services and functions effectively, it is constrained by lack of skilled manpower and competent staff. Poor organizational structure coupled with institutional incapacity has led the municipality to be inefficient in performing its municipal services and functions. On average the proportion of recurrent expenditure spent for the last five years was 53% of the annual total expenditure and 47% of the annual total expenditure is devoted for capital expenditure in the period under study. In general the proportion of recurrent expenditure is 48% to the total expenditure and capital expenditure has the proportion of 52% for the last five years municipal expenditure. Budget utilization for both recurrent and capital budget are not efficient because, the budget approved for both expenditure items did not spent as its plan. Out of the total of 672,191,267 million birr, it used 450,126,403.02 million birr which accounts for 67% of the planned expenditure. The Recurrent expenditure has been spent throughout the whole period, even though the municipality has not utilized its recurrent expenditure as planned; it has more or less a moderate level of utilization which averages 89% for the four years period under analysis.

Regarding the capital expenditure, the actual utilization of the budgeted expenditure, its actual performance has proved that the municipality has not utilized its capital expenditure properly only about 53% of the planned expenditure was utilized.

Recently (After 2006EFY) some change has been observed in the allocation of budget towards capital expenditure. The fluctuation in the recurrent as well as capital expenditures shows that the municipality experienced inconsistent and inefficient resource utilization. This is mainly due to poor planning, lack of well developed standard on budget allocation, inadequate monitoring

and evaluating system, poor expenditure control and management, and inadequacy of qualified staff in the municipality.

Planned recurrent and capital expenditure compared to that eventually spent, show that the municipality did not properly utilize its financial resources as per the plan. The municipality only utilized 89% of recurrent expenditure and 53% of capital expenditure for the whole period (2004 to 2007). Even though recently due attention was given for capital expenditure when budgetary planning was made in year 2006-2007EFY than that of recurrent expenditure, the municipality's actual utilization is less which is 53% and one can understand from this there is weak resource utilization.

Finally, lack of skilled manpower, poor organizational structure, out dated and obsolete tariff system, inadequate monitoring and evaluating system, lack of clear guidelines and standards in budget allocation, poor planning and data base management, lack of awareness in valuation, inadequate assessment of taxable sources are the main findings of the foregoing analysis. These problems collectively have hindered efficiency and effectiveness of revenue collection and expenditure management of Sebeta municipality.

5.2. RECOMMENDATIONS

It is important for Sebeta city to understand future potential and efforts to increase its level of financial self-sufficiency by accelerating the growth of its own source of revenue. This requires viewing revenue enhancement in the broader context of strengthening the craft of revenue projection, implementing lower cost methods of service delivery, and long term financial planning to ensure adequate funds are available for future operation, maintenance and expansion of capital infrastructure.

In order to enhance the revenue collection as well as expenditure management of Sebeta municipality, the following recommendations could be used as input in the decisions of the concerned bodies.

A. Establishing Tax payers data base systems

The city needs to have information regarding land holdings and other revenue sources. Every land holdings need to be legalized and registered accordingly. The amount of revenue uncollected so far needs to be identified. All the files of landholders of the city need to be

organized in a systematic way for easy track of necessary data. GIS, cadastre, LIS or other software compatible with file management should be installed. Modernized land and land related information system should be collected and maintained.

As observed during the field work and data obtained revealed, the municipality has not exercised an organized data base management. As a result, revenue planned and actually collected had shown fluctuations from year to year. Had it used a coordinated and organized data, it would have been easy to plan and to take corrective actions when fluctuation appeared. Therefore, by improving the data base management the municipality should smooth the progress of its revenue collection and expenditure management. Developing Data base to the following revenue titles mentioned below were crucial:-

For Residential houses rent, Business building rent, Market veranda rent, Market place rent, and Stable livestock market place rent: - The data may include address or location of the Tax base, year of built, current value of the building or current condition, monthly rent amount, name and address of the occupier, status of rent payment and should be checked if all rent payables are settled.

For land related Revenue source there should data base/Cadastre/ which identifies the legal owner of the property, the value of the property, location of the property, address of occupiers, size of the land and etc should be maintained and updated timely.

