Public Revenue and Expenditure Gap Analysis at Local Level in Somali National Regional State:

The Case of Dhagahbour City Administration

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by

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Public Revenue and Expenditure Gap Analys at Local Level in Somali National Regional State:

(The Case of Dhagahbour City Administration).

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A Thesis Research Submitted to Addis Ababa University, Department of Public Administrations and Development Management in partial fulfillments of the Requirement for the Degree of Master of Public Management and Policy.

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Declaration/Confirmation

I, Mohammed His, hereby declare that the thesis work entitled, “Public Revenue and Expenditure Gap Analysis at Local Level in Somali National Regional State: The case of Dhagehbour City Administration”, is outcome of my own effort and study and that all sources of materials used for the study have been duly acknowledged. I have produced it independently except for the guidance and suggestion of the research advisor.

This study submitted by me for the award of the degree of Master of Public Management and Policy (MPMP) in Public Administration and Development Management of Addis Ababa University at Addis Ababa Ethiopia, is original work of and it has not been presented for the award of any other Degree, Diploma, or other similar titles of any other university or institutions.

By: Mohammed His Hussein

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This is to certify that the thesis prepared by Mohammed His Hussein, ‘‘**Public Revenue and Expenditure Gap Analys at Local Level in Somali National Regional State: The case of Dhagehbour City Administration”** and submitted in partial fulfillments of the requirement for the Degree of Master of Public Management and Policy (MPMP) in Public Administration and development management complies with the regulations of the University and meets the accepted standard with respect to original and quality.

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ABSTRACT

Raising revenue and spending the collected income to provide public services and developmental infrastructure is a pre-requisite of any local government in the world. In most city administration in developing countries, however, revenue generation have been hampered by a combination of local governments' insufficient taxing authority and lagging revenue efforts. As a result, revenue generation often has not kept pace with expenditure needs, and this has led a severe public service shortage. This has been evident in the Dhagehbour City Administration, as the study shows. The main objective of the study was to analyze Public revenue and expenditure gap in Dhagehbour City Administration. Therefore, to achieve the objective, a descriptive approach was design that involve survey, document review and record analysis. The data were collected thorough questionnaire from a sample of 150 employees. While 24 High officials and seniors' staff were collected by face-to-face interview. Dhagahbour City Administration and 24 high officials were selected purposively while the rest respondents were selected random sampling method. The analysis was computed using both Microsoft Excel and Statistical Package for Social Science (SPSS) program. Dhagehbour City Administration benefited from both inter-governmental transfers and internally generated revenue. The major findings of the study shows that Dhagehbour City Administration faces inadequate revenue to spend its functions which undermines the public service delivery and developmental projects in the city. The problem of revenue shortage in Dhagehbour City Administration is found to be the inefficiency of internal sources that generates low income and the external sources from higher levels of governments, which are not based on the requirements of the city. On the other hand, the City Administration does not develop medium-term fiscal planning that clearly defines projections for revenue and expenditure. Moreover, it incurs excess fuel and telephone expenses as well as vehicle repair and maintenance costs. Based on the finds of the study, the researcher recommended that city administration should collect a sufficient revenue which can fulfill the needs in the city, diversification of revenue sources, managing tax collection periods, improve city expenditure management, preparing proper for financial planning, providing appropriate services, and balancing the fiscal gap in the city.

ACRONYMS

SRBoFED	Somali Region Bureau of Finance and Economic Development
EC	Ethiopian Calendar
ECA	Economic Commission for Africa
IMF	International Monetary Fund
SPSS	Statistical Package for Social Science
WB	World Bank
APA	Annual Performance Assessment
REP	Revenue Enhencement Plan

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CHAPTER ONE

1. BACKGROUND

Nowadays both developed and developing countries, local government authorities are the providers of public services and the collectors of revenue from their local population who are residing in their jurisdiction. Moreover, municipalities gain revenue from the contribution of internal and external sources. Most of the external sources are from higher level government whereas internal sources are the income generated from local sources.

Raising revenue and spending the collected resources to satisfy citizens' needs is a common interest of any local government. Financial balance is a pre-requisite of any country in the world. Because balance of revenue and expenditure and the trends projected into the future assist local governments to provide public goods and services to the population who are residing in its jurisdiction.

Countries throughout the world are increasingly recognizing the benefits of fiscal decentralization. In theory- if not always in fact-decentralization makes possible for people to have greater influence on the decisions that affect their lives. David (2003) stated that spending and taxation has an impact across population. Governments spending and taxation represents a considerable fraction of total economic output. However, the impacts are not distributed equally across the population who benefits from and pays the costs of government spending, and taxation is an important issue in both developing and developed countries.

About 70% of revenues of metropolitan government, on average, are raised from local sources, of which the property tax is by far the most important. It will come as a surprise to many that a relatively low average share of financing comes from central government grants and loans, though there is a wide variation in this dependence among the cities in most developing countries (Bahl 1992).

Most cities in developing countries, however, revenue growth have been hampered by a combination of local governments' insufficient taxing authority and lagging revenue efforts. As a result, revenue often has not kept pace with expenditure needs, and this has led a severe public service shortage. It is possible to conclude that, changes in locally raised resources determine the ability of an urban government to expand its services. Where locally raised revenues far badly, urban government expenditure suffers and where do well urban expenditure thrive (develop well). Central government transfer and borrowing play only minor roles either way (Bahl and Linn 1992).

Local governments are becoming increasingly dependent on their own source of revenue, and, in many cases the era of popular tax revolts has resulted in severe restrictions on their capacity to increase local taxes. Local governments can no longer simply "pluck the goose" to support their current service delivery systems (Gianikis and McCue 1999).

Expenditure decentralization is one of the approaches of measuring degree of fiscal decentralization, but the approach has some limitations. Gebrehiwet (2002) states that firstly, greater expenditure ratio of regional governments to national government does not necessarily indicate Regional Governments' autonomy, because spending function may not always be consistent with tax assignments (major expenditure could be financed by transfers). Secondly, problem relates to cross country comparison, that is, two countries with different degree of autonomy in their fiscal actions can have the same share of sub national expenditure. The same to this even under a decentralized one, it does not indicate whether the fiscal decentralizations are limited at regional level or down stepped to lower level of local governments. However, the third limitation is associated with the inclusion of defense expenditures in the denominator which may artificially understate the degree of expenditure decentralization (Bahl and Lin 1992 cited in Gebrehiwet 2002).

Fiscal gaps result from mismatch between revenue means and expenditure need, and which is more serious for lower level of government in federal system. In relation to tax revenue, Shah (1991) stated four possible reasons for fiscal gap:

1. Inappropriate expenditure and tax assignment

2. Limited and/or unproductive tax bases available to a lower level of governments so that rates would have inefficiency high.
3. Regional tax competition state and local governments faithful of losing capital, labor and business activity to other jurisdiction do not fully exploit business tax potentials and thus provide lower public levels of public services.
4. Federal government crowds out tax room for state and local public sector.

In addition to this, Bhatia, and Linn (1992) both displayed that the fiscal gap also may have its origin in the misallocation of functions and revenues to urban governments by higher level authorities. Urban populations in most developing countries have been grow rapidly in recent years and are likely to continue to do so. This growth has led to increase demand for minimum level of public services for each new urban dweller which necessitates expenditure by urban authorities. Raising income in urban areas has also increased the demand for public services, yet the revenue of local authorities most directly affected has not usually increased commensurately. The primary expansion for this institution in that urban government are often restricted in their revenue raising authority to income inelastic sources such as property taxes, specific excise, fees and fines and transfers from higher level governments. In such case, the fiscal gap is the result of mismatch between urban governments' responsibilities to provide services whereas the allocation of expenditure responsibility and revenue raising authority to urban government is, therefore, the most important issue. Furthermore, the authors (1992) describes that this fiscal gap can be reduced when revenues transferred from higher level to lower one increase by increasing local authority and local effort to raise revenue in the face of unchanged revenue raising authority.

Ethiopian city administrations were given the legal power and duty to collect revenue by Decree Number 1/1942. The decree provided the legal framework to the city administration in the first time and legally established municipalities should undertake the collection of taxes and expend it on development activities on behalf of the town or city.

In Dhagehbour City, it has the legal power and duty to collect revenue from local community to cover their public service delivery whereas the creation of long-term assets; construction of new schools, roads and so on are used to spend the money from higher level governments because own revenue generation covers only day-to-day activities.

This generation of revenue is from both internal and external sources. The internal source of revenue generation is the most important portion of the municipality's revenue collection. It includes taxes and non-tax revenues. There also exist external sources of revenue that a higher level of governments gives to Dhagehbour City like; grants to fulfill its duties and responsibilities. In addition to that, Dhagehbour City, revenue generation and expenditure functions are carryout all parts of the municipality. The 76% of Dhagahbour City Administration budget is regional transfer while the remaining 24% is required to collect locally. Nevertheless, Dhagehbour City faces inadequate revenue to spend its functions which undermines the public service delivery of the community residing in its jurisdiction.

1.2 Statement of the Problem

Developing and developed countries in the world has difference in their revenue growth due to some obstacles that local authorities are responsible. According to Bahl and Linn (1992) have both shown that in most cities of developing countries; however, revenue growth has been hampered by a combination of local governments' insufficient taxing authority and lagging revenue efforts. As a result, revenue often has not kept pace with expenditure needs, and this must lead a server public service shortage. It is possible to conclude that, charges in locally raised sources determine the ability of an urban government to expand its services. Whereas locally raised revenues far badly, urban government expenditure suffers; and where do well urban expenditure develop well and central government transfers and borrowing only minor roles either way.

Furthermore, Bahl (1992) stated that the trend and pattern of growth in consolidated local governments' expenditure (general purpose local governments and autonomous agencies) are perhaps surprising: real per capital expenditure increased during 1960s and first half of 1970's. The ability of some local governments to raise per capital expenditure during this period despite rapid increases in population, limited resource bases, inflation and constraints placed upon them by higher government authorities was a remarkable achievement.

As suggested by McMaster (1991, 1999) that financial analysis framework presents the basic relationship between revenue generation, expenditure control and financial balance. The author argues that financial analysis framework must account the basic relationship involved in the management of urban government finance. And these relationships are divided in to three categories: revenue generation, expenditure control and financial balance.

Dhagehbour City is one of the local authorities in Somali Regional State. It accommodates (48,282) residents from different parts of the zone, the source of Somali Reginal State, Bureau of Finance and Economic Development in (2017 G.C). Its population growth rate is 4.2%. This rapid growth of population increases the demand of urban services such as health care, education, road maintenance, waste management, street lighting, and other basic facilities that determine the standard and wellbeing of urban life. However, Dhagehbour City faces expenditure and revenue gap in the administration of the area. Because the local government of Dhagehbour City collects low level of revenue and spends high to its public service delivery and developmental investments.

Recently, Dhagahbour city admin faces revenue and expenditure gap, which is the mismatch between revenue means and expenditure needs. Having that problem, can result low public service provision such education, school, health, water, road, electricity, sewage, streetlight, and other necessary facility which community expect from the government. the Dhagahbour city administration familiar with poor planning, financial misallocation, mismanagement of expenditure, lack of proper documentation and revenue collection system, lack of effort from the authority on revenue generation, lack of qualified staff and lack of financial transparent.

Based on the above, Dhagehbour city administration needs to improve community service provision and fill the gap to solve the problems of service delivery. Therefore, a different research was conducted on the revenue/municipal related, for example ABRHAM (2019) and Teshager (2016) assessed revenue relate in Ethiopia, however deep investigation of those research lacks analysis of revenue at local on fiscal decentralization practice at local level, especially, developing regions of the country there is limited research on how to practice on fiscal decentralization. Therefore this research duly investigates public revenue and expenditure and gap in Dhagehbour city administration to forward visible and scientific solution to improve service delivery of community.

1.3 Purpose of the Study

1.3.1 General Objective

The main objective of the study is to analyze revenue and expenditure in Dhagehbour City.

1.3.2 Specific Objectives

The specific objectives of the study are:

1. To identify the main own revenue sources of the City.
2. To examine the trends of revenue and expenditure in the City.
3. To determine per capital revenue and expenditure in the City.
4. To compare the ratio of developmental expenditure to revenue receipts
5. To assess the intergovernmental transfers of the City.

1.4 Research Questions

1. What are the main revenue sources in the Dhagehbour City?
2. What are the trends of revenue collection in Dhagehbour city ?
3. What are the main expenditure assignments in the Dhagahbour city?
4. What are the trends of expenditure management in Dhagehbour city?
5. How the gap between development expenditure and revenue receipts in the City explains the fiscal decentralization at local level in Somali National Regional State?

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Introduction

This chapter hold the review of the literature which is specifically based on revenue and expenditure and has briefly investigated and analyzed some key hypothetical (theoretical) and realistic (practical) issues, concepts and arguments on revenue, expenditure, grants/transfers and borrowing. Furthermore, it shows some countries (New Zealand, England, and India) in an international level and how are undertaken in fiscal decentralization by their context compared to Ethiopia.

2.2 Fiscal Decentralization

Decentralization helps local authorities to provide public services that residents want and need. This indicates that local government knows more about constituents in their local jurisdiction better than the leaders at the central level. Eshetu (1994) demonstrates that the central issue in decentralization is how much power to retain at the center and how much power to give to the regions. Although the major driving force behind decentralization is usually political-not economic there also compelling economic argument for decentralization. In addition to that, Eshetu (1994) also stated that: first, it is intended that sub national governments are closer to people than national ones and are therefore, most likely to be responsive to their needs. Second, it is argued that decentralization takes greater account of regional differences in resource endowments and makes it possible for sub national units to specialize its economic activities that are more consonant with their respective comparative advantages or not give them the attention they deserve. And finally it is claimed that decentralization promotes competition between regions in attracting investment, there by leading to greater efficiency in the economy.

Intergovernmental fiscal relations and fiscal decentralization deal with how the government sector is organized and financed. Litvack (1998) proposed that fiscal decentralization is on setting the appropriate expenditure and tax assignments for each tier of government and on designing intergovernmental transfers. Similarly, Kibre (1994) states fiscal decentralization, that is, the proper location by level of government of various taxes, spending programs, grants and regulations is becoming an important issue not only in the literature but also in the real world. Furthermore, Boex (2005) that intergovernmental fiscal relations to the different levels of government interact with each on fiscal decisions making powers and management responsibilities to lower levels of government which has four building blocks. These are: expenditure assignment, tax (revenue) assignment, intergovernmental transfers (grants) and borrowing.

Fiscal decentralization has become an imperative issue in many developing countries due to the crucial role of intergovernmental relation and increasing demand power over the resources by the local authorities. Smoke (2000) reasons that the fundamental issue in fiscal decentralization is to give power to low levels of governments in the allocation of resources and their management, but the reasons behind fiscal decentralization among others are to increase the level of enthusiasm and providing command over the resources to the local governments. Moreover, many literatures indicate that, when the local governments are lacking significant degree of authority over their own resource they exposed to frustrations and their role and commitments are highly limited to implement policies those decided elsewhere. In contrary, ECA (2003) argues that the main intent of fiscal decentralization is to place local politicians in a position that they bear the cost of their decision and deliver on their promises.

2.2.1 Expenditure Assignment

Expenditure decentralization is one of the approaches of measuring degree of fiscal decentralization, but the approach has some limitations. Gebrehiwet (2002) states that firstly, greater expenditure ratio of regional governments to national government does not necessarily indicate Regional Governments' autonomy, because spending function may not always be consistent with tax assignments (major expenditure could be financed by transfers). Secondly, problem relates to cross country comparison, that is, two countries with different degree of autonomy in their fiscal actions can have the same share of sub national expenditure. The same to this even under a decentralized one, it does not indicate whether the fiscal decentralizations are limited at regional level or down stepped to lower level of local governments. However, the third limitation is associated with the inclusion of defense expenditures in the denominator which may artificially understate the degree of expenditure decentralization (Bahl and Lin 1992 cited in Gebrehiwet 2002).

Fiscal decentralization can bring lower levels of government to provide their need and wants. Earlier research by World Bank (2000a) found that one of the underlying arguments for fiscal federalism is that assigning expenditure responsibilities and decision-making powers to lower levels of government can improve a state's ability to efficiently identify and address its citizens' needs. Mello (2000) argued that expenditure share of sub national governments in total spending is not perfect measure of fiscal decentralization, in the absence of an appropriate indicator; it is being used as a representative of fiscal decentralization. Therefore, sub-national governments in Federal Countries are seen executing higher portion of total government spending than their counter parts in unitary countries. Moreover, later research suggested again by World Bank (2000b) also demonstrated that being close to the beneficiary population, lower levels of governments have an informational advantage over the federal government as they can better see their constituents' needs. They also know the local conditions that are important in internalizing benefits and costs of public service provision and local governments have greater incentive to improve service delivery, beneficiaries and citizen groups can easily monitor their actions and evaluate them through local actions realization of these benefits, however, is not guaranteed. Careful attention needs to be given to policy design, particularly in quickly evolving, highly decentralized systems such as Ethiopia.

