

*Addis Ababa
University*



School of Graduate Studies

College of Business and Economics

Department of Public Administration and Development Management

**The Challenges and Prospects of Revenue Generation and Utilization in
Urban Local Government of Ethiopia:
The Case of Addis Ababa City Administration**

**A Thesis Submitted to the School of Graduate Studies of Addis Ababa
University in partial fulfillment of requirement for the Masters Degree of
Public Management and Policy in Public Administration and Development
Management**

By

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Addis Ababa

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DECLARATION

I Mukea Redi, declare that this thesis paper submitted to Addis Ababa University School of Graduate Studies in partial fulfillment of the requirements for the Degree of Master of Art in Public Management and Policy with entitled to **Challenges and Prospects of Revenue Generation and Utilization in Urban Local Government of Ethiopia: The case of Addis Ababa City Administration** has been done by myself with great support and comments of my advisor.

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List of Abbreviations

Abbreviation	Definition
AABoFED	Addis Ababa Bureau of Finance and Economic Development
AACGRA	Addis Ababa City Government Revenue Authority
TTR	Total Tax Revenues
VAT	Value Added Tax
TOT	Turnover Tax
NGO	Non-Governmental Organizations
G.C	Gregorian calendar
IDA	International Development Association
WB	World Bank
AR	Actual Revenue
PR	Projected Revenue
MEFF	Macro-Economic Fiscal Framework
IBEX	Integrated Budget and Expenditure system
CRMs	Cash Register Machines
LLR	Locally Raised Revenues
LST	Local Service Tax
SIGTAS	Standard Integrated Government Tax Administration System
AARH	Agency for the Administration of Rented Houses
MOUDCo	Ministry of Urban Development and Construction

CEOs	Chief Executive Officers
USAID	United States Agency for International Development
ULGs	Urban Local Governments
E.C	Ethiopian Calendar
STU	Started to Use
OTU	Obligated to use
NSTU	Not Started to Use
NOTU	Not Obligated to Use

Abstract

The main purpose of this study was to assess the challenges and prospects of revenue generation and utilization in urban local government of Ethiopia focusing on Addis Ababa city administration. To deal with the research objectives, seven fundamental research questions were formulated to examine revenue autonomy, institutional framework, sources of revenue, trends in revenue generation and utilization, extent of revenue generation to city's expenditure, existing challenges surrounding the efficiency of revenue generation and utilization and means and prospects to strengthen the city's revenue generation and utilization capacity and efficiency.

To conduct the study, mixed method research design was employed, and Non-probability sampling and purposive sampling methods were used to select respondents. The main instruments of data collection were questionnaire, in-depth interview and document review. The data were analyzed using tables and percentage.

The finding of the study reveals that the city's revenue generation and utilization processes were handicapped by different challenges. From the findings of the study it was possible to conclude that revenue generation and utilization is improving over the study periods despite some challenges that needed to be addressed.

The need to strengthen the institutional capacity in a way to enhance the city's revenue generation and utilization, carefully assessing and finding new revenue sources and exhaustively exploiting the existing revenue sources by implementing revenue rules, regulations and procedures are some of the recommendations forwarded in order to consistently improve revenue generation and utilization process of Addis Ababa city administration.

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the Study

The growth of Africa's towns and cities has outpaced local authority capacity for service delivery in terms of management, infrastructure, and financing (McCluskey et al. 2003, p. 3). Firstly, the urban municipal authorities, many of which were originally instituted as colonial administrative institutions, have not been restructured to cope with the fast-growing population (Beall 2000). Secondly, a growing number of urban residents live in informal settlements characterized by deficient basic services such as housing, clean water, electricity, sanitation, refuse collection, roads, and transport (Devas, 2003). Thirdly, many municipalities are financially weak and rely on financial transfers and assistance from the central government (Brosio 2000). Moreover, the revenue collection administrations are often inefficient and large amounts of revenues collected are inappropriately managed (cited in Odd-Helde Fields tad, 2005).