For Emblems and sign board and any advertising service fee: - The data may include location, size and area of the sign board or emblems or any advertisements flagged. Name and address of the owners must also be registered. The unit rate must be dependent on the size and area of the advertisements and must be differentiated as per the land grade of the location of the advertisements.

B. Improve planning and implementing capacity

Planning is anticipating future actions to be done. As the data obtained revealed, Sebeta Municipality used limited stakeholders participatory way of planning. But, the research observed that in the city the cause of inconsistent and inefficient resource utilization are poor planning, inadequate standards system, poor expenditure control and inadequacy of qualified staff in the municipality. Poor planning and inefficient implementation system have adverse negative effect on the municipal's achievement of development activities like assessment and collection of allowable municipal revenue and expenditure management. Hence, planning system should be

improved in a way that can forecast future actions actively. Developing standards for resource allocation is a crucial factor for efficient resource utilization. The planning should be based on dependable information either for revenue planning or expenditure planning. Retaining adequate skilled manpower and attractive organizational structure both working environment and incentives are necessary for implementation of municipal plan. Additionally, the implementing capacity must be developed through provision of appropriate and sustained training to the staff of the municipality.

C. Expanding and exhaustively raising the revenue base of local revenue sources

Sebeta city administration should be aware of the fact that the tax base is expanding in corresponding with economic growth. The more economy is growing; more land is being supplied and developed. Furthermore, inner land grading is increasing with increase in investment of municipal services, including road, water, electricity, sewerage, etc. The increase in investment of municipal services like abattoir, solid and liquid waste disposal (example vacuum truck), market development (sheds, shops, cattle market, etc), will also directly lead to increase in tax base of service charges. Not only focusing on widening revenue base but, also important to strength collection effort and enforcement mechanism to collect extensively the existing revenue sources.

Financial incapability of the municipality is due to low level of revenue collection. This low level of revenue collection is also the result of weakness in studying local sources of revenue and exploiting them exhaustively. Accordingly, the municipality should carefully assess taxable sources of revenue and exert full effort for implementation including revenue sources.

D. Establishing appropriate guidelines and methods of revenue collection

Revenue collection effort can be achieved by improving the methods of revenue collection. Among the important methods, a careful study of local sources of revenue and assessing each source of revenue is important. According to the data obtained during the field work, Sebeta Municipality lacks an organized system of revenue collection and record keeping system. Performance standards are not well established. Additionally, actual revenue collected does not compare well with planned and when deviation between actual performance and planned is detected, corrective actions have not been taken regularly.

As it has discussed in earlier sections, the municipality has no clear guidelines that can be used as a base in managing its activities. Moreover, methods of revenue collection are not adequately designed and implemented with clear process flows. Absence of clear guidelines and well established methods of revenue collection has put a negative effect in the municipality's achievement of municipal functions.

Hence, there should be clear guidelines and proactive methods of revenue collection that deal with priority gaps.

E. Strengthening Valuation, Enforcement and Tariff Setting Effort

Tariff rates for land rent, Business building, residential house rent and etc should be varies depending on the grade of the location; the grade of an area itself is differentiated based on infrastructural developments. This means that the cost of infrastructure invested is reflected by the grade of the area. The higher the cost and type of infrastructure, the higher grade will have the area. The benefit derived from the increase in value of the land should be captured by the city administration through land value capturing mechanism like tariff rating.

The tariff structure currently used by the municipality to charge tax was designed without taking the above points. With the existing experience of tariff setting of the city the current tariff structure is outdated method and cannot recover currently needed service cost. It has also negative influence in the municipal revenue collection performance. Therefore, the tariff structure should be revised and modified to develop the financial capacity of the municipality. It is therefore recommended that each time the municipality prepares its annual budget; the current economic trends and investment on infrastructure by municipality should be taken into account and factored into the tariffs structure.

It is known that most municipal services like, abattoir, waste disposal, land supply and related services, fire brigade health, education, roads, etc are financed by municipal revenue through direct charging to the consumer. In the one case, every taxpayer has to contribute, regardless of his or her use of the service; in the other case payment depends directly upon provision and use.