Both theory and experience indicate that it is important to define expenditure responsibilities as clearly as possible to enhance accountability and reduce unproductive overlap, duplication of authority, and legal challenges (Ahmed 1998). In theory, decision making should occur at the lowest level of government consistent with allocate efficiency (for example, the geographic area that internalizes the benefits and cost of decision making for a particular public services) and on the spending side, decentralization draws its arguments largely on efficiency grounds, but some writers argue that lower-level governments have some degree of distributional and allocation functions (Kibre 1994).

On many occasions instability and controversies in decentralized system have resulted from unclear expenditure assignment or lack of clarity regarding the competencies of different level of government. Vazquez (2001) mentioned that expenditure assignment is the first step in an intergovernmental fiscal system. The author also stated that designing revenue and transfer components of a decentralized intergovernmental fiscal system in the absence of concrete expenditure responsibility would weaken decentralization process. Similarly, World Bank (1998) shows that there will be confusion whether subnational expenditures request of local priorities or centrally determined program. Besides Smoke (2001) described that if too many sectors are decentralized too rapidly and local governments do not have the capacity to handle these new responsibilities; they will perform poorly and so if this happens, central agencies hostile to decentralization and can use poor local performance as an excuse for keeping the services decentralized. Furthermore, Central government (Proc Number 7/1992) stated that in Ethiopia, regions were assigned the power to prepare, approve and implement their own budgets; establish, direct and supervise social and economic development establishments or enterprises; administer, develop, and protect natural resources, establish, and direct regional security and police forces; own transfer property; and perform all other matters not reserved.

2.2.2 Assignment of Revenue

Once the assignment of expenditure responsibility has been verified there will exist how to undertake other pillars of decentralization to deliver public services by residents. It is the work of Oates (2001) that leads the second key question which is the assignment of revenue sources to carry out the responsibilities, that is: who gets what resources? Thus, the assignment of expenditure responsibility is an important determinant of the assignment of revenue sources; therefore, “money should follow functions”. Since inadequate funding sources may lead to failures in decentralization programs, genuine decentralization programs should try to clarify the fiscal relationships between the central and local government unit. That is, adequate resources should be available to decentralized units if they are to function effectively.

Any local government needs to finance the public expenses to provide services and maintain the wellbeing of their residents. Boex (2001) stated that an important determinant of the assignment of revenue sources to sub-national governments is the assignment of expenditure responsibilities, giving raises the adage: finance should follow functions. World Bank (2000) and Kibre (1994) argue that mentioning how much revenue state governments should receive? the fiscal federalism literature brings about several important considerations that need to be born in mind while discussing tax assignment.

A good tax system, to achieve various objectives, it must be selected and reached to certain principles which become its characteristics. A good tax system, therefore, is one which is designed based on an appropriate set of principles such as equity and efficiency. Accordingly, the principle of tax assignment involves issues such as: what type of taxes should be levied and collected by which level of governments and on what principles? On what criteria should the proceeds accrue both vertically and horizontally)? However, Eshetu (1994) based on equity (consistent of revenue means with expenditure needs) and efficiency (minimizing resource cost) argues that progressive redistributed taxes should be central, tax bases distributed highly unequally between jurisdiction should be centralized, and benefit taxes and user charges might be appropriately used at all levels.

2.2.3 Intergovernmental Transfers

Grants are another form of intergovernmental fiscal relation. Grants or transfers refer to the payment of funds from one level of government to another. They involve follow of resources from the center to lower level of governments, transfer from surplus regions to the center and transfer from wealthier to poorer regions. Such transfer system is justifiable because different regions have different revenue generation capacity in the one hand and even the resources base of some regions may not be sufficient to develop and provide the necessary infrastructure and services (Shah 1999). On the other hand, Bahl and Linn (1992) show the negative effects of intergovernmental transfers. According to their argument, local governments would increase spending without a corresponding increase in their tax levels and as a result they will have less incentive to search for new sources of revenue, to improve the efficiency of local government operations and develop innovative methods of delivering public services. However, there are several rationales for intergovernmental transfers among others closing fiscal gap, addressing inter-jurisdictional spillover effects, achieving political goals, and ensuring provision of minimum standard of public services are the major ones.

In the federal government resource transfers to regions are dominated by block grants commonly referred to as the federal subsidy. The objectives of grants to the regions are to promote social services and economic development of the national or regional governments: accelerate the development of the hither-to neglected and forgotten regions; to narrow income disparities between regions; to encourage activities with positive externalities and control those with external diseconomies, and to encourage foreign currency earning projects and other projects of national interest (Proc.33/1992). Federal countries to distribute grants among the different regions in the country they use different allocation factors. Like population, developmental level, necessity of financial resources and revenue raising ability of the regions are the common ones. Moreover, Boex (2001) stated that population is an important factor in most general-purpose formulas.

The general purpose of population-based factor reflects the assumption that the regions' expenditure needs generally grow proportionally with the size of population. Likewise, in Ethiopia's grant formula, the population factor is deliberately and consciously introduced to capture the expenditure need that is induced by the size of the constituency. During the last three revised formulas, the population parameter is given high weights, i.e., 60, 55 and 65 percent. As it is common in most Federal Countries; assigning the highest weight to population is not new. According to the World Bank (2001), 55% weight attached to the population parameter is reasonable.

Allocating resources based on the level of development could also be encouraged. Boex (2002) argues in two ways: the first argument is that less developed regions have a smaller infrastructure endowment, and therefore, need to receive equalization grants based on the region's level of infrastructure endowment. This will help to achieve a more equal distribution of resources among regions. The second argument is that less developed regions have a greater incidence of poverty and, therefore, have an inherently greater need for government expenditure to assure more equal access to government services among different regions. The grant formula in Ethiopia had used this parameter as either I-distance or level of development, which comprises different indicators for different formulas and the weight assigned to the development is 20 percent. Additionally, Wondimagegnu (2005) states that, intergovernmental transfers or grants in principle pertain to vertical flow of resources from central to the local governments. In contrast to this, some literatures argue that intergovernmental transfers are not usually confined to top-down flow of resources but can also inversely be from sub-national to central government or from wealthy local government to less wealthier ones horizontally. Nevertheless, transfer is considered as designed instruments intended to solve the fiscal gap. This fiscal gap arises between expenditure and revenues because locally mobilized revenues of the urban local governments in the developing countries usually fall short of the local expenditure needs and transfers are un-inevitably required. The term “transfer” denotes various types of public financing instruments including, grants, shared taxes, and subsidies.

2.2.4 Sub National Borrowing

Borrowing is another form of revenue source of sub national government to fill their fiscal gap. Wassie (1999) asserts that financing urban governments from loan sources is more practiced in developed countries than developing and transitional economies. Boex (2001) argues that, even under proper own revenue and transfer arrangements in place, sub national governments may suffer from shortfall of all revenues relative to their expenditure responsibilities. This may raise the need for additional source of finance, i.e. borrowing from domestic and/or foreign sources. Kibre (1994) states that, there is no clear-cut guide with respect to borrowing. As a rule, the author argues that, direct borrowing power from external sources should be reserved to federal governments while sub national governments are not allowed to do so. This is justified as because, particularly in developing economics, it could run counter to the political as well as the overall stabilization objectives of the national government. In most federal arrangements borrowing from external sources is reserved for Central Governments, however, some countries allow sub national governments to borrow externally.

Local government borrows money from other sectors that have more surpluses. World Bank (2000) demonstrates that optimal structure of borrowing by sub national governments has no theoretically derived guidelines as a rule applicable to all borrowing is that “a debt is useful only when it is invested to yield a rate of return that is at least enough to repay the principal along with the interest due”. Regarding to government borrowing, the rate of return may be defined as the social rate of return. Therefore, unless the increased public welfare translates into greater availability of resources to the government, increasing the debt can become a major problem. Furthermore, Befekadu (1994) argues that regional governments in Ethiopia are granted the right to borrow from domestic sources. However, the exercise of this advantage is conditional, very stringent and above all problematic challenging the practice.

On the other hand, Ahmed (1999) argues that, where the necessary preconditions are in place, sub national borrowing is both feasible and desirable on the following grounds:

1. **Financing Capital Expenditure:** local governments often have responsibility for public investment that is lump in nature. Financing such capital investment through increases in current taxes would be inefficient. In addition to that, because the benefits of such public investment often last over several decades, equity considerations would suggest that future generations participate in financing.
2. **Matching Expenditure and Tax Follows:** with in a particular fiscal year, expenditures incurred, and tax intake may not be fully synchronized. Access to financial markets offers an opportunity to smooth out these mismatches.
3. **Fostering Political Accountability:** the pricing of capital by markets may provide an independent mechanism to foster political accountability. In other words, markets may signal the poor performance of sub national governments through increases in interest rates or simply by blocking access.

Local borrowing is almost always controlled by higher level authorities in developing countries but there are variations in the extent of this control (Bird and Line, 1980). Prud (1987) states that in many countries, local authorities may borrow only from higher level governments. These universal restrictions on borrowing by local governments are no surprise in countries where capital markets are poorly developed and where the national government must be concerned about the nationwide allocation of public and private savings. Industrial countries do not face such constraints on their capital resources and thus tend to control local borrowing to a lesser degree. It should be noted; however, that almost unlimited freedom of local authorities in the United States to borrow in private capital markets is exceptional compared with the situation in other industrial countries.

2.3 Revenue Sources in Urban Local Government

Any local government in the world collects revenue from different sources of income from their local jurisdiction. According to International Monetary Fund (1986) literature suggests that revenue includes all non-repayable receipts, requited and unrequitedly other than those non-compulsory, non-repayable, unrequited receipts which come from other government domestic or foreign and international institutions. In addition to this, Bhatia (1976) demonstrated that financial resources of local government can be divided into two categories: tax revenue and non-tax revenue. According to the author, tax is a compulsory levy and those who are taxed have pay the sums irrespective of any corresponding return of services or goods by the government. In other words, a taxpayer does not receive a definite and direct quid pro quo from the government whereas non-tax revenue in the revenue. From the non-tax source that differ from one to the other sources. Some common sources of non-tax revenue are fees and fines, and charges of certain services like water supply. However, there are some important sources of non-tax revenue which are available only to bigger municipalities or corporations. In towns and cities they are different sources of revenue, but it is still not quite popular.

Governments categorize revenue sources into different components based on its percent of their income generation and its potentiality in the area. Musgrave and Musgrave (1984) categorized the government revenue generally into three forms: taxes, charges, and borrowings. Taxes and charges are withdrawn from private sector without having government with liability to the payee but borrowing involves a withdrawal made in return for the government's promise to repay at future date and to pay interests. Taxes are compulsory imposts, where charges and borrowing involve voluntary transactions and among these three-source tax provide much the larger part of receipts. In contrast, Bahl and Linn (1992) analyzed the financial pattern of urban governments by distinguishing between local and external sources of revenue and they categorize local revenue sources into three: locally collected taxes, user charges and benefits, and other local revenues such as penalties, stamp duties and the like whereas external sources of local financing are transfers such as grants, or shared taxes from higher level of government and borrowings.

2.3.1 Local Tax

Urban local government tax resources are not uniform in any country and this is not only across the country but also it differs internally from local government to local government under the same state. According to Bhatia (1976) for instance, in India the tax resources of the local bodies vary from state to state and from one body to the other. There is no standardized list; however, a municipal body must have the approval of the state government for every new tax or a revision in the rates of an old one. The local bodies also show a lack of responsibilities and requisite to improve their administration.

2.3.2 User Charges

User charges help local government to cover some part of the expenditure that it incurs by the provision of local services. Bahl and Linn (1992a) stated that user charge is a payment that made by users of public services in response to the benefit they receive from those services. These charges include public utility tariffs, special assessment to recoup the costs of infrastructure investments, fees for education and healthy, and more generally, all the type of charges which are levied on urban residents on the basis some benefit received or cost imposed on account of service provision and use but later research put forward again by Bahl and Linn (1992b) that the extent to which charges contribute to urban and they cited that fiscal resources varies widely between countries and cities, but in many places service related charges have contributed significantly to the level and growth of revenue of urban government. Considering that user charges can raise substantial revenue in a fair and publicly acceptable manner, increase efficiency of allocation of existing service capacity and help to guide investment decisions.

2.3.3 Property Taxes

Property taxes are the tax levied on land and all building on that land. It is the most common from direct revenue for urban governments and it is potentially attractive means of financing municipal governments in developing countries. Dillinger (1992) asserts property tax as revenue sources which can provide local government with access to a broad and expanding tax base. In contrast to the mix of intergovernmental grants and indirect taxes that now dominate municipal revenues. It can also promote broader efficiency objectives linking the provision of municipal service more closely to their financing and rationing the consumption of municipal services by price. At present, however, yields of urban property taxes in developing countries are extremely low. Although the tax is ubiquitous virtually all market economy developing countries assign a property tax to their municipal governments. Its contribution to total public sector tax revenue is typically less than 20%. Moreover, the author stated that the revenue generated from property tax contributes for the provision of urban services such as road, drainage, refuse collection, and so forth. Taxes on land and/or building are imposed on commercial, industrial, institutional, and residential; however, place of worship and charitable institutions, government properties are always exempted from this tax.

2.4 Empirical literature: International Perspectives

Fiscal decentralization was undertaken from both developed and least developed countries in the world to deliver public services to lower levels of government. This helped periphery local authorities to gain power to manage their resources and spent their outlays in an allocated manner. In an international level, revenue raising and providing public service delivery to local governments resemble each other in developed countries but more different when compared to least developed countries (Aden 2004). This subtitle reviews revenue and expenditure assignments in three different countries from three different continents.

2.4.1 New Zealand

New Zealand Government expenditure and revenue have an impact on everyone in the population. Everyone, at some point in their lives benefits from government provided services and entitlements such as roads, kindergartens, hospitals, or New Zealand superannuation. Almost everyone bears at least some of the cost for providing these services. Most goods or services purchased, and most income earned, attracts some form of taxation (Harrison 2000). In addition to this, Clifford (2001) described that local government has the influence to satisfy its population. It must collect its revenue from the different sources of income generation, but the benefit must be given to its community who are residing in its jurisdiction.

Spending and taxation has an impact across population. David (2003) Government spending and taxation represents a considerable fraction of total economic output and the impacts are not distributed equally across the population who benefits from and who pays the costs of government spending and taxation is an important issue in New Zealand. Unfortunately, measurement of the distributed impact of government spending and taxation has only occurred sporadically. Crawford (2003) and Johnson (2004) have both argues that the one way of looking at the distributional impact of government is to analyze spending and taxation across high-and-low-income households. In addition to this, specifically to Crawford (2003) study shows that government redistributed from high-to-low-income households on average, even the highest income households gained some benefits, and the poorest households also paid tax.

2.4.2 England

In England revenue generation and expenditure functions are undertaken in all parts of the country. It generates its income from different sources like; taxes and nontax revenue sources, grants and borrowing. But the important sources of revenue in England is the internal own source revenue.

I-Revenue and Capital Finance

Local authorities have the responsibility to provide and deliver services and developmental projects to maintain the interests of their society. However, Bolton and Wood (2002a) states that local government spending is broken down into two main types of expenditure, revenue, and capital. Revenue expenditure covers the day-to-day cost of running an authority and all the services it provides. On the other hand, Capital expenditure covers large purchases that continue to provide benefits over many years such as the cost of building a new school, road, library, leisure center or waste treatment facility. Local authorities can purchase such assets outright but that is unusual since it would often interfere with councils' ongoing need to fund wage costs. Furthermore, later research suggested once more by Bolton and Wood (2002b) that the traditional method of financing capital projects was borrowing, but in recent years alternative methods have arisen such as entering leasing arrangement and what all of these have in common is that the capital cost of the new asset is met by a service of payments, spread over many years which are a call on the revenue account. Besides, capital investment and revenue expenditure are linked whereas excessive levels of borrowing will have the effect of putting strain on the revenue budget, leading to pressure on local jobs and services.

II-Local Authorities Revenue Sources

There exist both internal and external sources of revenue in England. The internal sources (principally council tax, followed by rents, fees and charges) account for about one third of local authorities' revenue income. In fact, expenditure omits spending financed by rents, fees, and charges, due to conventions about how local spending needs are measured, so if these income sources are also omitted from the revenue source data, the amount of locally financed income falls to about a quarter According to Bolton and Wood (2002c) demonstrated that external revenue breaks down into from the uniform business rate and government grant. In practice, uniform business rate income is best regard as another form of government grant, since uniform business rate collected from local business is passed to exchequer and the amount returned to an authority is determined not by the amount rates income collected locally but by resident population.