In connection with the above three considerations, setting rational user charges needs to balance the following four key objectives:

O&M Cost Recovery - Most of the core municipal services require large initial investments apart from their huge recurring costs. Complete cost recovery in such projects may not be

possible or may be possible only with government assistance. Therefore, at least O&M or variable costs should be covered by user charges. Cost recovery is the main purpose of user charges. It requires that, on aggregate, user charges recovered from consumers should produce revenue equal to the financial operating cost of the service. Moreover, the revenue stream should be relatively stable and should not cause financing difficulties for the ULGs.

Affordability - While the basic objective of user charges is to recover service costs, the charges levied should be affordable to the users. Many times ULGs adapt lifeline tariffs for vulnerable customers, duly subsidizing the costs through cross subsidy mechanisms to address the issue of affordability.

Willingness-to-Pay measures the extent to which a consumer is prepared to accept increases in tariffs/charges for services. In order to ensure maximum cost recovery, the level of urban services offered needs to match user needs and affordability.

With such principles in mind, CAs can set land lease rate that can cover the cost of land development, including but not limited to, road and drainage construction, straight lightning, etc. The lease income must cover O&M costs related with such infrastructures.

During setting service charges, cities must be aware of costs of providing the service in question. Even some services like parking in restricted areas can be charged more than the cost.

For instance, service charge of Abattoir service should cover recurrent expenditures like salary of Abattoir employees and operational and maintenance costs of machineries and any other instruments used to run Abattoir. However, fairness, affordability and willingness to pay must be given due emphasis while setting the user charge.

In setting service charges, user fees can range from fixed charges unrelated to consumption of a service to charges that vary directly with the quantity consumed, or a mix of fixed and variable charges. Furthermore, building and Fence Construction Permit License, Supervision of building and construction works, Contract registration and confirmation can be charged in proportion with the value of the construction.

F. Installing accounting system that produces timely and reliable information

During the study it was observed that in Sebeta City Administration Revenue Authority and Municipality there is difficulty of obtaining any information regarding to both the tax payers and the tax base. For accurate planning and monitoring of performance it is important to have dependable data base regarding to financial information. One of the tools in public finance

management to manage revenue and expenditure is financial performance reporting in a timely and reliable manner. The accounting system used by Sebeta city Revenue Authority for municipal revenue is not modern that it cannot provide up to date and clear financial information but for state revenue they used modern accounting system. Hence, improved accounting system should be designed and implemented for municipal revenue, so that comprehensive financial reports can be produced and used for decision making.

G. Encouraging community participation in planning and resource allocation

There should be active participation of the residents in needs identification, planning and implementation process, not only at the time of need assessment and implementation phase but it is important participating communities after the implementation developmental plan. This could help in promoting transparent and participatory decision making, developing ownership and conservation of the infrastructure after construction.

Contradicting to this, Sebeta municipality had not encouraged the participation of community in development activities of the City. Therefore, the municipality should promote community participation during planning and implementation process through the use of community meetings.

H. Revising municipal Organizational restructure

The organizational structure and institutional capacity of the municipality is not designed in a way that can accommodate and retain skilled man power. Due to this reason, lack of skilled manpower has been one of the bottlenecks of the municipality to perform the municipal services and functions effectively.

Therefore, municipal structure should be modified so that it is capable of retaining competent municipal staff as well as attracting new one to fill vacant positions. The Revenue Authority revenue Collection Department should be splinted in to two departments: one for state revenue and the second department for municipal revenue, this may made each department to focus on their target and minimize overload and confusion. Broadening organization structure, Salary scales and benefits must be in line with approximating those in similar capacities in the private sector.

I. Continuous awareness creation for taxpayers

To reduce the number of defaulters and increase revenue, one of the important tasks to be done is providing organized information to the taxpayers as to why the payer is charged. This enables the taxpayers to link the relationship between tax obligations and municipal service delivery. Taking this fact in to consideration, the municipality should design and implement tax payer's awareness creation program.

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Appendix

Annex 1:- Description of Each of the Municipal Revenue Titles.