2.4.3 India

Indian government has separate power to its tax collection, and due to this fact, local government specifies the source of income that they are going to obtain their revenue generation to sustain welfare and cover the expenditure of their local residents in the provision of service and infrastructural investments.

1- Resource Base of Urban Local Bodies

Any government has their constitution article that specifies the different duties and responsibilities about their ability to manage resources which exist in the local jurisdiction. Kim (2003) stated that the constitution specifies the taxes to be divided between the central and state governments. Although the 74th amendment is not specified about the type of urban local bodies should have, state government urban local bodies statutes define the sources of taxes revenue and methods of their mobilization, and state fiancé commissions define the functions and devolution mechanisms. The resource base of urban local bodies consists of their tax and nontax revenues, shared taxes, grants, and loans from state government, and market borrowings. Earlier research by Pradhan (2003a) found that urban governance today is characterized by fragmentation of responsibility, incomplete devolution of functions and funds to the elected bodies of urban local government bodies. In spite the unwillingness progress towards municipal autonomy, adherence to outmoded methods of property tax and reluctance to levy user charges and state governments continue to take decisions on such matters as rates of user charges such as property tax, octrio, role of parastatals in water supply and sanitations services with little reference to urban local government's that are affected by these decisions. In addition to this, Pradhan (2003b) shows that functional autonomy becomes a reality only when it is accompanied by financial independence. State governments, therefore, need to strengthen the autonomous functioning of the urban local bodies through positive measures, and ensure their financial self-reliance. The following are the major issues:

Firstly, the revenue gap is widening in most urban local bodies due to low revenue generation, enhanced expenditure responsibility, shrinking budgetary grants, and inefficient financial management. In addition to this, wide differences exist among urban local government bodies in tax jurisdiction and degree of control over fixing the tax base, rates, and exemptions, and in how efficiency taxes are administered and enforced.

2.5 Revenue Trends

Countries faces different revenue trends due to the collection of unusual revenue from local societies and grants gained from higher levels of government. Bhatia (1976) categorized the revenue sources of local urban government into tax and non-tax. In contrast, Bahl and Linn

(1992) made a distinction between locally raised (locally collected taxes, user charges and benefit charges, other locally revenue raised sources), and external revenue. According to the authors this is an important because it describes the degree to which urban government draw on resources generated by the urban economics and there is a presumption that local authorities have more discretion in managing their local sources of finance than the case of external revenue. Still the authors to analyze had taken a sample of cities for which data available to determine how much each major category of local government revenue has contributed to the financing of the growth in expenditure in recent years. According to the data collected, the financing choices of those cities have varied widely. For instance, the Colombian cities have tended to rely more heavily on increase in grants or local taxes possibly because of the importance of public utility expenditures.

Developing and developed countries in the world has difference in their revenue growth due to some obstacles that local authorities are responsible. According to Bahl and Linn (1992) have both shown that in most cities of developing countries; however, revenue growth has been hampered by a combination of local governments’ insufficient taxing authority and lagging revenue efforts. As a result, revenue often has not kept pace with expenditure needs, and this must lead a server public service shortage. It is possible to conclude that, charges in locally raised sources determine the ability of an urban government to expand its services. Whereas locally raised revenues far badly, urban government expenditure suffers; and where do well urban expenditure develop well and central government transfers and borrowing only minor roles either way. Furthermore, Bahl (1992) stated that the trend and pattern of growth in consolidated local governments' expenditure (general purpose local governments and autonomous agencies) are perhaps surprising: real per capital expenditure increased during 1960s and first half of 1970’s. The ability of some local governments to raise per capital expenditure during this period despite rapid increases in population, limited resource bases, inflation and constraints placed upon them by higher government authorities was a remarkable achievement.

2.6 Fiscal Gap

Fiscal gaps result from mismatch between revenue means and expenditure need, and which is more serious for lower level of government in federal system. In relation to tax revenue, Shah (1991) stated four possible reasons for fiscal gap:

1. Inappropriate expenditure and tax assignment

2. Limited and/or unproductive tax bases available to a lower level of governments so that rates would have inefficiency high.

3. Regional tax competition state and local governments faithful of losing capital, labor and business activity to other jurisdiction do not fully exploit business tax potentials and thus provide lower public levels of public services.

4. Federal government crowds out tax room for state and local public sector.

In addition to this, Bhatia, and Linn (1992) both displayed that the fiscal gap also may have its origin in the misallocation of functions and revenues to urban governments by higher level authorities. Urban populations in most developing countries have been grow rapidly in recent years and are likely to continue to do so. This growth has led to increase demand for minimum level of public services for each new urban dweller which necessitates expenditure by urban authorities. Raising income in urban areas has also increased the demand for public services, yet the revenue of local authorities most directly affected has not usually increased commensurately. The primary expansion for this institution in that urban government are often restricted in their revenue raising authority to income inelastic sources such as property taxes, specific excise, fees and fines and transfers from higher level governments. In such case, the fiscal gap is the result of mismatch between urban governments' responsibilities to provide services whereas the allocation of expenditure responsibility and revenue raising authority to urban government is, therefore, the most important issue. Furthermore, the authors (1992) describes that this fiscal gap can be reduced when revenues transferred from higher level to lower one increase by increasing local authority and local effort to raise revenue in the face of unchanged revenue raising authority.

2.7 Financial Analyses

Government authorities and municipal leaders in any country try to calculate the revenue gained from own sources of income that are existing in their area and the grants from higher levels of government to plan and predict expenses that will be consumed in the whole year. As suggested by McMaster (1991, 1999) that financial analysis framework presents the basic relationship between revenue generation, expenditure control and financial balance. The author argues that financial analysis framework must account the basic relationship involved in the management of urban government finance. And these relationships are divided in to three categories: revenue generation, expenditure control and financial balance.

2.8 Conclusion

This chapter has focused on how fiscal decentralization has influenced on local governments to provide public services and developmental investments. There exists alternative source that local government can finance its expenditure is the collection of revenue from their residents. Therefore, this chapter will investigate about revenue, expenditure, transfers and borrowing in an international level in comparison to Ethiopian context. This chapter will also explore about how fiscal decentralization was implemented and executed in New Zealand, England, and India.

CHAPTER THREE

3. METHODOLOGY

3.1 An Introduction

This chapter deals with the research design and methodology of the study. Collection of both primary and secondary data from key informants and respondents through questionnaire, interview, documents, publications, reports other materials from relevant parties was be used. After collection, they were categorize based on their nature and sources. Then, it was processed, analyzed, and interpreted accordingly to obtain key inputs to help undertake the study on challenges of Public revenue collection and expenditure management to Dhagahbour City Administration.

3.2 Research Design

The objective of this research was to assess the existing revenue and expenditure gap in Dhagahbour City Administration. This study applied a single-case study considering Degahabour as a typical case. The study was a descriptive research type used both qualitative and quantitative approaches. This study was conducted with preliminary survey, reviewing of historical documents and record analysis. Furthermore, the data was used in this thesis includes both primary and secondary data. The primary data was obtained used questionnaires and interviews and that has been seen on the study area during the field survey. The secondary data was obtained from secondary sources such as related documents, relevant studies, internet websites and books. In addition to this, the study consists of both qualitative and quantitative data types from both sources; to increase the validity and reliability of the result in the research. In other words, validity and reliability of this research was increased with the use of qualitative and quantitative data gathered from primary and secondary data sources. The objective of this research was to assess/investigate the existing the revenue and expenditure gap in Dhagahbour city Administration.

3.3 Data Sources

In this work, two types of data were used qualitative and qualitative data. The source of data was primary and secondary data sources, and it was collected to explore and assess the existing challenges of revenue and expenditure gap in Dhagahbour City Administration. Both data sources are essential to understand the complex issues of expenditure and revenue gaps and it requires critical understanding from different perspectives.

3.3.1 Primary Data Sources

Primary sources of data were collected from interviews and questionnaires, further from purposively and randomly selected individuals, and informal oral discussions with employees of Dhagahbour City Administration including office heads.

3.3.2 Secondary Source

Secondary data sources were obtained from document analysis like books, internet websites, World Bank Journals, periodicals reports, the annual reports of the institution, research reports, annual revenue reports and expenditure and Web Site of the organization. The researcher was intensively used these secondary sources of data which were abandoned in size and too valuable.

3.4 Method of Data Collection

The qualitative data was collected using the tools of interviews and questionnaires. The researcher was preparing primary data gathering tools because to obtain current and information about the study on the challenge's revenue and expenditure gaps.

3.4.1 Interviews

The researcher was used semi-structured interviews to gather information from the Mayor, Deputy Mayor, Office Heads and Core Process Owners to get in-depth information about the challenges of revenue collection and expenditure management in the City Administrations. Moreover, interview was a useful instrument to collect data because it is an active process which involves a face to face, it is vital to get unexplored facts. In the interview, all questions asked was prepared in advance to made it standardize, however, to give freedom & make flexible, an open-ended questions type will also execute.

3.4.3 Questionnaires

The questionnaire is one type of survey which asks for responses to a set of questions. One can involve large numbers of people by using a questionnaire (Hult, 1986:37). Officers and Low-level Employees was prepared to a questionnaire and distribute to the respondents to make them more comprehensible. The questionnaires contained closed-ended items. Most of the closed-ended items was constructed in the form of multiple choice (mostly in a form of rating scale). The questions on questionnaires were prepared in English version and translate to Somali. The advisor was rechecked the coherency, consistency, and validity of the items on enquires. The questionnaire for these groups was focus on the revenue collection, expenditure functions and governmental transfers of the City Administration.

3.5 Population and Sampling

3.5.1 Population

All the items under consideration in any field of inquiry constitute a ‘universe’ or ‘population’ (Kothari 2005). The population of this study was included Mayor, Deputy Mayor and Office heads who were lead the institutions, Core process owners, Case team Coordinator, Officers, and lower-level employees as the target population for the purpose of the study. According to the preliminary survey made and data secured from the Human Resources Development Head of Dhagahbour City Administration, the total number of employees who work in the City Administration are 1,159.

3.6 Sampling Methods

3.6.1 Sampling Size

Purposive and simple sampling technique were used to sample the target population of Mayor, Deputy Mayor, Office Heads, Core Process Owners, Case Team Coordinators, Officers, and low level-employees. Firstly, 4 Office Heads including the Mayor, Deputy Mayor, Revenue Authority Office Head and Finance and Economic Development Head were selected from the 21 Office Heads; because the above-mentioned offices were more relevant to the topic and can provide qualitative interview. The rest of employees were divided into four group (Core Process Owners, Case Team Coordinators, Officers, and low level-employees.) in terms of position and work experiences. Secondly, within each single stratum, were selected simple random sampling procedure as the below table.

Table 3.1: Population and Sample Size

No	Sample of the study	Population	Sample	Percent	Techniques
Dhagahbour City Administrations	Office Heads	21	4	2.4%	Purposive
	Core Process Owner	20	10	6.1%	Simple random
	Case Team Coordinator	40	20	12.2%	Simple random
	Officer	60	30	18.3%	Simple random
	Low level-employees	1,018	100	60.98%	Simple random
	Total	**1,159**	**164**	**100%**	Simple random

3.7 Method of data analysis

After the data were collected from both primary and secondary sources through qualitative and quantitative, the results were analyzed and interpreted using percentage and frequency descriptive trend analysis method. The researcher was used qualitative data analysis in the form of words, sentences, or paragraph. In analyzing the quantitative data collected through questionnaires from employees were used to analyze Statistical Package for Social Science Software (SPSS) 20 versions and Microsoft excel. The analysis included representations of results using numbers, charts, graphs, tables, and description. Descriptive analysis was employed to analyze the frequencies and percentages of respondents' perception and their level of agreement or disagreement with the given statement under each question.

3.8 Significance of the Study

To undertake sustained economic and social development of city areas, it is important to generate revenue that helps to provide public services. Dhagehbour city faces lack of enough revenue to cover its expenditure functions. Hence, to adopt a research about revenue and expenditure analysis is worthwhile because this will help local government authorities to prioritize the main own revenue sources and manage its outlays of the municipality. It will improve efficiency of revenue collection systems in the city by using the most appropriate techniques in revenue forecasting. This study will also help other cities authorities to be aware all related problems about revenue collection and its expenditure management. It will give them clue about how they can maintain good public service delivery to their community by their revenue generation and proper expenditure management as well.

3.9 Scope/Delimitations

The study deals with the revenue and expenditure analysis in Dhagehbour City. Its scope is mainly focused on Dhagehbour City to evaluate and assess the existing revenue and expenditure in the area and to suggest possible solutions. This research was undertaken five years' time beginning from 2008 E.C to 2012 E.C. Dhagehbour City consists of (48,282) total populations who are residing in Dhagehbour City, according to the Somali Regional State, Bureau of Finance and Economic Development (BoFED) 2020 G.C. The total numbers of staffs in Dhagehbour City offices are more than (1,159) total workers but the researcher will adopt the research to only staffs in the Mayor office, Revenue Authority and Finance and Economic Development office as these offices are more relevant to the topic. Because of relevance and propriate to the required information. The researcher will only undertake the research to the total number of (1,159) staffs of Dhagahbour City Administration.

3.10 Ethical Consideration

To start and undertake the research, the necessary approval of the topic was obtained from the department of Public Administration and Development Management. The researcher has requested and obtained formal letter from the department to help him undertake the research study to gather data from Dhagahbour City Administrations Office Heads. During the whole process from respective institutions, the researcher was planned to behave the discussions with at most ethical manner. Further brief description about the title and objective (academic consumption) of the study was made clear to respondents for all concern institutions was informed in polite manner that the information they give was not be disclosed to anyone else to build their confidence and provide the available raw data.

CHAPTER FOUR

4. FINDINGS/RESULTS AND DISCUSION

4.1 Introduction

The main context in this chapter both primary and secondary data were discussed and analyzed to investigate more about revenue and expenditure analysis in Dhagehbour city. Here are presented some main captions that relates to revenue and expenditure in Dhagehbour city which is more appropriate to problem statement, objectives of the study and the research questions like; analysis of response rate, trends of revenue and expenditure, per capita expenditure and revenue, ratio of capital expenditure to total expenditure, actual revenue to actual expenditure, planed revenue to actual revenue, planned recurrent expenditure to actual expenditure, fiscal balance, analysis of fiscal transfers and other factors that are related were discussed and analyzed

4.2. Socio-Demographic Characteristics of Respondents

Table: 4.2 Socio-Demographic Information of the Respondents

No	Respondent	Item	Category	Frequency	Percent
1		Gender	Male	101	67.3%
			Female	49	32.7%
			Total	150	100%
2		Position	Case Team Coordinators	20	13.3%
			Senior Officers	30	20%
			Officers	40	26.7%
			Supervisors	25	16.7%
			Other workers	35	23.3%
			Total	150	100%
3		Educational Status	Grade 12th	28	18.7%
			Certificate	26	17.3%
			Diploma	34	22.7%
			Degree	52	34.7%
			Master	10	6.7%
			Total	150	100%
4		Years of Experience	1-4	60	40%
			4-6	38	25.3%
			6-8	29	19.3%
			Above-8	23	15.3%
			Total	150	100%

The socio-economic and demographic factors included Gender, position, educational status, and Years of experience of the employee. A total of 150 (100%) employees and all of them completed the request about public revenue and expenditure analysis in Degahabour city administration. The demographic factors are presented below.

As it is indicated in table (1) above, items (1) regarding the employees gender the frequency and Percent of employees response, 101 (67.3%) of the employees were males and the rest 49 (32.7%) were female employees.

For the above table (1) item, (2) regarding the employee's positions, the frequency and total Percent of employees response were 20 (13.3%) Case Team Coordinator, 30 (20%) were Senior Officers, 40 (26.7%) were Officers, 25 (16.7%) Supervisors and 35 (23.3%) were other workers.

For the above table (1) item, (3) regarding the employee's Educational status, the frequency, and total Percent of employees response, 28 (18.7%) were grade 12, 26 (17.3%) were Certificate, 34 (22.7%) Diploma, 52 (34.7%) were Degree, and 10 (6.7%) were Masters.

Bases on this qualification category, 65.3% of the employee's qualification is below Degree program. This indicates that there is lack qualification related to revenue and expenditure administrations and respectively decision-making in the city administration.

For the above table (1) item, (4) regarding the employee's years of experience, the frequency, and total Percent of employees response, 60 (40%) were 1-4y ears, 38 (25.3%) were 4-6 years, 29 (19.3%) 6-8 years, and 23 (15.3%) were above-8 years.