Account no.	Revenue item	Description
1701-1719	Tax Revenues from Municipal Services	Taxes the bases of which are municipal properties like buildings
1701	Building tax	A tax levied based on value of a building located within the administrative boundary of a city. It is the major type of property tax. Valuation of building lasted as one of the major challenges of city administrations for long and hence recently MUDHC is modernizing the system.
1702	Assurance	A tax levied on real property held as collateral for bank loans in return for the assurance of, say, ownership.
1703	Entertainment Tax	A tax levied on value of entrance tickets to the cinema, theatre, clubs, etc halls or area occupied for similar purpose.
1719	Other taxes	1704-1719 are open for other taxes levied on value of municipal properties.
1720-1731	Municipal Rent Revenues & Investment Income	Rent revenue obtained by letting out municipal properties like houses, market sheds/veranda/medeb/free area, machineries, etc
1721	Urban land rent	Land rent revenue received from occupiers of land held before lease proclamation.
1722	Residential houses rent	Rent revenue received from municipally owned houses lent out for residential purpose, including cost saving (kuteba) houses, kebele houses and government owned houses.
1723	Business building rent	Rent revenue received from municipally owned houses let out for commercial purpose, including those mentioned under 1722 above.
1724	Market veranda rent	Rent revenue received from municipally developed verandas (usually called sheds) in the market area. Such houses may be constructed along inner city areas too.
1725	Market place rent	Rent revenue received from municipally developed market places (usually called “medeb” in the market area. This revenue title also includes revenue received from letting out free market places (usually for open market area like farm market)
1726	Stable livestock market place rent	Rent revenue received from municipally developed livestock market area (usually called “Berete”). Municipalities construct fences to control entrants and charge the fee according to the type and weight of livestock.
1727	Funeral service vehicle rent	Rent revenue received from a specially designed vehicle used for transporting a coffin during the funeral ceremony. (In Ethiopian case such services are being provided by Churches or “Edir”)
1728	Rent from machinery	Rent revenue received from municipally owned machineries like

		Dump trucks, dozer, grader, excavator, compactor or any other construction machineries.
1729	Other rent	If the municipality has properties other than those mentioned in this section (1721-1729), the revenue collected can be recorded under this code.
1731	Land lease	Rent revenue received from municipally owned land let out as per the lease proclamation.
1732	Support from NGOs	NGO may support the municipality in cash that can be recorded as revenue under this code
1733	Support from Private individuals	Individuals may support the municipality in cash that can be recorded as revenue under this code
1734	Public contribution	The public may support the municipality in the form of cash that can be recorded as revenue under this code.
1740-1749	Municipal Service Charges	
1741	Business and professional services registration and licensing fee	Service charge revenue received by providing professional and business licenses to Engineers and contractors.
1742	Building and Fence Construction Permit License	Service charge revenue received by providing permission license for construction of fence and buildings.
1743	Soil dumping space license	Service charge revenue received by providing permission license for dumping soil, sand, stone, timber, and other construction materials along or on the road and public free spaces.
1744	Permission for driving on prohibited roads	Service charge revenue received by providing permission to drive a vehicle on prohibited roads.
1745	Traffic fines for violation of traffic rules and regulations	Revenue received from traffic fines for violation of traffic rules and regulations. A traffic police usually dispatch the charge.
1746	Fines for violation of rules and regulations	Revenue received from fines for violation of rules and regulations, those other than traffic fines, including violation of rules issued under 1741-1744 mentioned above.
1747	Bus terminal services	Revenue received from users of bus terminal area. If a bus station is constructed by the municipality, the municipality has the exclusive right to collect the service charge.
1748	Environmental protection fee	A revenue collected from environmentally pollutant businesses like, cement factories, stone crushing mills, etc
1749	Other charges	Open for recording revenues other than those mentioned under this category (1740-1749). Don't use this code to record revenue the sources of which are unknown.
1750-1789	Property and Services Sales of Goods and Services	
1751	Sanitation services	A fee collected from individuals and organizations residing in the city for providing sanitation service to the public. The collection of the fee can be attached with water bill.
1752	Technical services fee	A fee collected from individuals and organizations who received