Bases on this work experience category, 60 (40%) of the employees work experience is 1-4 which is not enough to handle properly revenue and expenditure in the city administration. So, it may indicate that there can be low performance in city administration.

In the interview results of Mayor, Deputy Mayor, Finance and Economic Development Head, Revenue Agency Head and Core Process Owners replied that lack of the qualified staff is the most serious problem on our achievement of the revenue and expenditure in city administrations. All of them, have agreed on the staff working in the city are mostly graduate from Private University and Colleges with very low quality and do not have the capacity of Degree programme student expected level. This part was one of the important parts of the topic to know and analysis staff capacity and performance in coordination with expenditure management performance and problems.

4.3 Main Revenue Sources and Budget in City Administration

Before the trend analysis of revenue performance of last five years. The researcher decided to provide a clear picture on budget source of the city administration. Degahabour city administration has been consolidating its budget from three main financial sources which is broadly categorized as internal and external sources. An internal source mainly constituted by the own sources of revenue. External sources refer to the Regional fiscal transfers (in the form of block and/or conditional grants). Whereby the city budget mainly relayed on an external source. The different revenue source of the city administration is discussed here under.

4.3.1 Own Revenue Source

The Own Source of Revenues of the City Administration comprises taxes, service charges, fees, rents, sales of goods and services. The municipal own-source revenues are categorized into Recurrent and Event-based revenues depending on their nature. The recurrent revenues include all ordinary or recurring revenue sources whereas; event-based types of revenues are transaction-based and mainly focus on fees and service charges. Categorized the revenue items into recurrent and event revenue assists the City administration to focus on the main revenue sources in its revenue enhancement efforts and to design appropriate revenue enhancement system and procedures.

.4.3.2 State Revenue

The revenue items are categorized under account code 1101-1509. Some of the revenue sources categorized under this title include Trade profit tax, which encompasses Annual Trade income tax, Personal income tax, TOT (Turn over tax), VAT (Value added tax), House rent tax (Residential and Trade), Capital gains tax and other taxes, etc. The State revenues are categorized under three major sources: Direct taxes, Indirect taxes, and Non-tax revenues.

4.3.3 Transfer from BOFED/Regional Subsidy:

Regional transfer is one of the major sources of the City administration. The transfer is made based on a formula that considers the following factors such as the City administration population, Level of development, and Revenue generation capacity of the city. The transferred fund is used to cover some recurrent and capital expenditure (the expenditure is recorded under account code 6100-6199).

4.4 Trend of the top five recurrent Municipal revenue sources

Here under, trend analysis of the five recurrent revenue sources is discussed in detail. For the past five years revenue contribution, percentage, and actual growth rate on annual basis in each revenue items. The five years (E.F.Y 2008-2012) expenditure efficiency (Expenditure Efficiency Indicators) of each revenue item of the City Administration is structurally depicted as follows. Generally, the revenue sources of the City administration are categorized into five major revenue sources. These revenue sources that are coded from 1700-1799 are indicated hereunder:

I. Tax Revenue from Municipal Services (coded from1701-1709)
II. Municipal Rent Revenues and Investment Income (coded from 1721-1739)
III. Municipal Service Charges (coded from 1741-1749)
IV. Sales of Goods and Services (coded from 1751-1789)
V. Other Capital Receipts (coded from 1791-1799)

The main purpose of reviewing past revenue collection performance is to identify the major revenue items for detail potential and/or issue assessment. The major revenue items were selected based on a thorough assessment of their percentage share contributions for the five years average & the trends between years actual revenue collected and plan.

In Addition to this, the revenue items were categorised in to two major groups (i.e., recurrent, and event-based items) depending on their nature/frequency of transaction as indicated in the following tables.

4.4.1 Past Performance of Business and Professional Services

Table 4.4: Past Performance of Business and professional services and licensing fee (1741)

Ethiopian Fiscal Year	Plan	Actual	Plan Vs Actual	Actual Growth rate
2008 E.C	1,000,000.00	934,800.00	93%	
2009E.C	1,500,000.00	1,425,800.00	95%	52.5%
2010 E.C	2,151,000.00	2,258,940.00	105%	58.40%
2011 E.C	2,200,000.00	2,265,953.00	103%	0.30%
2012 E.C	2,340,000.00	2,597,256.00	111%	14.60%
Average	**1,838,200.00**	**1,896,549.00**	**102%**	**25.20%**

The figures in the table above show that, the average revenue performance of the last 5 years has been 2% above the plan, according to the APA Guideline. On the other hand, from the same table the average annual growth rate is 25.20% which is 5.20% higher than the minimum growth rate in the APA Guideline. Overall, these performances show that there was good planning capacity.

4.4.2 Past Performance of Urban land rent

Table 4.5: Past Performance of Urban land rent (1721)

Ethiopian Fiscal Year	Plan	Actual	Plan Vs Actual	Actual Growth rate
2008 E.C	850,000.00	754,950.00	89%	
2009E.C	900,000.00	889,000.00	99%	18%
2010 E.C	1,200,000.00	1,478,546.00	123%	66%
2011 E.C	1,500,000.00	1,688,350.00	113%	14%
2012 E.C	2,000,000.00	2,009,197.45	100%	19%
Average	**1,290,000.00**	**1,364,008.69**	**104%**	**23.45%**

As can be read from the above table, the performance of urban land rent revenue source was fluctuating in the past 5 fiscal years has been 4.8% above the plan. Similarly, the average performance of the revenue source of 2010 and 2011 E.C is still above 10%. On the other hand, the actual growth rate 23.45% was more than 20% which was a good performance.

4.4.3 Past Performance of Building tax

Table 4.6: Past Performance of Building tax (1701)

Ethiopian Fiscal Year	Plan	Actual	Plan Vs Actual	Actual Growth rate
2008 E.C	600,000.00	651,763.00	109%	
2009E.C	700,000.00	732,655.00	105%	12%
2010 E.C	1,000,000.00	1,005,050.00	101%	37%
2011 E.C	1,550,000.00	1,624,545.00	105%	62%

2012 E.C	2,000,000.00	2,292,443.61	115%	41%
Average	**1,170,000.00**	**1,261,291.32**	**106.6%**	**30.5%**

As is depicted above, the collection performance of building tax in the last 5years has been 6.6% above the planned target. This shows that the performance was moderate. On the contrary when i look into each year's performance it was good except 2012 which is more than the required target. In similar vein, the average actual growth rate has fluctuated up and down. However, the total actual average growth rate was 30.5%, which was higher than the minimum standard growth rate of 20%. According to APA guideline.

4.4.4 Past Performance of Annual vehicle inspection Fee

Table 4.7: Past Performance of Annual vehicle inspection agencies fee (1764)

Ethiopian Fiscal Year	Plan	Actual	Plan Vs Actual	Actual Growth rate
2008 E.C	160,000.00	200,550.00	125%	
2009E.C	300,000.00	320,065.00	107%	59.6%
2010 E.C	320,000.00	345,369.00	108%	7.9%
2011 E.C	350,000.00	371,240.00	106%	7.5%
2012 E.C	400.000.00	402,140.00	101%	8.3%
Average	**306,000.00**	**327,872.80**	**109.3%**	**16.7%**

Pertaining to the performance of Annual vehicle inspection agencies fee, in the last 5 years, the average has been 9.3%. This shows that the performance was moderate (below the 10% standard) when compared with the standard indicated in the Revenue Enhancement Plan (REP) manual and Annual Plan Assessment (APA) Guideline. But when we see each year's performance of the revenue source, it has fluctuated up and down. Similarly, the average actual growth rate has been erratic, and the average actual growth rate is 16.7%, which was less than the minimum standard (20%).

Concerning this revenue source, the researcher has identified the following problems: lack of organized payer's data base, weak follow ups and poor revenue collection mechanisms, less enforcement mechanism, planning without evidence or realistic data and revenue coding errors.

Therefore, it is commendable that a strong working relationship between the Revenue and other stakeholders.

4.5.5 Past Performance of Residential houses rent.
Table 4.8: Past Performance of Residential houses rent (1722)

Ethiopian Fiscal Year	Plan	Actual	Plan Vs Actual	Actual Growth rate
2008 E.C	150,000.00	147,570.00	98.4%	
2009E.C	220,000.00	222,000.00	100.9%	50.4%
2010 E.C	240,000.00	246,600.00	102.8%	11.1%
2011 E.C	250,000.00	259,468.00	103.8%	5.2%
2012 E.C	300,000.00	282,123.00	94.0%	8.7%
Average	**232,000.00**	**231,552.20**	**100.0%**	**15.1%**

As can be seen from the above table, the average collection performance of Residential houses rent in the last 5 years was 100%. This shows that the performance was good and same the planning the target. By the same taken Similarly, the average actual growth rate registered like other sources has been erratic and the total average actual growth rate is 15.1%, which is less than the minimum standard of 20%.

4.4.6 Total Five Years of Five Top Recurrent Revenue Performance Summary.
Table 4.9: Total five years of five top recurrent revenue (2008 – 2012 EFY)

Year E.C	2008	2009	2010	2011	2012
Plan	2,760,000.00	3,620,000.00	4,911,000.00	5,850,000.00	7,040,000.00
Actual	2,689,633.00	3,589,520.00	5,334,505.00	6,209,556.00	7,583,160
actual vs. plan	97%	99%	109%	106%	108%
Growth rate of plan		31.2%	35.7%	19.1%	20.3%
Growth rate of actual		33.5%	48.6%	16.4%	22.1%
Average growth rate of actual					**30.1%**

In summary, as can be seen from the table above the average growth rate of actual revenue of 2011 EFY was less than the average growth rate of the planned revenue. On the other hand, the average growth rate within the past five years (2008-2012) was **30.1%** which is higher than the minimum standard: 20%. This shows that there was good performance but underestimation.

The data from interview with the Mayor Deputy, Head of Finance and Economic Development, Head of Revenue Agency, and Core Processor Owner, also identifies the following as challenges in the administration of revenue in the city administration on the below table 4.10.

Table 4.10 Summarized Challenges/Problems of Recurrent Municipal Revenue

Assessment tools used to find issues/problems	Issued found in each of the Analyzed Recurrent revenue items				
	Business and professional services registration and licensing fee	**Urban Land Rent**	**Building Tax**	**Annual vehicle inspection agencies fee**	**Residential houses rent**
Issues found in identification and registration of payers	-The problem of collecting data exhaustively. or The problem of putting all taxpayers into the tax network -Commitment problem	-Lack of Organized data -Poor exchange of data between revenue & ULGs office -Poor filing system	-Lack of Organized data -Poor exchange of data and coordination b/n revenue & municipal office. -Updating problem	-Lack of organized data -Updating problem	-Lack of Organized data -Poor exchange of data and coordination b/n revenue & ULGs office
Issues found in the assessment of the tax base/valuation/	Less Commitment to assess each and individual traders and other transactions.	Poor documentation	Poor documentation and Updating problem Commitment problem	Poor documentation	Poor documentation Timing of grace period is unknown. Poor compensation committees' decision Corruption
Issues found during rate analysis	Equity Cost recovery	Improvement problem in billing rate and land grade Cost recovery	Equity	Updating Equity or Fairness	-
Issues found during assessment of actual vs plan	Planning problem Follow up and timely collection problem	Planning problem Poor follow up and timely collection. Poor enforcement mechanism	Planning problem Poor follow up and timely collection. Poor enforcement mechanism Poor collaboration with other stakeholders.	Planning problem Poor follow up and timely collection. Poor enforcement mechanism Coding error	Planning problem Poor continuous follow up and timely collection. Poor enforcement mechanism Coding error
Issues found during assessment of revenue trends	Planning without evidence Coding error and continuous follow up	Planning without evidence Less enforcement mechanism and continuous follow up	Planning without evidence and continuous follow up	Planning without evidence Coding error and continuous follow up	Planning without evidence Coding error and continuous follow up
Issues found during assessment of past enforcement mechanisms	Poor commitment in applying directives and regulations, Lack of continuous awaking and awareness creation. Planning without evidence	Poor enforcement system Lack of continuous awakening and awareness creation. Timely collection	Poor follow up and timely collection. Lack of continuous awaking and awareness creation.	Poor follow up and timely collection. Less enforcement mechanism	Poor enforcement system Lack of continuous awaking and awareness creation. Poor follow up

4.5 Trend of the Top Five Event Based Revenue Items.

Here under, trend analysis of the five event-based revenue sources is discussed in detail. For the past five years revenue contribution, percentage, and actual growth rate on annual basis in each revenue items. See the detail on the below table.

4.5.1 Stable rent/Livestock Marketplace Rent

Table 4.11: Stable rent / livestock marketplace rent (1726)

Ethiopian Fiscal Year	Plan	Actual	Plan Vs Actual	Actual Growth rate
2008 E.C	700,000.00	723,750.00	103.0%	
2009E.C	950,000.00	897,555.00	94.5%	24.0%
2010 E.C	1,000.000.00	1,000.000.00	100.0%	11.4%
2011 E.C	1,300,000.00	1,300,660.00	100.1%	30.1%
2012 E.C	1,500.000.00	1,549,490.00	103.3%	19.1%
Average	**1,090,000.00**	**1,094,292.80**	**100.2%**	**16.9%**

The collection performance of Stable rent / livestock marketplace rent (1726) in the last 5years has been 0.2% above the planned target. The average growth rate of the Stable rent / livestock marketplace rent is 16.9% which is higher than the minimum growth rate indicated in the APA guideline which is 20%.

4.5.2 Building and Fence Construction Permit License.

The base of this revenue source is the number and size of building and land level or grade. The City administration, from this source, collects less than expected. This has happened due to a lack of proper assessment mechanism, absence of follow-up and timely collection. This revenue item covers more than 2 percent which is high and it is the second contributor from the event-based revenue and 5th from all revenue sources of the city.

Table 4.12: Building and Fence Construction Permit License (1742)

Ethiopian Fiscal Year	Plan	Actual	Plan Vs Actual	Actual Growth rate
2008 E.C	400,000.00	415,650.00	103.9%	
2009E.C	420,000.00	432,770.00	103.0%	4.1
2010 E.C	500,000.00	489,900.00	98.0%	13.2%
2011 E.C	675,500.00	698,660.00	103.4%	42.6%
2012 E.C	900,000.00	845,675.00	94.0%	21.0%
Average	**579,100.00**	**576,531.00**	**100.5%**	**16.2%**

The collection performance of Building and Fence Construction Permit License (1742) in the last 5years has been 0.5% above the planned target. The average growth rate of the Building and Fence Construction Permit License is 16.2% which was below the minimum growth rate indicated in the APA guideline which is 20%. Therefore, there was poor planning and as well as fluctuation.

4.5.3 Other Charges

As there are many revenue sources lumped together in this revenue source, it has become very difficult to analyze the item as singe revenue source. Due to a lack of knowledge and skill the revenue items are recorded in this revenue item. Therefore, the City Administration must identify the real problem behind this source as soon as possible.

Table 4.13: Other charges (1749)

Ethiopian Fiscal Year	Plan	Actual	Plan Vs Actual	Actual Growth rate
2008 E.C	300,000.00	329,445.00	109.8%	
2009E.C	450,000.00	495,700.00	110.2%	50.5%
2010 E.C	550,000.00	554,920.00	100.9%	11.9%
2011 E.C	650,000.00	656,886.00	101.1%	18.4%
2012 E.C	700,000.00	721,900.00	103.1%	9.9%
Average	**530,000.00**	**551,770.20**	**105.0%**	**18.1%**

The collection performance of Other charges (1749) in the last 5years has been 5.0% above the planned target. The average growth rate is 18.1% which is less than the minimum growth rate as indicated in the APA guideline which is 20%. Therefore, there was poor performance which resulted by poor planning capacity.

4.5.4 Loading and Unloading Charges

Table 4.14: Loading and Unloading Charges (1778)

Ethiopian Fiscal Year	Plan	Actual	Plan Vs Actual	Actual Growth rate
2008 E.C	280,000.00	335,400.00	119.8%	
2009E.C	350,000.00	390,595.00	111.8%	16.5%
2010 E.C	470,000.00	525,050.00	111.7%	34.4%
2011 E.C	550,000.00	566,386.00	103.0%	7.9%
2012 E.C	750,000.00	810,089.00	108.0%	43.0%
Average	**480,000.00**	**525,504.00**	**119.8%**	**20.4%**

The collection performance of Loading and unloading charges (1778) in the last 5years has been 10.8% above the planned target. The average growth rate is 20.4% which is higher than the minimum growth rate indicated in the APA guideline which is 20%. So, the performance was good.