		the technical capability of the municipality usually engineering services.
1753	Supervision of building and construction works	A fee collected by providing supervision of building and other construction works. This is important for safety.
1754	Design and tender document preparation	A fee collected from sale of, usually as part of a bid document, design and tender documents in connection constructions undertaken by the municipality
1755	Contract registration and confirmation	A fee collected from registration and confirmation of contractual agreements, usually between the banks (lenders) and borrowers. Municipalities can provide confirmation for the correctness of the technical conditions of the contract and register it for future reference.
1756	Road services fee	A fee collected from use of roads. The revenue is collected in toll stations designed to block driving if not paid. Such fee can be collected from ECX customers when heavy trucks are using inner city roads that can aggravates for the road damage.
1757	Water service	A fee for the consumption of water. The service is being provided and the fee being collected by the office of water.
1758	Sewer service	A fee collected from individuals and organizations for the use of sewerages. The fee can be collected from the public by linking with water bill.
1759	Fire brigade and emergency services	A fee collected from every individual and organization residing within a city. The fee can be collected by linking with water/electricity consumption. The total fee collected will in turn be used to cover the cost of providing fire brigade and emergency services.
1761	Vital statistics service	A fee collected for registration and provisions of birth, marriage and death certificates. A fee collected from provision of Citizen Identity Card or the so called “Kebele ID” can be recorded under this code.
1762	Driving licenses fee	A fee collected from provision of driving license.
1763	Garage services	A fee collected from provision of garage services, if municipality owned garage and open for external customers too. The service charge for the licensing and grading of private garages can be recorded under this code.
1764	Annual vehicle inspection fee	A fee collected from provision of inspection of vehicles, usually called “Bollo” is provided and owners obliged to stamp in front of their vehicle. .
1765	Driving instructor and vehicle title deed	A fee collected from provision of vehicle title deed, customarily called “Libre”.
1766	Valuation of vehicle	A fee collected from provision of valuation of a vehicle.
1767	Registration of driving instructors and others registration	A fee collected from registration and licensing of driving instructors.
1768	Vehicle plate sales	A fee collected from sale of vehicle plate and rent revenue from

	and rent	letting out vehicle plate, usually for temporary period of time.
1769	Vehicle parking fees	A fee collected from provision of vehicle parking areas along inner city roads.
1771	Permission for change of type of vehicle services	A fee collected from provision of change of type of vehicle, usually from private to commercial or vice versa.
1772	Transfer of title deed fee	A fee collected from provision of transfer of title deed or change of ownership.
1773	Registration fee for land acquisition	A fee collected from sale of bid documents of serviced lease land to be auctioned to the public.
1774	Renewal of land, building title deed, plan & maint' of houses	A fee collected from change of type of building usually from residential to commercial. A fee collected from change of plan and design of existing building can be recorded under this code. (don't confuse with fence and building construction permit that is a different service)
1775	Debt suspension, cancellation of registration, foreclosure service	A fee collected from suspension of a house or building from change or transfer of ownership until the debtor (the borrower) settled the loan. A fee can also be collected during cancelation of this suspension. Furthermore, banks may request municipality support during foreclosure, sale of the property held as collateral, for which a fee can be collected from the bank.
1776	Funeral service	A fee collected from provision of funeral service to individuals or organizations. Usually the funeral service, in Ethiopia, is provided by churches and "EDIR".
1777	Abattoir service	A fee collected from provision of abattoir or slaughtering service that includes testing of the health of the livestock and the flesh.
1778	Loading and unloading charges	A fee collected from provision of loading and unloading services, by, for instance, the help of lifters and cranes.
1779	Provision of cart and chariot service	A fee collected from provision of cart and chariots owned by the municipality.
1781	Provision of park services	A fee collected from provision of park services. The fee can be collected during entrances of parks.
1782	Emblems and sign board and any advertising service fee	A fee collected from owners of emblems, sign boards and advertising services fixed either on the land or at the top of buildings. Announcements using high volume loud speakers must be licensed and charged a fee and hence can be recorded under this code.
1789	Other sales of property and services	Open for recording fees other than those mentioned under this category (1750-1789). Don't use this code to record revenue the sources of which are unknown.
1791-1799	Other capital receipts	
1791	Sales of movable and immovable property	Revenue collected from sale of municipally owned movable and immovable properties including vehicles and buildings.
1792	Community contribution & other	Revenue collected from sale or cash equivalent of capital receipts from the community.

	capital receipts	
1799	Others	Other capital receipts other than those mentioned under this category (1791-1799)

Source: *Sebeta City Administration Revenue Authority, 2008EFY*

Note: - These municipal revenue titles are officially published by MOFED as part of the government chart of accounts.

Annex 2

Interview Questioner with selected Regional, Zonal and City level government organization

Interview Question with Oromia Regional State Revenue Authority

1. What are the role and responsibility of your organization (Oromia Revenue authority) on municipal revenue administration?

2. Who is responsible for studying municipal revenue, planning, assessing municipal tax base, tariff setting and revising? What is your organization role?

3. What is your organization responsibility on developing enforcement mechanism on municipal revenue? And what is your opinion on enforcement mechanism that exists on municipal revenue administration?

4. Does the municipal revenue potential of the cities in the region are studied by ORA?

5. If your answer is yes for question number 4, by comparing the actual collected and potential does the cities in the region are efficient in collection of their potential? If not why?

6. If your answer for number 4 is no why?

-
-
-
7. Why not cities in the region planned to collect all municipal revenue sources exist in their cities? E.g. property/Building tax not planned and collected in Sebeta city.

What is your opinion on Municipal vehicle related revenue sources? Why these revenue sources are transferred to transport office?

Interview Question with Oromia Special Zone Suruonding Finfine Revenue Authority

1. What are the role and responsibility of your organization (OSZSF Revenue authority) on municipal revenue administration?

2. Who is responsible for studying municipal revenue, planning, assessing municipal tax base, tariff setting and revising? What is your organization role?

3. What is your organization responsibility on developing enforcement mechanism on municipal revenue? And what is your opinion on enforcement mechanism that exists on municipal revenue administration?

4. Does the municipal revenue potential of the cities in the region are studied by OSZSFRA?

5. If your answer is yes for question number 4, by comparing the actual collected and potential does the cities in the OSZSF are efficient in collection of their potential? If not why?

6. If your answer for number 4 is no why?

7. Why not cities in the OSZSF planned to collect all municipal revenue sources exist in their cities? E.g. property/Building tax not planned and collected in Sebeta city.

8. What is your opinion on Municipal vehicle related revenue sources? Why these revenue sources are transferred to transport office?

Interview questions to Municipality Managers

A. Municipal Institutional Capacity Related questions

1. Does the municipal institutional structure are enough to achieve the organizational objectives? If your answer is No, why?

- a) Salary level
- b) Limited organizational structure/vacant position/
- c) Experience requirement
- d) _____

2. Is it existing municipal human resource capable (competent) to achieve your organizational (municipal) objectives?

- a) Educational req.
- b) Experience
- c) In quantity
- d) _____

3. Are Your Planning and budgeting team able to plan and monitor your expenditure and revenue plan and implementation?

- a) In quantity
- b) Educational competency
- c) Experience

d) Salary

4. What look like you organization relationship with stakeholder (SOFED, SRA & etc)?

5. Is there an ambiguity in the organization of the service provision and responsibility?

B. Revenue raising related questions

6. Is the municipal revenue collected is adequate to discharge expenditure responsibilities?

7. Who is responsible for municipal revenue planning, assessing municipal tax base, tariff setting and revising? What is your organization role and participation?

8. Why not planned to collect extensively all municipal revenue sources? E.g. more than 45 revenue sources are not planned and collected in the last ten year.

9. Why not Municipal vehicle related revenue sources are not collected? What is your opinion on these revenue sources?

10. What is the reason that past revenue performance is not efficient in achieving its plan?

11. What is your organizational role on municipal revenue administration? In supporting both financially and by man power, in the process of planning, administration and collection?

C. Expenditure related

12. What are the principles/standards and criteria are used in the allocation of budget to recurrent and capital expenditure? BI code

13. What are the basic principles and criteria used in your office to allocate budget for different department in municipality?

14. Why municipal expenditure plan is not spent as its plan? E.g. past year expenditure performance is not efficient.

_____ Is the workers in each department are made to know clearly their responsibility in relation to expenditure assignment?