4.5.5 Road Services Fee

Table 4.15: Road Services Fee (1756)

Ethiopian Fiscal Year	Plan	Actual	Plan Vs Actual	Actual Growth rate
2008 E.C	253,900.00	274,600.00	108.2%	
2009E.C	330,500.00	358,900.00	108.6%	30.7%
2010 E.C	455,500.00	465,750.00	102.3%	29.8%
2011 E.C	630,000.00	646,500.00	102.6%	38.8%
2012 E.C	722,870.00	730.049.25	101.0%	12.9%
Average	478,554.00	495,159.85	104.5%	22.4%

The collection performance of Road service fee (1756) in the last 5years has been 4.5% above the planned target. The average growth rate is 22.4% which is higher than the minimum growth rate indicated in the APA guideline which is 20%. So, the performance was good.

4.5.6 Summary of Trend Analysis of Five Top Event Based Revenue Items.

Table 4.16: Trend analysis of Five Top Event based revenue.

Code	**Items of revenue and descriptions**	**Amount collected in year**					**Average growth rate of the years**				**Average growth rate of past 5 years**
		2008	2009	2010	2011	2012	2008-2009	2009-2010	2010-2011	2011-2012	
1726	Stable rent / livestock market place rent	723,750	897,555	1,000,000	1,300,660.00	1,549,499	24.0%	11.4%	30.1%	19.1%	21.2%
1742	Building and Fence Construction Permit License	415,650	432,770	489,900	698,660.00	845,675	4.1%	13.2%	42.6%	21.0%	20.2%
1749	Other charges	329,445	495,700	554,920	656,886.00	721,900	50.5%	11.9%	18.4%	9.9%	22.7%
1778	Loading and unloading charges	335,400	390,595	525,050	566,386.00	810,089	16.5%	34.4%	7.9%	43.0%	25.4%
1756	Road services fee	274,600	358,900	465,750	646,500	730,049	30.7%	29.8%	38.8%	12.9%	28.1%

The data from interview with the Mayor Deputy, Head of Finance and Economic Development, Head of Revenue Agency, and Core Processor Owner, also identifies the following as challenges in the administration of revenue in the city administration on the below table 4.17.

Table 4.17: Summary of issues found during analysis of Event Revenue Items

Event Based Revenue Item	Issues found in past revenue performance analysis	Impact on future revenue performance (Low, Medium, or High)	Possibility of Mitigation (Yes/No)
Stable rent / livestock marketplace rent (1726)	Directive and regulation gap Inconvenient of payment place	Medium	Yes
Building and Fence Construction Permit License (1742)	Proliferation of illegal constructions Lack of monitoring & controlling. Lack of follow up and timely collection	Medium	Yes
Other charges (1749)	Coding error and/or mis used	Medium	Yes
Loading and unloading charges (1778)	Follow up and timely collection. Lack of applying the rules and regulations	Low	Yes
Road services fee (1756)	Lack of monitoring & controlling. Lack of follow up and timely collection	High	yes

4.6 Main Expenditure Assignment in the City Administration

Enhancing the well-being of citizens through an efficient and effective the provision of public services is the most important mandate of cities. It's on this basis that the periodic expenditure of these roles that performances of City Administrations is measured and evaluated. For living up to the institutional responsibilities of attaining the twin goals: producing and achieving quality in par with satisfaction and fulfilling customer's expectation, the revenue enhancement plan must be aligned with the cardinal principle of efficiency, effectiveness, economy, and sustainability. The expenditure structure of the city administration is depicted as follows.

4.6.1 Recurrent Expenditure

The recurrent expenditure is concerned with the regular operation of the City Administration, including the salaries and operating expenses such as per diem and over time, entertainments, supplies, repair and maintenances of vehicles, transportation costs, postal and telephone charges, electric consumption charges and fuel and lubricants as well as the procurement of short-term/assets above one year.

4.6.2 Capital Expenditure

The capital expenditure of the municipality is normally concerned with the creation of long-term assets such as: office equipment's, construction of roads, drainages, slaughterhouses, shops, housing, and other social infrastructure development of the city.

4.7 Trend Analysis of Expenditure Assignment in City Administration

Here the researcher decided to analysis the trend of both capital expenditure and recurrent in the city adminstration. Analysing, capital share, recurrent share and total expenditure budget. The researcher focused in this part to analyse the total expdenditure of the last five years unders study to now where there is the gap as the below table 4.18.

Table 4.18: Expenditure Structure of the City Administration

Years E.C	Capital Expenditure	Percent	Recurrent Expenditure	Percent	Total Expenditure
2008	48,456,534	90.9%	4,856,000	9.1%	53,312,534
2009	49,876,453	89.97%	5,556,000	10.10%	55,432,453
2010	51,584,511.51	89.88%	5,813,597.45	10.12%	57,398,108.96
2011	53,521,201.00	88.86%	6,708,653.10	11.13%	60,229,854.10
2012	50,203,574.17	87%	7,494,382.46	12.99%	57,697,956.63

As illustrated in Table 4.4 above, the capital expenditure of the municipality has been increasing from 2008-2011 while in 2012 has decreased. According to the capital ex that displays that the capital expenditure is higher than the capital expenditure. Out of the total expenditure, capital expenditure got its lowest in 2012 with a percentage share of 87% whereas its highest was 2008 with 90.9% for the period under study. It indicates that the average percentage share of capital expenditure is 89.32%. The table also depicts that capital expenditure of the municipality increased from 90.9% in 2008 but started to decline the next four years (2009 and 2012) with 89% to 87%, respectively. In general the capital expenditure of the city has been increasing smoothly for the last four years of 2008-2011 but decreased for the last year of 2012 and shown a percentage share of 87%. Due to this fact there is a fluctuation of capital expenditure in the years under study.

In addition to that, the table above, furthermore, depicted the percentage share of outlays in day to-day activities (recurrent expenditure) throughout the years under the study. It indicated that recurrent expenditure share ranged between 9.1% and 12%, having with an average share all the five years under study (2008-2012) with 10.69%. This indicated that the recurrent expenditure growth rate is smooth with relatively low fluctuation and has grown from birr 4,856,000 in 1997 to birr 7,494,382.46 in 2012.

Comparing with other cities in the country, city administrations shows that the annual percentage share of developmental investment outlays (capital expenditure) is highly significant when compared with other cities like; Kebridahar. On the other hand, recurrent expenditure in the municipality has a noteworthy in its city outlays. The average annual share of birr 6,708,653.10 which was used the daily operations that the city incurred.

4.8 Budget, Revenue Receipt and Expenditure Development Gap Analysis

Here the researcher decided to analysis the types of the budget in the city adminstration. Analysing, capital, salary and reccurrent and their trend of last five years. The researcher focused in this part to analyse the total annual budget , total growth rate of the plan and average growth rate of the past five years to now the where there is the gap as the below table.

4.8.1 Budget Structure of the City Adminstration

Table 4.19: Budget Structure of City Adminstration

Year (E.C)	2008 E.C	2009 E.C	2010 E.C	2011E.C	2012 E.C
Capital	36,586,114	34,875,610	123,074,654	118,788,006	117,172,109
Recurrent	4,856,000	5,556,000	5,556,000	8,556,000	9,656,000
Salary	28,249,598	31,450,429	47,547,909.77	65,830,751.36	82,419,059
Total	**69,691,712**	**71,882,039**	**176,178,563.77**	**193,174,759.84**	**209,247,168**
Growth rate of the plan		**3.14%**	**145%**	**9.65%**	**8.32%**
Average growth rate of past five years			**41.53%**		

As is depicted above, the capital budget in the last 5years has been fluctuating in 2008 E.C allocated budget was 36,586,114 ETB while in 2009 decreased to 34,875,610 which is 4.6 %, in 2010 E.C was increased to 123,074,654% which is 252.90%, but in 2010 budget was decreased to 118,788,006 and as well as in 2012 it was decreased to 117,172,109.

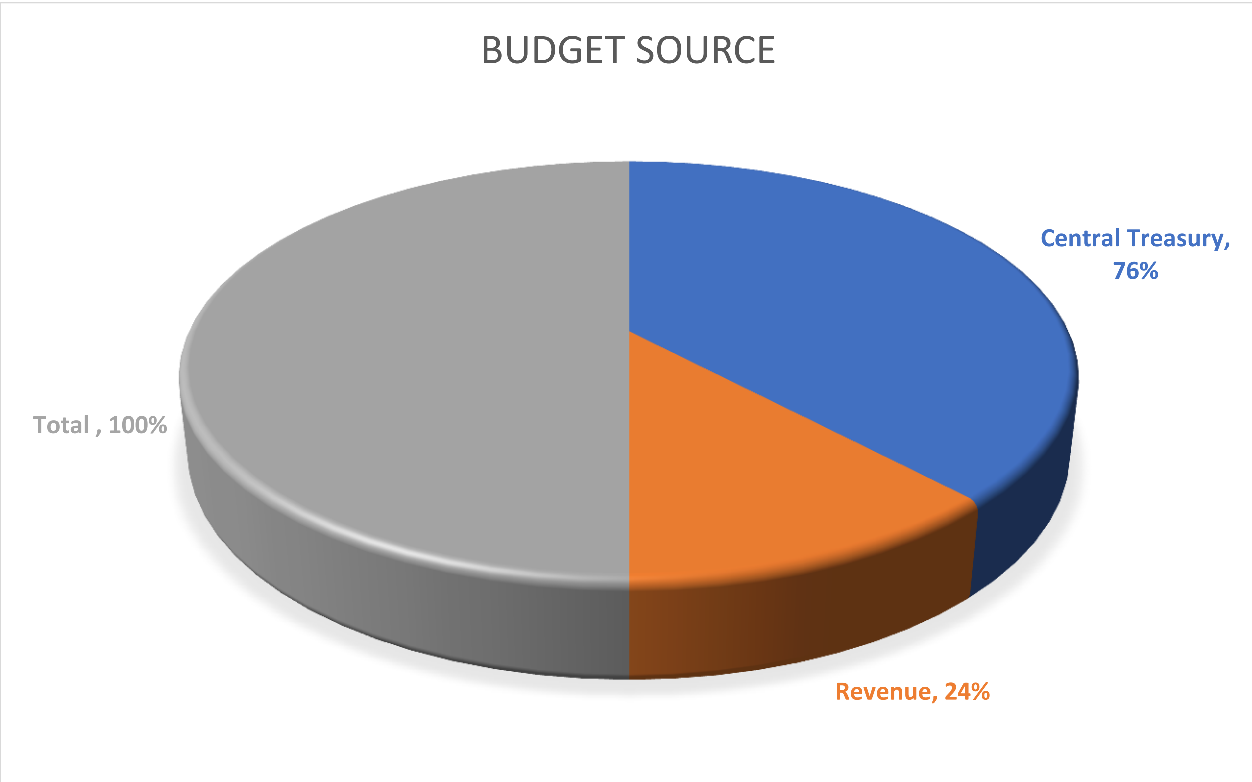
For the recurrent budget has been increased in 2008-2011 and2012 very with no fluctuation, except 2009 and 2010 which was allocated a same amount of money with no decrease and increase.

For the Salary, it has been increased in moderate from 2008-2012 with fluctuation. The average growth rate of the past five years was 41.53% which is good performance.

Interns of capital budget plan, there has been fluctuating from year to year, it shows that there was very high increase a year and very high decrease the next year which indicates that there is poor planning or planning without evidence.

4.8.2 Source of Budget in the City

Figure 4.1: Source Budget



As can be seen on the above figure, the source of Dhagehbour city administration is: External which is regional/Federal transfer (Central Treasury) and Internal within the city administration mandate to collect (Own revenue). Based on the above data, 76% of the Dhagehbour City Administration come from regional (Central Treasury) like Salary and 76% of capital budget while the city administration collects the rest of 24%. The city administration plan to cover the recurrent budget which is 4% of the total budget and support the rest of revenue to capital project which is 20%.

4.8.3 Revenue Collection Management System in Dhagehbour City Administration

Table 4.20: Responses Regarding to Revenue Collection Management System.

Respondent	Statistics	Never	Rarely	Sometimes	Often	Always	Total
2.1. There is lack of revenue collection planning in your city administration							
Employees	Frequency	10	24	32	51	33	150
	Percent	6.7%	16%	21.3%	34%	22%	100%
2.2. There is lack of revenue generation efforts in your city administration							
Employees	Frequency	8	25	63	34	20	150
	Percent	5.3%	16.7%	42%	22.7%	13.3%	100%
2.3. There is lack of proper revenue management in your city administration							
Employees	Frequency	29	30	36	28	27	150
	Percent	0.8%	13.9%	25.6%	%	35.2%	100%
2.4. There is not qualified revenue staff in your city administration							
Employees	Frequency	52	49	23	17	21	150
	Percent	34.7%	32.7%	15.3%	11.3%	14%	100%
2.5. There is lack of financial accountability in your city administration							
Employees	Frequency	19	43	54	45	29	150
	Percent	12.7%	28.7%	36%	30%	19.3%	100%
2.6. There is revenue gap/deficit in your city administration in each year							
Employees	Frequency	7	26	46	59	45	150
	Percent	4.7%	17.3%	30.7%	39.3%	30%	100%

In table 3rd item number 2.1, regarding the lack of revenue collection planning in the city administration, the frequency, and total Percent values of employee's response 10 (6.7 %) employee's responses never, 24 (16%) employees' response rarely, 32 (21.3%) employees' response same times, 51 (34%) employees' response often, 33 (22%) employees' response always.

The data revealed that most of the employees' responses high frequency and Percent is 51 (34%) Often, so that there is lack of revenue collection planning in the city administration.

For the item number 2.2, regarding the lack of revenue generation efforts in the city administration, the frequency, and total Percent values of employee's response 8 (5.3 %) employee's responses never, 25 (16.7%) employees' response rarely, 63 (42%) employees' response same times, 34 (22.7%) employees' response often, 20 (13.3%) employees' response always.

The data revealed that most of the employees' responses high frequency and Percent is 63 (43%) is sometimes, so that there is lack of revenue generation efforts in the city administration.

For the item number 2.3, regarding the lack of proper revenue management in the city administration, the frequency, and total Percent values of employee's response 29 (19.3 %) employee's responses never, 30 (20%) employees' response rarely, 36 (25.6%) employees' response same times, 28 (18.7%) employees' response often, 27 (18%) employees' response always.

The data revealed that most of the employees' responses high frequency and Percent is 36 (25.6%) is sometimes, so that there is lack of proper revenue management in the city administration.

For the item number 2.4, regarding the lack of qualified revenue staff in the city administration the frequency, and total Percent values of employee's response 52 (34.7 %) employee's responses never, 49 (32.7%) employees' response rarely, 23 (15.3%) employees' response same times, 17 (11.3%) employees' response often, 21 (14%) employees' response always.

The data revealed that most of the employees' responses high frequency and Percent is 52 (34.7%) is never, so that there is no qualification problem on revenue staff in the city administration.

For the item number 2.5, regarding the lack of financial accountability in the city administration the frequency, and total Percent values of employee's response 19 (12.7 %) employee's responses never, 43 (28.7%) employees' response rarely, 54 (36%) employees' response same times, 45 (30%) employees' response often, 29 (19.3%) employees' response always.

The data revealed that most of the employees' responses high frequency and Percent is 54 (36%) is sometimes, so that there is lack of financial accountability in the city administration.

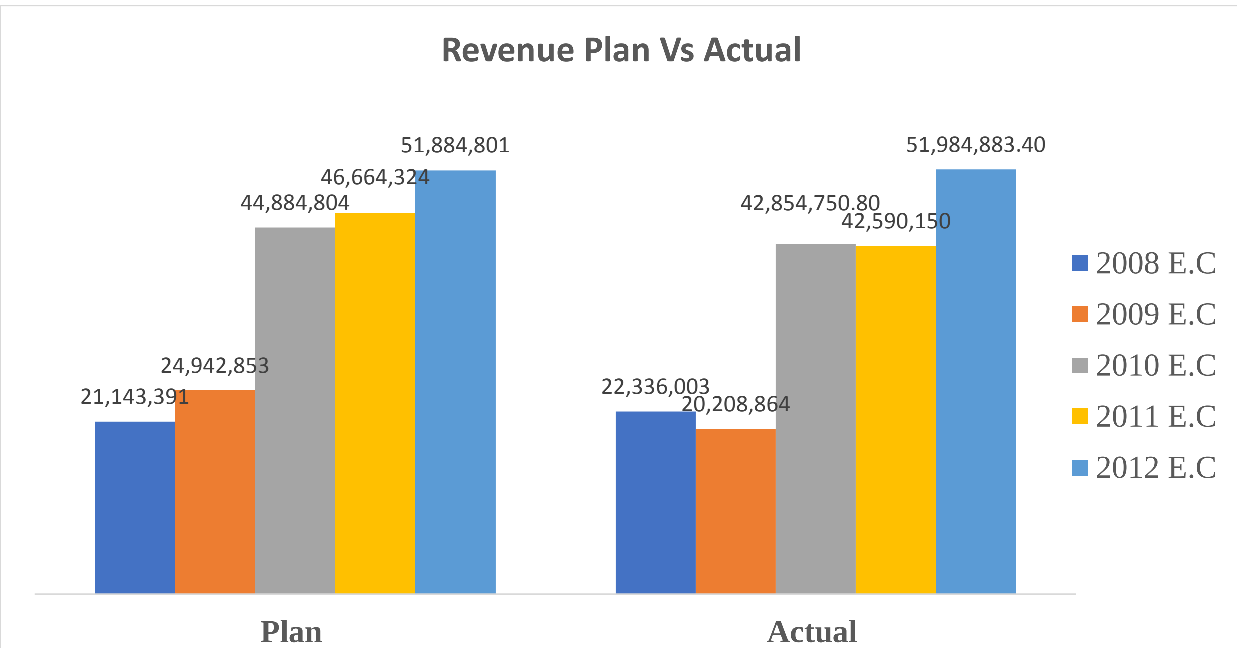
For the item number 2.6, regarding the revenue gap/deficit in the city administration in each year, the frequency, and total Percent values of employee's response 7 (4.7 %) employee's responses never, 26 (17.3%) employees' response rarely, 46 (30.7%) employees' response same times, 59 (39.3%) employees' response often, 45 (30%) employees' response always.

The data revealed that most of the employees' responses high frequency and Percent is 59 (39.3%) is Often, so that there is lack of revenue gap/deficit in the city administration.

In the interview results of Mayor, Deputy Mayor, Finance and Economic Development Head, Revenue Agency Head and Core Process Owners were interviewed, and they replied on that there are problems related to the revenue collection management like; lack of Organized data, poor exchange of data between revenue office and taxpayers, poor filing system, poor documentation and updating problem, commitment problem, planning problem, poor continuous follow up and timely collection, poor enforcement mechanism, Coding error Planning problem, poor follow up and timely collection, poor enforcement mechanism, planning without evidence, Coding error and continuous follow up and poor enforcement system, Lack of continuous awakening and awareness creation and timely collection.

4.8.4 Revenue Plan Vs Actual

Fiture 4.2: Revenue Plan vs Actual



As is depicted above, the performance of revenue Vs plan in the last five-years analysis, in2008 E.C there has been 1,192,612 Birr higher the plan (Surplus). In 2009 E.C 4,733,989 Birr was below the plan (Gap/deficit). In 2010 E.C 2,030,053.2 Bir was below the plan (Gap/deficit). In 2011 E.C 4,074,174 Birr was below the plan (Gap/deficit). In 2012 E.C 100,008.4 Birr was higher the plan (Surplus).

Finally, after the analysis of revenue Vs plan of the last five-year performance, there has been revenue fluctuation and up and down. So, it shows there was planning problem, follow up and timely collection problem, planning without evidence, less enforcement mechanism and continuous follow up, poor commitment in applying directives and regulations, lack of continuous awaking and awareness creation. planning without evidence, poor follow up and timely collection Less enforcement mechanism.

4.8.5 Finance and Expenditure Management System in Dhagehbour City Administrations

Table 4.21: Responses Regarding Expenditure Management System

1.1. There is lack of proper planning in both revenue and expenditure in your city administration							
Respondent	**Statistics**	**Never**	**Rarely**	**Sometimes**	**Often**	**Always**	**Total**
Employees	Frequency	11	16	47	56	20	150
	Percent	7.3%	10.7%	31.3%	37.3%	13.3%	100%
1.2. There is poor expenditure management system in your city administration							
Employees	Frequency	21	18	38	32	41	150
	Percent	14%	12%	25.3%	21.3%	27.3%	100%
1.3. There is lack of proper expenditure allocation in your city administration							
Employees	Frequency	15	31	29	45	30	150
	Percent	10%	20.7%	19.3%	30%	20%	100%
1.4. There is lack of qualified expenditure staff in your city administration							
Employees	Frequency	50	39	28	12	19	150
	Percent	33.3%	26%	18.7%	8%	12.7%	100%
1.5. There is expenditure gap/deficit in your city administration in each year							
Employees	Frequency	9	17	29	52	43	150
	Percent	6%	11.3%	19,3%	34.7%	28.7%	100%
1.6. There is no financial transparent/accountability in your city administration							
Employees	Frequency	32	19	60	18	21	150
	Percent	21.3%	12.7%	40%	12%	14%	100%

In table 2nd item number 1.1, regarding lack of proper planning in both revenue and expenditure in city administration, the frequency and total Percent values of employee’s response 11 (7.3%)

employee’s responses never, 16(10.7%) employees’ response rarely, 47 (31.3%) employees’ response same times, 56 (37.3%) employees’ response often, 20 (13.3%) employees response always.

The data revealed that most of the employees’ responses high frequency and Percent is 56 (37.3%) Often, so that there is lack of proper planning in both revenue and expenditure in the city administration.

For the item number (1.2), regarding, the poor expenditure management system in the city administration, the frequency and total Percent values of employee’s response 21 (14 %) employee’s responses never, 18 (12%) employees’ response rarely, 38 (25.3%) employees’ response same times, 32 (21.3%) employees’ response often, 40 (27.3%) employees’ response always.

The data revealed that most of the employees’ responses high frequency and Percent is 40 (27.3.3%) Always, so that there is poor expenditure management systems in the city administration.

For the item number (1.3), regarding the lack of proper expenditure allocation in city administration, the frequency, and total Percent values of employee’s response 15 (10 %) employee’s responses never, 31(20.7%) employees’ response rarely, 29 (19.3%) employees’ response same times, 45 (30%) employees’ response often, 30 (20%) employees’ response always.

The data revealed that most of the employees’ responses high frequency and Percent is 45 (27.3.%) Often, so that there is lack of proper expenditure allocation in the city administration.

For the item number (1.4), regarding the lack of qualified expenditure staff in your city administration, the frequency and total Percent values of employee’s response 50 (33.3 %) employee’s responses never, 39 (26%) employees’ response rarely, 28 (18.7%) employees’ response same times, 12 (8%) employees’ response often, 19 (12.7%) employees’ response always.

The data revealed that most of the employees' responses high frequency and Percent is 50 (33.3%) Never, so that there is no qualification problem on expenditure staff in the city administration.

For the item number (1.5), regarding the expenditure gap/deficit in your city administration in each year, the frequency, and total Percent values of employee's response 9 (6 %) employee's responses never, 17 (11.3%) employees' response rarely, 29 (19.3%) employees' response same times, 52 (34.7%) employees' response often, 43 (28.7%) employees' response always.

The data revealed that most of the employees' responses high frequency and Percent is 52 (34.7%) Often, so that there is expenditure gap/deficit in the city administration.

For the item number (1.6), regarding the financial transparent/accountability in the city administration, the frequency, and total Percent values of employee's response 32 (21.3 %) employee's responses never, 19 (12.7%) employees' response rarely, 60 (40%) employees' response same times, 18 (12%) employees' response often, 21 (14%) employees' response always.

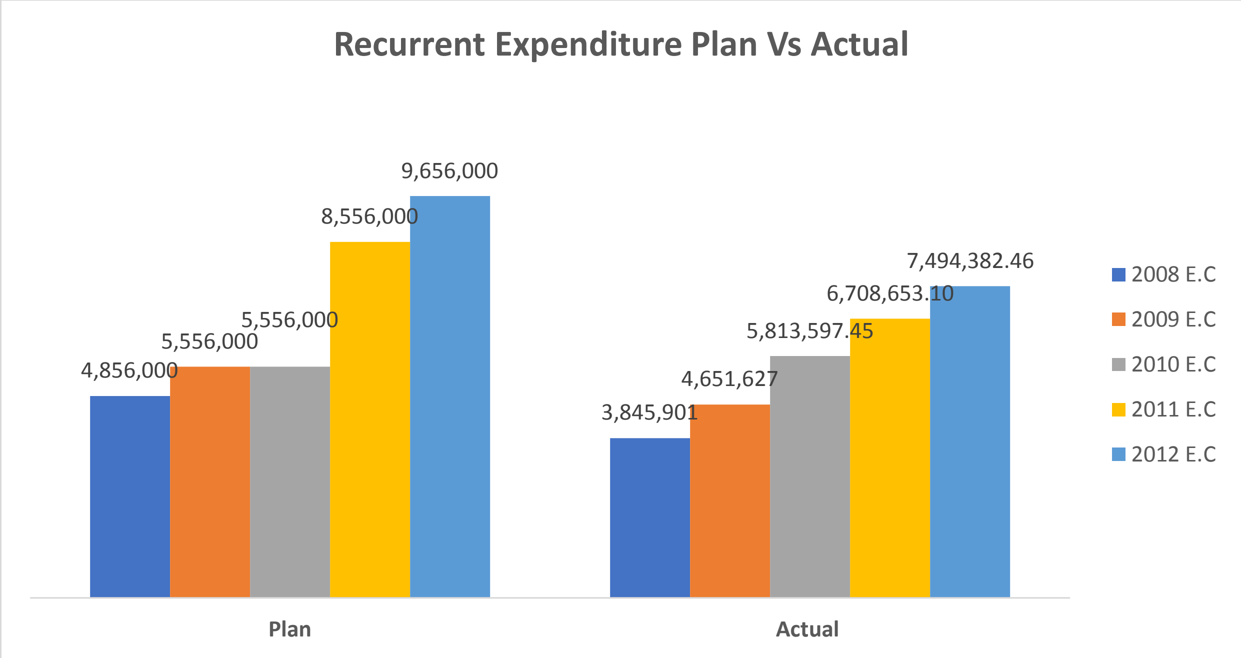
The data revealed that most of the employees' responses high frequency and Percent is 60 (40%) sometimes, so that there is some lack financial transparent/ accountability in the city administration.

In the interview results of Mayor, Deputy Mayor, Finance and Economic Development Head, Revenue Agency Head and Core Process Owners were interviewed, and they replied on that there are problems related to the expenditure management starting from initial planning up to expensing. All agreed on that is lack of proper expenditure annual planning, allocation, expenditure management systems which is not transparency, there is not plan participation from local staff in city administration, keys staff and community as well for capital budget planning.

The City administration conduct training program without proper planning and capacity need assessment. Moreover, it incurs excess fuel and telephone expenses as well as vehicle repair and maintenance costs. Similarly, machineries of the City Administration are usually maintained its fixed assets and furniture without following the proper procurement procedures.

4.8.6 Recurrent Expenditure Plan Vs Actual

Figure 4.3: Recurrent Expenditure Plan vs Actual



Dhagehbour city has planned to collect revenue to spend services and other long-term projects to satisfy and maintain the wellbeing of their society. To fulfill this, Dhagehbour City must plan its expenditure whether it is capital or recurrent due to their community's needs. Figure 4.3 below indicates both planned and actual expenditure that the city has undertaken the five years under study.

As shown in figure 4.3 above, both actual and planned expenditure has far apart from each other. And this indicates that the planned expenditure is higher than the actual except 2010. This result indicates that there is lack proper planning, overestimation, and planning without evidence. Due to this fact, it brings a high gap between the planned and the actual expenditure because the city did not use past trends of revenues and expenditure, but they plan randomly.

As can be seen from figure 4.3 above the difference between the planned and actual recurrent expenditure is less and has grown a very small percentage in the five years (2008-2012 EC). In contrast, capital expenditure has a large difference when compared its actual and planned. Dhagehbour city focuses on the capital expenditure but they do not give more tension to the recurrent expenditure.

4.8.7 Per Capita Expenditure to Population

Table 4.22: Per Capita Expenditure to Population

Ethiopian Fiscal Year	Total expenditure	Total Population	Per Capita
2008	23,495.236	40,882.00	575
2009	33,387,896	42,674.00	782
2010	57,398,108.96	44,545.00	1,288.5
2011	60,229,854.10	46,375.00	1,298.8
2012	57,697,956.63	48,282.00	1,195

Most city administration in the world collect revenue from their population who are residing in their local government jurisdiction to maintain to be financially fit. Before public service delivery and investing developmental projects any local government plans what total expenditure will be spent on the total population who are in the city.

As indicated Table 4.5 below, the per capita expenditure of the municipality is the outlay that the local government plans to provide each person and to deliver services and capital expenditure. A region that is still infant in its fiscal decentralization like Somali Regional State faces different problems to fulfill its duties and responsibilities (service delivery, construction of roads). It is being said and argued by many scholars in the world like; Vazquez (1998) shows that expenditure assignment responsibilities must be undertaken and planned before any other pillar of fiscal decentralization (revenue, borrowing, transfers/grants). Moreover, it has been quite common for municipalities in Ethiopia to face problems in decentralization and the same is true in Dhagehbour city administration because the upper mangers only know the idea behind fiscal decentralization, and they do not give more information about decentralization to their residents and other sectors of the community. Coupled with, lack of clear responsibilities and duties among higher officials in the municipality. This consequence brought to limit the spending capacity of Dhagehbour local government to meet the needs and preferences of the society. The table above shows that Dhagehbour city administration get its lowest per capita expenditure in 2008 E.C with amount of birr 575 whereas the local government achieved its highest per capita expenditure in 2011 E.C with birr 1,298.8.

Table 4.21. above illustrates total expenditure in relation to the total population of the municipality during the five years under study represented that the average per capita expenditure in the municipality was birr 1,027.86. Due to this fact, the municipality faced over

burden because Dhagehbour city administration authorities must spend birr 1,027.86 as an outlay to every individual to cover the cost of delivering services and developmental projects in each year.

4.8.8 Per Capita Revenue to Population

Table 4.23: Per Capita Revenue to Population

Ethiopian Fiscal Year	Total Revenue	Total Population	Per Capita
2008	22,336,003	40,882	546.4
2009	20,208,864	42,674.00	474
2010	42,854,751.00	44,545.00	962
2011	41,636,623.00	46,375.00	898
2012	51,984,844.00	48,282.00	1,077

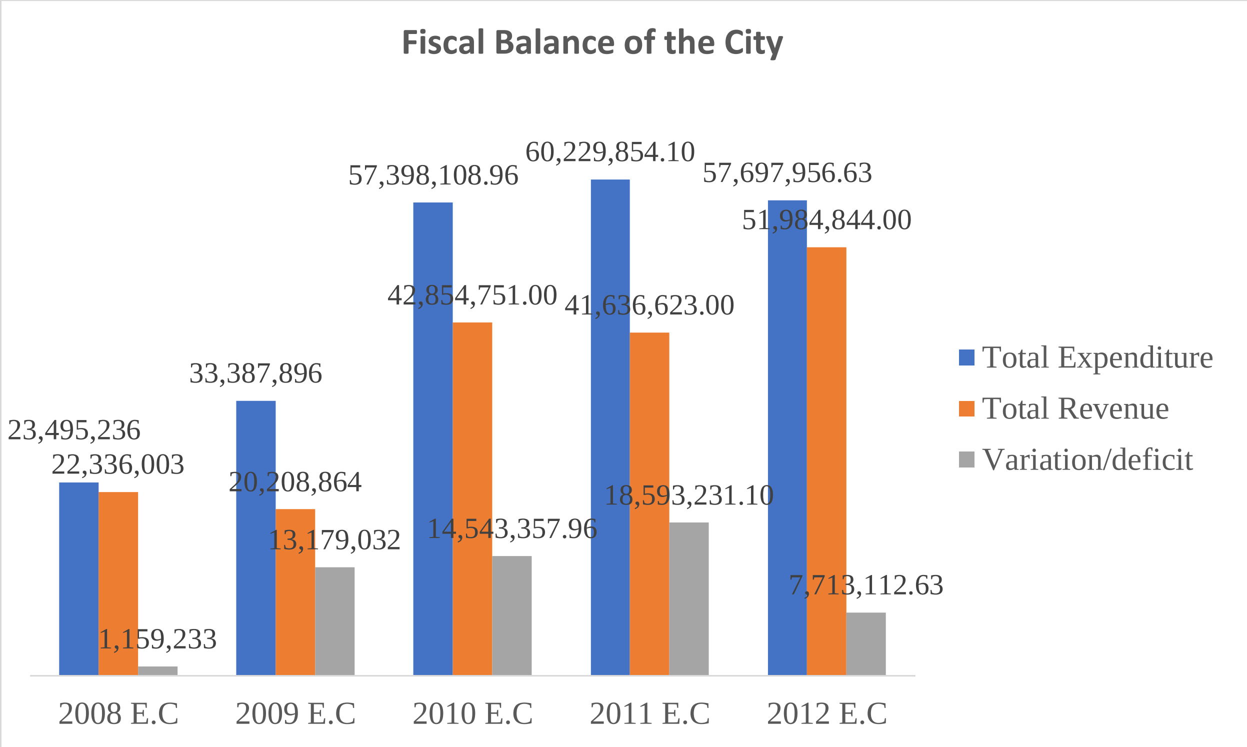
According to table 4.3 above with reference to revenue per capita in the municipality during the years under study (2008-2012 E.C), the per capita revenue of the municipality ranges between birr 474 in 2008 E.C to birr 1,077 in 2012 E.C. It has also shown with average level of birr 791.48 Thus, this exemplifies theoretically, that everyone in the municipality is to contribute for financing public service deliveries with birr 791.48. In comparison with other municipalities in the region like Gode and Kebridahar Somali regional State Bureau of Finance and Economic Development (SRS-BoFED 2010) stated that their average revenue per capita was birr 69.2 and birr 750, respectively while Dhagehbour city administration had an average per capita revenue birr 791.48. This shows that on average per capita revenue in Dhagehbour city administration is like other city administration in the country.