15. What are the expenditures functions assigned to the municipality /ULG/ level government?

16. Past Expenditure on recurrent is large and also increasing from time to time why?

17. Do you have modern expenditure management system?

18. Who has decision power on municipal budget? What is your organization responsibility? Does any influence from other party on its decision?

19. According to proclamation 65/2003 municipal budget should spent on municipal expenditure but, the experience shows that offices from state function are using huge amount of budget from municipal budget, why?

20. Do you implementing land capturing tools to compensate municipal infrastructure investment by the municipality?

21. Experience shows that past municipal expenditure performance is subject to too many transfers from expenditure item to other expenditure item why?

22. What are the problems related with expenditure assignment in the city?

23. Does the supply of municipal infrastructure much with the demand of the resident? If no why?

D. Citizen's participation on city plan

1. Do you have an open meeting with public on plan, budget and amount of expenditure?

2. If your answer for the above mentioned question is yes, how many times per year/annum and how many people come? Is there much discussion or debate? On bases selected?

3. Do you publish or post on the board or somewhere else to publicize your accounts on planned or utilize budget (expenditure) on public services?

4. If you have any additional comments and suggestion on the practice of expenditure assignment in your city.

Interview questions to SOFED Head/process owner/ experts

A. Institutional Capacity Related questions

1. Does the OFED institutional structure is enough to achieve the organizational objectives?
If your answer is No, why?
 - e) Salary
 - f) Limited organizational structure
 - g) Experience
 - h) other_____
2. Is it your OFED human resource competent to achieve your organizational objectives?
 - e) Educational requirement
 - f) Experience
 - g) Number
 - h) other_____
3. Are Your Planning and budgeting department able to plan and administer both municipal and state function expenditure implementation?
 - e) In Number
 - f) Educational competency
 - g) Experience
 - h) Salary
 - i) other_____
4. What look like you organization relationship with municipality?

5. Is there an ambiguity in the organization of the service provision and responsibility?

B. Revenue raising related questions

1. What are the role and responsibility of SOFED in studying, planning and administering Municipal revenue?

2. Is the municipal revenue collected is adequate to discharge expenditure responsibilities?

3. Why not planned to collect al municipal revenue sources? E.g. more than 45 revenue sources are not planned and not collected the past year.

4. What is the reason that past revenue performance is not efficient in achieving its plan?

5. Is there any regional policy, directives and guide lines on decentralization that defines responsibilities and source of finance to ULG governments?

C. Expenditure/Budget allocation related questions

1. What are the expenditures functions assigned to the ULG level government?

2. What are the principles/standards and criteria are used in the allocation of budget to recurrent and capital expenditure?

3. Who has decision power on municipal budget? What is your organization responsibility? Does any influence from other party on its decision?

4. Why municipal expenditure plan is not spent as its plan?

5. Is the workers in each department are made to know clearly their responsibility in relation to expenditure assignment?

6. What are the expenditures functions assigned to the municipality /ULG/ level government?

7. Does your office have modern expenditure management system for both municipal and state function?

8. Past Expenditure on recurrent is large and also increasing from time to time why?

9. Experience shows that past municipal expenditure performance is subject to too many transfers from expenditure item to other expenditure item why? What is your opinion on it?

10. What are the problems related with expenditure assignment in the city?

Interview Question with Sebeta City Revenue Authority

1. What are the role and responsibility of regional and zonal Revenue authority in setting and revising your Tax base, tariffs and etc?

2. Does SRA institutional structure is enough to achieve revenue plan of both Municipal and state revenue? If your answer is No, why?

3. Is it your Office existing human resource competent to achieve your organizational objectives?

4. Are Your Planning and budgeting team able to plan and administer both municipal and state revenue?

5. What look like you organization relationship with municipality?

6. Is there an ambiguity in the administration and collection municipal revenue?

7. Is it your municipal revenue plan is based on dependable data/information about tax base/?

8. How do you project revenue? How successful is your revenue projection methodology? Can you tell me how the projected and actual revenue for the past few years?