4.8.9 Fiscal Balance

Revenue Enhancement Plan is not an end by itself. But it is often used for addressing the fiscal gaps to meet the expenditure requirements as fully as possible. Therefore, knowing the magnitude of the current fiscal gap and the one projected into the future is a point of departure for proper preparation of REP. Hence, the City Administration has analyzed the trend of its financial situation to determine to what extent revenue need to be raised to meet future expenditure. This has been performed through identifying its fiscal gap in the previous year's using the last three years' actual revenue and expenditure.

To address the gap between expenditure requirements and available revenue, there is a need to consider the existing fiscal gaps. Accordingly, the financial balance of the City administrations of the past three consecutive fiscal years is analyzed and depicted in the Table below.

Figure 4.4: Fiscal Balance of the City



Any local government requires balancing its revenue collected and expenditure in the city to make good decision s and avoid bottle necks. In doing so, fiscal balance measures the gap between the revenue collected and the outlay that is incurred. As the figure 4.4 below illustrates, the fiscal gap of Dhagehbour City is so great that it ranges between birr 1.15 million and birr 18.5, million. It portrays that the largest gap occurred in 2011 E.C with amount of birr 18.5 million whereas the smallest gap was incurred in the year 2008 E.C with birr 1.15 million.

Although the total revenue in the city presented an increasing rate during the five years under study (2008-2012); revenue collected was only covered some recurrent expenditure and some capital and did not covered all planed expenditure for all recurrent expenditure and some percentage of capital expenditure which is municipality revenue part, and the rest of the capital expenditure was covered through external sources that are from regional and federal level and there is no gap from that side.

4.8.10 Comparison of Per Capita Expenditure to Per Capita Revenue

Figure 4.5: Comparison of Per Capita Expenditure to Per Capita Revenue

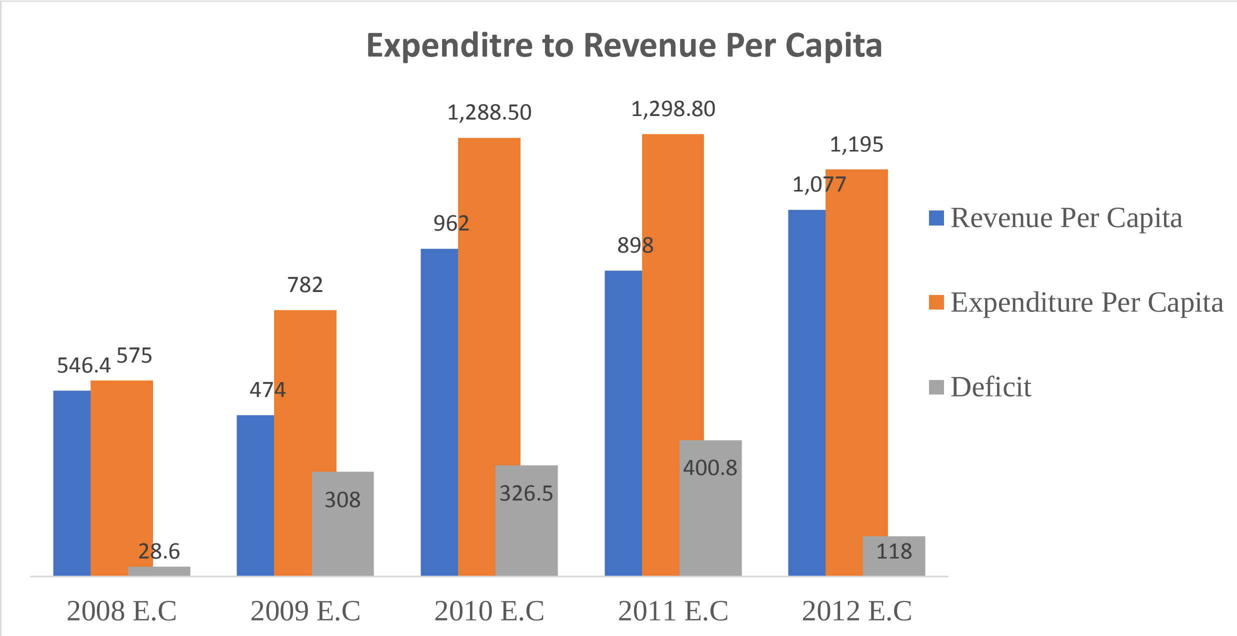


Figure 4.5 above, shows that the first four consecutive years of the study, 2008, 2009, 2010 and 2011 the per capita revenue of the city has increased in an increasing rate with an amount of 28.6, birr, 308-birr, 326.5 birr and 400.8 birr, respectively and it begin to decline 2012 with birr 118 birr.

Moreover, City administration attained an average per capita revenue of birr 791.48 in the five years under research. In contrast, the expenditure of the municipality illustrated that there was a fluctuation. It got its lowest per capita expenditure in 2008 with birr 575 which shows that the municipality's annual expense was very low to every individual in 2008 E.C, but there has been increasing from 2009-2010. Whereas 2011 was the year that Dhagehbour City spent the highest outlay to its individual residents and again declined in 2012. However, Dhagehbour City in the five years met an average per capita expenditure of birr 1,027.86.

Figure 4.5 above depicts, in comparison of the average per capita revenue which is 791.48 to average per capita expenditure of 1,027.86 provides information that deals with the city's weak capacity to undertake and fulfill its responsibilities. It shows that there was a miserable condition to finance public services and developmental investments which were required. In other words, there was a low status in Dhagehbour city to finance its requirements in the five years under study.

4.9 Analysis of Inter-Governmental Transfer in Dhagehbour City Administration

Dhagehbour city obtains its revenue from different sources. But the two most important sources of revenue in the municipality are: internal and external sources. The internal sources that exist in the city are service charges and fees, local taxes and duties, rents, and other sources. Nevertheless, Dhagehbour city financed its activities in the last five years under study (2008, 2009, 2010, 2011 and 2012) from external sources gained from the Road Authority, Region, Works, and Urban Development for compensation to those people who were the owners at the area of Management college construction, bus terminal, Road Fund, and others.

4.10 Related Documents Referred

Before the researcher started analysis, he reviewed all relevant document to get enough information on the study. The researcher focused on those the last five years of the E.F.Y 2008-2012, the revenue focal person provided a valuable information about revenue trend of last five year.

In doing so, also reviewed and analyzed the legal and institutional frameworks such as federal and regional policies, (Development Policy, Fiscal policy, Tax and Investment Policy) strategies, proclamations & reform programs, APA Consultants' and Quality Assurance reports, Regional and Federal Mobile Team Revenue Specialists field visit reports, Quarterly REP strategies implementation status reports, Audit opinions/findings related to revenue and other useful documents as important inputs for the study.

The Regional Tariff Regulation that allows the urban local governments to levy, determine, and collect taxes, duties, and service charges that fall under the City Administration Jurisdiction has been one among the documents that was referred seriously. About spending autonomy, is like other city in the Region, the City Administration amalgamated its revenue from all sources to fund the socio-economic and infrastructure improvement.

CHAPTER FIVE

5 CONCLUSIONS, RECOMMENDATIONS AND SUMMARY

5. Introduction

This chapter deals with concluding and providing possible recommendations. It concerns about how far other researchers can obtain information which can guide them towards analyzing revenue and expenditure in Dhagehbour City Administration or any other City that its topic deals with this area.

5.1 Conclusions

Dhagehbour City Administration collect revenue from different sources which cover the expenditure functions by providing public services and developmental projects. In Dhagehbour City Administration there is a huge difference in the contribution of sources to the total revenue in the city. Moreover, local taxes in the city provide the highest share of revenue collection whereas other sources including user fees and charges, rents and other sources generates low income of the City. Furthermore, local taxes contribute a lion's share to the revenue in the city which helps the municipal authorities to cover part of their outlays. On the other hand, these are the revenue in the city; planning problem, poor follow up and timely collection, poor enforcement mechanism, poor coordination, and collaboration with other stakeholders, planning without evidence, lack of continuous follow up, poor follow up and timely collection, lack of continuous awaking and awareness creation.

Most of the employees in Dhagehbour City Administration are under qualified and lack the necessary skills of collecting revenue and expenditure management and implicitly this causes the low revenue collection in the municipality. In addition to this, few percent of the workers in the city have the ability and capacity to manage expenditures whereas the largest portion of the employees cannot manage what expenditure functions that is undertaking in the city.

Dhagehbour City Administration offers services that are not equivalent to the needs of the community in the town. Moreover, the city is the sole provider of the public services that exist in the municipality. Furthermore, there are no other participants that provide service provision in the municipality and this brings lack of appropriate services to the preferences of taxpayers in the municipality.

According to city allocated expenditure there is a problem that it faces in the use of recurrent expenditure. because the revenue collected by the city only covers revenue part and city face recurrent expenditure gap/deficit. Furthermore, the city faces a fiscal gap which understates the capacity to provide public services and to cover the outlays of the developmental projects in the municipality. As a result, higher governments do not provide transfers based on the requirements of the population in the municipality as well as city administration did not collect enough revenue to cover the need of the city administration population required service.

The reason of the fiscal gap of the City Administration are as the follow: there is no Local development plan of the City Administration; Strategic plan of the City Administration; Medium-term fiscal plan of the City Administration; no proper revenue forecast and expenditure requirements based on realistic assumptions (avoid arbitrary or magic numbers). lack of communities and other stakeholders' involvement in the planning process.

The City Administration does not harmonize and implement the expenditure management and control mechanisms, no procurement of goods and services with the City administration/public money to provide benefits proportional to the amount spent on the goods and services, i.e. value for money. the City Administration does not develop medium-term fiscal planning that clearly defines projections for revenue and expenditure. The City administration conduct training program without proper planning and capacity need assessment. Moreover, it incurs excess fuel and telephone expenses as well as vehicle repair and maintenance costs. Similarly, machineries of the City Administration are usually maintained its fixed assets and furniture without following the proper procurement procedures.

5.2 Recommendations

The recommendations for encouraging improvement in local revenue generation and allocation of expenditure functions in the city are diversifications of revenue sources, managing tax collection periods, improve city expenditure management, providing appropriate service and balancing the fiscal gap.

5.2.1 Improve/Diversifications of Revenue Sources

Dhagehbour City Administration gets its revenue from both internal and external sources. The external sources were from higher levels of government; regional and federal. Likewise, internal sources of revenue are the income collected from the population in City Administration and the major own sources of revenue in the city is highly dependent to local taxes followed by user fees and charges whereas revenue from city rent and other sources of revenue were insignificant. However, it is essential to diversify the main sources of revenue because if the city depend on one source sometimes it may happen undesirable circumstances that can obstacle the collection of the planned revenue. Therefore, the city must diversify its sources of revenue to avoid the ambiguity that the municipality can face in revenue collection. The City administration should consider customizing and updating its local revenue systems. Continued efforts are necessary to initiate essential changes to local tax tariffs, charges, and fees. The local revenue administration must also be modernized. The City administration should select and train suitable staff to manage Revenue Enhancement Plan (REPs) guidelines.

5.2.2 Improve Expenditure Management

Dhagehbour City Administration has weak expenditure functions, and it lacks the capacity to manage its resources due to the low skills of the financial planning and those who undertakes developmental projects in the city. The City Administration should reduce of unnecessary expenses, Development of a community-based plan, Comparison of revenue and expenditure of the City Aadministration, ensuring that expenditures plan targets are executed in a timely fashion, Strengthening the existing participatory planning system, and Estimating the cash flow whose breakdown is made on a quarterly basis.

The City Administration need to harmonize and implement the expenditure management and control mechanisms, which contains the reform of accounting, budgeting, procurement, auditing, and internal controls principles in outlining the strategies for revenue enhancement plan. It should also undertake public expenditure decisions in compliance to the principles of Efficiency, effectiveness, and Economy as well as in addressing value for money procurement. These can be realised through ensuring public participation while preparing strategic plan, approving annual budget and in prioritization of development projects as well as through implementing cost accounting systems and timely reporting. Therefore, the city administration must strengthen employees by capacity building in emphasizing internal auditing system.

5.2.3 Providing Appropriate Service

Most services that Dhagehbour City Administration provided were not appropriate to the needs of the taxpayers. Moreover, local authorities in the city planned and provided whatever services they desire with minimum costs which cause lack of motivation to taxpayers. Therefore, Dhagehbour City Administration authorities must provide appropriate services that can satisfy the needs and preferences of its taxpayers.

5.2.4 Proper Financial Planning

To avoid fiscal gap in the city administration, the city should prepare local development plan of the City Administration; Strategic plan of the City Administration; Medium-term fiscal plan of the City Administration; conducting proper revenue forecast and expenditure requirements based on realistic assumptions (avoid arbitrary or magic numbers); communities and other stakeholders should involve in the planning process at initiation stage up to final approval.

The City Administration should harmonize and implement the expenditure management and control mechanisms, no procurement of goods and services with the City administration/public money to provide benefits proportional to the amount spent on the goods and services, i.e. value for money. the City Administration should develop medium-term fiscal planning that clearly defines projections for revenue and expenditure.

5.2.5 Balancing the Fiscal Gap

In Dhagehbour City Administration transfers from higher level of government and local revenue illustrates fluctuation. This caused high revenue and expenditure gap in the city which obstacles the provision of public services in Dhagehbour City. For that reason, higher level governments' transfers must be based on the requirements of the society who are in the city to minimize the fiscal gap and Dhagehbour city administration should development a mechanism to increase local revenue to provide public service to the community in the city.

5.3 Summary

Dhagehbour City Administration face expenditure and revenue gap because the municipality collects low level of revenue and spends high to its public service delivery and infrastructural projects. Moreover, this study is mainly focused on the research questions based on the main revenue sources, trends of revenue and expenditure, relationship between developmental expenditure and revenue receipts. Furthermore, the researcher adopted descriptive type like sample survey and analytical type by document review and record analysis. In addition to this the researcher incorporated both qualitative and quantitative strategies and presented by using tables and figures. Finally, SPSS and EXCEL were used for analyzing data and presented in tables, graphs/figures.

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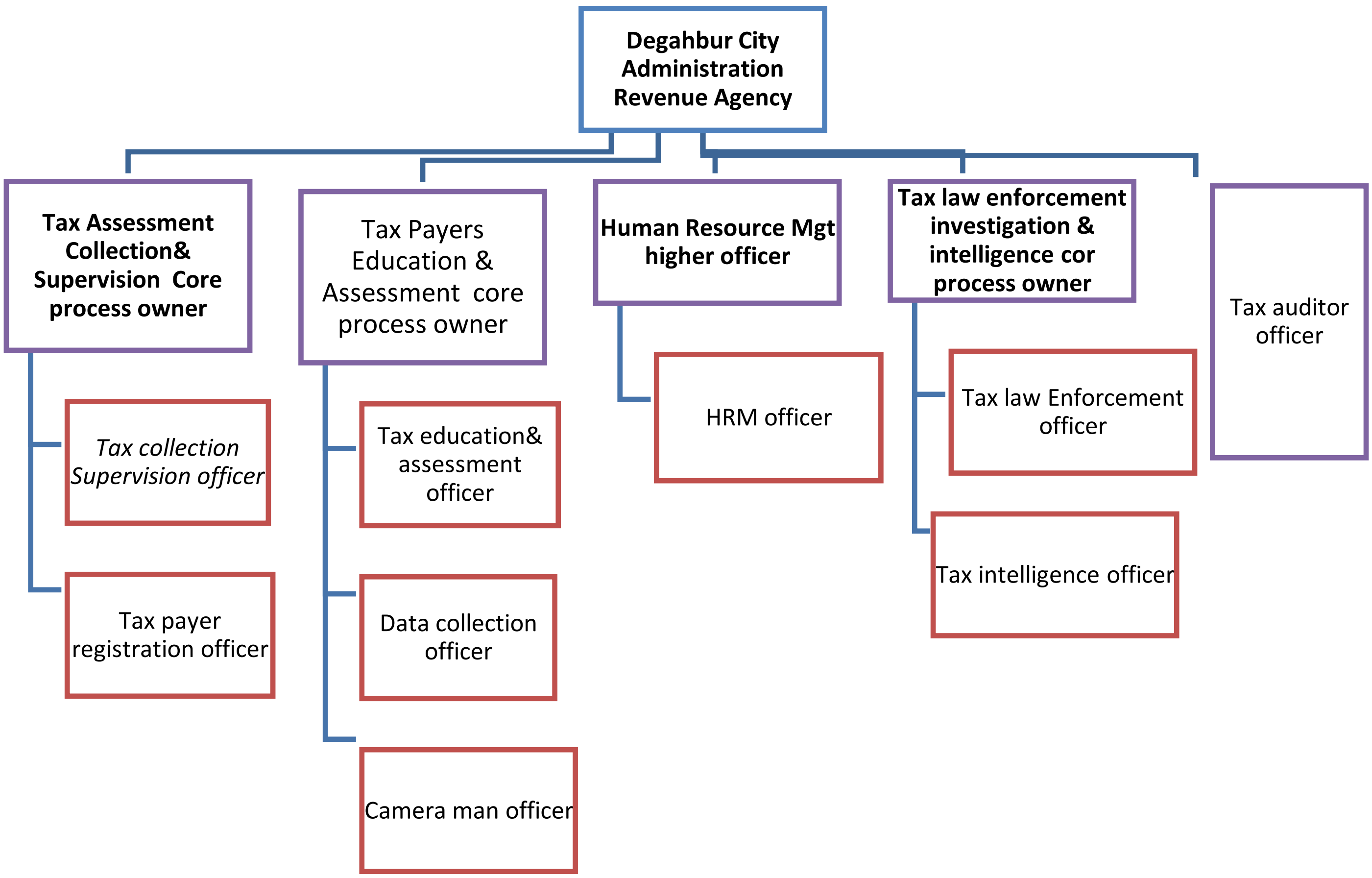
ANNEX-1 Organizational structures of Dhagehbour Revenue Office



Annexi-2 Main Revenue Source in Dhagehbour City Administration

No	Revenue item	Account no.	EFY 2010 Actual Revenue	EFY 2011 Actual Revenue	EFY 2012 Actual Revenue	Total	Nature of Revenue	Average Revenue	% Share
1	Business and professional services registration and licensing fee	1741	2,258,940	2,265,953	2,597,256	7,122,149.00	R	2,374,049.67	0.18
2	Urban land rent	1721	1,478,546	1,688,350	2,009,197	5,176,093	R	1,725,364.48	0.13
3	Building tax	1701	1,005,050	1,624,545	2,292,444	4,922,039	R	1,640,679.67	0.13
4	Stable livestock market place rent	1726	1,000,000	1,300,660	1,549,499	3,850,159	E	1,283,386.33	0.10
5	Building and Fence Construction Permit License	1742	489,900	698,660	845,675	2,034,235	E	678,078.33	0.05
6	Other charges	1749	554,920	656,886	721,900	1,933,706	E	644,568.67	0.05
7	Loading and unloading charges	1778	525,050	566,386	810,089	1,901,525	E	633,841.67	0.05
8	Road services' fee	1756	465,750	646,500	730,049	1,842,299	E	614,099.75	0.05
9	Annual vehicle inspection agencies fee	1764	345,369	371,240	402,140	1,118,749	R	372,916.33	0.03
10	Renewal of land, building title deed, plan &maint' of houses	1774	602,776	359,390	104,129	1,066,295	E	355,431.50	0.03
11	Fines for violation of rules and regulations	1746	329,560	245,900	291,699	867,159	E	289,053.00	0.02
12	Abattoir service	1777	305,000	212,655	317,750	835,405	E	278,468.20	0.02
13	Residential houses rent	1722	246,600	269,468	282,123	798,191	R	266,063.67	0.02
14	Vital statistics service	1761	243,850	251,750	264,439	760,039	E	253,346.33	0.02
15	Registration fee for land acquisition	1773	245,760	200,895	265524.5	712,180	E	237,393.17	0.02
16	Bus terminal services	1747	193,600	177,950	166,074	537,624	E		

								179,208.00	0.01
17	Sales of movable and immovable property’	1791	255,897	186,770	72815.75	515,483	E	171,827.58	0.01
18	Assurance	1702	164,080	140,943	155,842	460,865	E	153,621.67	0.01
19	Sanitation services	1751	132,600	95,650	171,430	399,680	R	133,226.67	0.01
21	Other sales of property and services	1789	123,788	146,934	51,604	322,326	E	107,442.00	0.01
22	Technical /engineering services fee	1752	61,200	106,540	100,465	268,205	E	89,401.67	0.01
23	Business building rent	1723	167,650	120,650	270,265	558,565	R	186,188.33	0.01
24	Traffic fines for violation of traffic rules and regulations	1745	87,900	143,455	168,290	399,645	E	133,215.00	0.01
25	Emblems and sign board and any advertising service fee	1782	48,960	49,430	54,737	153,127	R	51,042.25	0.00
26	Rent from machinery	1728	50,000	0	110,818	160,818	E	53,606.00	0.00
27	Design and tender bid document preparation	1754	30,000	0	96941	126,941	E	42,313.67	0.00
28	Supervision of building and construction works	1753	40000	0	96,145	136,145	E	45,381.67	0.00
29	Soil dumping space license	1743			68500	68,500	E	22,833.33	0.00
30	Other taxes	1719	0	0	66244	66,244	E	22,081.33	0.00
31	Debt suspension, cancellation of registration, foreclosure service	1775	30,000	0	65,818	95,818	E	31,939.33	0.00
32	Transfer of title deed fee	1772	20,000	0	59,160	79,160	E	26,386.67	0.00
Total			**11,502,746**	**13,527,560**	**15,259,062**	**39,289,368**		**13,096,455.94**	**100.00**

Annexi-3 Recurrent Expenditure

Analysis of Expenditure items for the year EFY 2009

S/N	Expenditure items	Account no	Planned expenditure	Actual expenditure	Actual vs Plan	Source of finance
			20,277,963.00	17,594,434.92	86.77%	own source of revenue and Regional subsidy
1.1	Total municipal capital expenditures	sum 1.1	17,926,000.00	15,024,541.00	83.81%	Own source
1.1.1	Personnel Services	6100			#DIV/0!	
1.1.2	Goods and Supplies	6200	5,063,980.00	4,500,991.00	88.88%	Own source
1.1.3	Fixed Assets	6300	12,862,020.00	10,523,550.00	81.82%	Own source
1.1.4	Subsidies, grants and others	6400			#DIV/0!	
1.2	Total municipal recurrent expenditures	sum 1.2	2,351,963.00	2,569,893.92	109.27%	Own source
1.2.1	Personnel Services	6100	1,647,460.00	1,730,017.00	105.01%	
1.2.2	Goods and Supplies	6200	704,503.00	839,876.92	119.22%	
1.2.3	Fixed Assets	6300			#DIV/0!	
1.2.4	Subsidies, grants and others	6400			#DIV/0!	
2	Total state functions expenditures (recurrent & capital)		109,604,076	116,426,583.95	106.22%	
2.1	Total state functions capital expenditures	sum 2.1	16,949,610.00	18,946,688.55	111.78%	Own source
2.1.1	Personnel Services	6100			#DIV/0!	
2.1.2	Goods and Supplies	6200	2,761,910.00	2,906,228.55	105.23%	
2.1.3	Fixed Assets	6300	14,187,700.00	16,040,460.00	113.06%	
2.1.4	Subsidies, grants and others	6400			#DIV/0!	
2.2	Total state functions recurrent expenditures	sum 2.2	92,654,466.00	97,479,895.40	105.21%	subsidy
2.2.1	Personnel Services	6100	88,490,500.00	91,540,295.00	103.45%	
2.2.2	Goods and Supplies	6200	4,163,966.00	5,939,600.40	142.64%	
2.2.3	Fixed Assets	6300				
2.2.4	Subsidies, grants and others	6400				

ADDIS ABABA UNIVERSITY

GRADUATE STUDIES

Master of Public management and Policy

Department of Public Administration and Development Management

ANNEX-4 PART-I Questionnaire to the Employees

Consent Form

My name is **Mr. Mohamed His Hussein** a graduate student of Public Management and Policy at Addis Ababa University. The purpose of this interview is to collect data for my master's thesis about Public Revenue and Expenditure Gap Analysis in Dhagahbour City Administration, Somali Regional State. The information gathered will be used only for academic purposes and that they are strictly confidential.

Your full name will not be written down anywhere and there will be no way to identify you. Your participation is voluntary. You may refuse to answer any question and choose to stop the discussion at any time. You can also ask questions about this study at any time. There is no direct benefit or money to be given for you in participating to this study. However, I hope that the study will benefit your community by helping the researcher understand the Public Revenue and Expenditure Gap and recommending what should be done to improve in future.

Thank you in advance!

PART-II: Background detail:

Please put on ‘’**Circle**’’ your options.

1, Gender:

A) Male **B)** Female

2, Position:

A) Officer **B)** Case Team Coordinator, **C)** Senior Officers **D)** Officers **E)** Supervisors **F)** Other workers.

3, Educational Status:

A) Grade 12 **B)** Certificate **C)** Diploma **D)** Degree **E)** Master **F)** Above

4, Years of Experience:

A) 1-4 **B)** 4 – 6 **C)** 6- 8 **D)** Above

PART-III Specific information

Kindly carefully read the following questions and indicate the extent to which each item is present in your office by putting ‘’ticking or circle’’ the appropriate box based on the following scales or your decisions.

1=Never, 2= Rarely, 3=Sometimes, 4=Often, 5= Always

1	**(Section-A) Finance and expenditure management system**	**1**	**2**	**3**	**4**	**5**
1.1	There is lack of proper planning in both revenue and expenditure in the city administration					
1.2	There is poor expenditure management system in your city administration					
1.3	There is lack of proper expenditure allocation in your city administration					
1.4	There is lack of qualified expenditure staff in your city administration					
1.5	There is expenditure gap/deficit in your city administration in each year					
1.6	There is no financial transparent/accountability in your city administration					
2	**(Section-B) Revenue Collection Management System**					
2.1	There is lack of revenue collection planning in your city administration					
2.2	There is lack of revenue generation efforts in your city administration					
2.3	There is lack of proper revenue management in your city administration					

2.4	There is not qualified revenue staff in your city administration					
2.5	There is lack of financial accountability in your city administration					
2,6	There is revenue gap in your city administration in each year					

ADDIS ABABA UNIVERSITY

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PART-I Interview to Mayor, Deputy Mayor, Finance Head, Revenue Authority Head Office, Core Process Owner.

Consent Form

My name is **Mr. Mohamed His Hussein** a graduate student of Public Management and Policy at Addis Ababa University. The purpose of this interview is to collect data for my master's thesis about Public Revenue and Expenditure Gap in Dhagahbour City Administration, Somali Regional State. The information gathered will be used only for academic purposes and that they are strictly confidential.

Your full name will not be written down anywhere and there will be no way to identify you. Your participation is voluntary. You may refuse to answer any question and choose to stop the discussion at any time. You can also ask questions about this study at any time. There is no direct benefit or money to be given for you in participating to this study. However, I hope that the study will benefit your community by helping the researcher understand the Public Revenue and Expenditure Gap and recommending what should be done to improve in future.

Thank you in advance!

PART-II Background Detail

Please put on ''**Circle**'' your options.

1, Name of City Admin Town: --

2, Gender:

B) Male B) Female

3, Occupation:

B) Mayor **B)** Deputy Mayor **C)** Finance Head **D)** Revenue Authority Head **E**) Core Process Owner **F)** Case Team Coordinator.

4, Educational Status:

B) Grade 12 **B)** Certificate **C)** Diploma **D)** Degree **E)** Master **F)** Above

5, Years of experience:

B) 1-4 **B)** 4 – 6 **C)** 6- 8 **D)** Above

PART-III Specific Information

Dear respondents, your response for the questions written below is highly valuable for my study/managing the Public Revenue and Expenditure Gap. So please, try to respond the following questions honestly. Thanks indeed.

1. What are the main sources of revenue in the city administration? ----------------------------------

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----

2. What are the existing and potential sources of revenue in the city administration? ---------------

----

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3. What are problems being faced in revenue collection of the city administration? -----------------

----

----

4. Would you mind providing and explaining the city administration expenditure structure? ------
----

----

5. What are the methods and procedures for assessing and collecting revenue?----------------------
----

----

6. Are tax collectors and assessor's qualified staffs?

- Yes
- No

7. How does Dhagahbour city administration finance its expenditure?--------------------------------
----
----

8. Do you provide revenue generation training to tax collectors?

- Yes
- No

9, Do you face expenditure gap/deficit on yearly basis in your city admins office?

- Yes
- No

10, If above question answers is no, what are the main causes of deficit in your opinion?-----------
----

----

11. Do you collect planned/expected revenue amount in the year?

- Yes
- No

12. if the above question answer is no? what are main causes of revenue gap? ----------------------
----

13. In your experience what are the mechanism to improve revenue collect in the city administration? ---

14. In your opinion what are the expenditure gap mitigations in the city administration? -----------
----

15. What do you recommend improving service delivery and developmental Projects of the city administration?--

JAAMACADA ADHIIS ABABA

QAYBTA MASTRTA

Masterta Barashada Dowlada iyo Siyasada

Waaxda Maamulka Dowliga ah iyo Mareynta Horumarka

Qaybta kuwaad-I Suaalaha shaqaalaha

Foorma wargalinta

Aniga magacaygu waaMy name is **Mudane. Maxamed Xiis Xussen** ahna ardeydhigta Jammacada Adhis Ababa bartana mamulka dowliga ah iyo siyaasada. Ujeeedka wareysigani waa xog uruurin kusaabsan takhakhuskayga jaamacada. Taas oo khuseysa Dakhliga dowliga iyo kharash bixinta golduleelooyinka kajira laqiimeeyo, ee magaalada maamulka dhagaxbuur ee dowlada deegaanka somaalida. Xogta lasoo uruuriyo waxaa loo isticmaali doonaa oo kaliya nidaam waxbarasho ahna xog qarsoodiya.

Magacaaga melena lagu qorimaayo, mana jirto si lagugu garan karo. Kaqaybgalkaagu waa mutadawacnimo. Waad diidi kartaa suaalkasta waana joojinkartaa wareysiga markasta. Waxaad sidookale I waydiinkartaa suaal kasta oo kusaabsan cashirkan. Majirto fa iido ama lacag lagu siinayo kaqaybgalkaaga. Sikastaba, ahaatee waxaan rajaynayaa inay bulshadu kafaa iidaysan doonto dhnaca dhakhliga iyo kharash bixinta dhaliilaha kajira.

Waad Mahadsantahay!

1	**Nidaamka mareynta kharash bixinta maaliyada maamulka magalada dhagaxbuur.**	**1**	**2**	**3**	**4**	**5**
1.1	Waxaa jirta qorshe la aan dhinaca dakhliga iyo kharash bixintaba maamulka magaaladiina					
1.2	Waxaa jirta maamul xumo dhinaca kharash bixinta maamulka magaalada diina					
1.3	Waxaa jirta qorshe xumi dhinaca qoondada miisniyada iyo kharash bixinta maamulkiina magalada.					
1.4	Waxaa jirta aqoon la aan dhinaca shaqaalaha kharas bixinta maamul magalladiina.					
1.5	Waxaa jirta kharash yare sanadle ah maalmul magaaladiina.					
1.6	Majirto cadcadaan iyo is la xisaabtan maaliyadeed maamul magaaladiina.					
2	**Nidaamka mareynta dakhli uruurint maamulka magaalada dhagaxbuur**					
2.1	Waxaa jirta qorshe la aan dhinaca dakhli uruurinta maamulka magalladiina.					
2.2	Waxaa jirta dadaal la aan dhinaca dakhli uruurinta maamul magalladiina.					
2.3	Waxaa jirta mareyn la aan dhinaca dakhliga maamulka magaladiina.					
2.4	Majirnaa shaqaale aqoonleh xafiiska dakhliga maamul magaaladiina.					
2.5	Majirto isla xisaab la aan dhinaca maaliyada maamul magalladiian.					
2,6	Waxaa jirta dakhli yare sanadle ah maamul magaaladiina.					