9. What criteria are used in setting service charges?

10. The existing enforcement mechanisms are enough to enforce municipal revenue? If not why?

11. Do you have awareness regarding all municipal revenue sources and their valuation method?

12. What are the role and responsibility of your organization (sebeta Revenue authority) on municipal revenue administration?

13. Who is responsible for studying municipal revenue, planning, assessing municipal tax base, tariff setting and revising? What is your organization role?

14. Why not planned to collect all municipal revenue sources exist in the city? E.g. about 45 revenue sources are not planned and collected in Sebeta city.

15. What is your opinion on Municipal vehicle related revenue sources? Why these revenue sources are not collected?

16. What is your organization responsibility on enforcing municipal revenue? And what is your opinion on enforcement mechanism that exists on municipal revenue administration?

Interview Question with Sebeta City Council

A. Revenue raising and Expenditure/Budget allocation related questions

1. What are the role and responsibility of Sebeta City Council in studying, planning and administering Municipal revenue?

2. Do you have a power to approve/reject the revenue and expenditure plan of the municipality?

3. What is city council power on the allocation of municipal budget?

4. Dose the city council exercising its power as powers and responsibilities listed in the urban proclamation?

5. Dose Sebeta city council hears both revenue and expenditure report timely and give feedback?

6. In what time interval the report is presented to the city council by concerned offices? Do you evaluate performance timely?

7. Is the municipal revenue collected is adequate to discharge expenditure responsibilities?

8. Why not planned to collect in all municipal revenue sources? E.g. more than 45 revenue sources are not planned and not collected the past year.

9. What is the reason that past revenue performance is not efficient in achieving its plan?

10. What are the principles/standards and criteria are used in the allocation of budget to recurrent and capital expenditure?

11. Who has decision power on municipal budget? What is your organization responsibility? Does any influence from other party on its decision?

12. Why municipal expenditure plan is not spent as its plan?

13. What are the expenditures functions assigned to the municipality /ULG/ level government?

14. Past Expenditure on recurrent is large and also increasing from time to time why?

15. Experience shows that past municipal expenditure performance is subject to too many transfers from expenditure item to other expenditure item why? What is your opinion on it?

16. What are the problems related with expenditure assignment in the city?

Interview Question with Sebeta City Mayor Office

A. Revenue raising and Expenditure/Budget allocation related questions

1. What are the role and responsibility of you office in studying, planning and administering Municipal revenue?

2. Do you have a power to approve/reject the revenue and expenditure plan of the municipality?

3. What is your office power on the allocation of municipal budget?

4. Dose office exercising its power as powers and responsibilities listed in the urban proclamation?

5. Does your office hear both revenue and expenditure report timely and give feedback?

6. In what time interval the report is presented to your office by concerned offices? Do you evaluate performance timely?

7. Is the municipal revenue collected is adequate to discharge expenditure responsibilities?

8. Why not planned to collect in all municipal revenue sources? E.g. more than 45 revenue sources are not planned and not collected the past year.

9. What is the reason that past revenue performance is not efficient in achieving its plan?

10. What are the principles/standards and criteria are used in the allocation of budget to recurrent and capital expenditure?

11. Who has decision power on municipal budget? What is your organization responsibility? Does any influence from other party on its decision?

12. Why municipal expenditure plan is not spent as its plan?

_____What are the expenditures functions assigned to the municipality /ULG/ level government?

13. Past Expenditure on recurrent is large and also increasing from time to time why?

14. Experience shows that past municipal expenditure performance is subject to too many transfers from expenditure item to other expenditure item why? What is your opinion on it?

15. What are the problems related with expenditure assignment in the city?

16. Is there any regional policy, directives and guide lines on decentralization that defines responsibilities and source of finance to ULG governments?

17. What are the expenditures functions assigned to the ULG level government?

18. Is the resource assigned to the local government is adequate to discharge expenditure responsibilities?

Declaration

I, the undersigned, declare that this thesis is my original work and has not been presented in any other university, and that all sources of material used for the thesis have been duly acknowledged.

Name: Teshager Alemu

Signature: _____

June, 2016

Confirmation

This thesis can be submitted for examination with my approval as a university advisor

Ghebrehiwet Tesfai (PhD)

June, 2016