Local governments around the world increasingly play key roles in the delivery of basic public services and in the provision of public infrastructure necessary for business development. These roles of local governments are developing against a backdrop of multiple challenges in the global arena including lacking technological infrastructure and capacity, and opportunities for revenue generation are often restricted by inadequate regulatory frameworks or disadvantageous political structures. Lagging public-sector spending takes a toll on urban efficiency and local economic activity, creating a vicious cycle of budgetary shortfalls, choking urban conditions, and economic stagnation (UN-HABITAT, 2015).

As a result, many African towns and cities are now faced with a governance crisis and poor service delivery capability. Consequently, the restructuring of governmental functions and finances between the national and municipal levels of government has entered the core of the development debate. In particular, fiscal decentralization – the devolution of revenue mobilization and spending powers to lower levels of government – has become a main theme of urban governance in recent years (Odd-HeldeFieldstad, 2005).

Fiscal decentralization is one of the key concepts in public finance theory and commonly used policy measure in public sector reforms (Andrey Yushkov, 2015). Fiscal decentralization is

defined by the degree to which fiscal decision-making autonomy is devolved to and exercised by independently-elected and locally accountable autonomous sub-national governments (Abu Girma, 2013).

Fiscal decentralization has been minimally applied by African states during the New Public Management era through local government reforms which implement revenue sharing rather than revenue assignment (EISA, 2010; Tonhodzai, Nyikadzino and Nhema, 2015). Revenue sharing leaves local government at the behest of central government who frequently leave local authorities with limited fiscal tools to finance a myriad of local services (Agbar, Stephen and Nnamani, 2014; Marumahuko and Fessha, 2011 cited in Angelita Kithatu-Kiwekete,2017).

In order to fulfill their mandate in a fiscally responsible manner, local governments in developing countries must have significant sources of own tax revenues as well as non-tax revenues collected from user charges and fees. Adequacy of own revenues is the key to both a city's improved ability to deliver necessary goods and services, as well as to better accountability of local officials to their constituents. Own revenues need to be complemented by intergovernmental transfers to address differences in expenditure needs and fiscal capacity across cities, and also for cities to support the implementation of central government programs. In order to effectively address the challenge of mobilizing adequate financial resources, urban authorities in developing countries require financing instruments for capital infrastructure development (UN-HABITAT, 2015).

The fiscal performance of Ethiopia is reflections of a typical underdeveloped and agrarian based economy in which the majority of the population lives in chronic poverty and a government that devotes its effort to extraction of resources from the economy and failing to allocate these resources to priority areas and sectors of the economy. When this is coupled with a de facto fiscal centralization and stance of inefficient public resource allocation, it fails to address the priorities of the majority of the population and hence becomes increasingly unsustainable. However, both political imperatives and changes in the overall economic policy of the country opened the door for fiscal policy innovation regions (Abu Girma, Unknown year).

As far as the current system of fiscal federalisms and division of revenues in Ethiopia goes, the FDRE Constitution provides that the Federal Government and the States all collect taxes and shall share revenue, taking the federal arrangement into account. By taking into consideration principles such as ownership of revenue, regional character of revenues sources, convenience for

administration, population, and wealth distribution, sharing of revenue between the Federal Government and the State Governments serves with the purposes of Enhancing the efficiency of the central and the regional governments so as to enable them to carry out their respective duties and responsibilities, helping the regional governments to develop their regions on their own initiatives, narrowing the existing gap in development and economic growth between the regions of the country and encouraging common interest activities of the regions (Yohannes and Sisay,2013).

Moreover, decentralization has given autonomy to raise revenue spending decisions to the lower tiers of government. However, the implementation of such administrative provision has a daunting task for many developing countries of local authority. In a similar manner, in Ethiopia, since its implementation, nonetheless, revenue raising and expenditure management are not efficiently and effectively exercised, especially at lower tiers of government. This has led to financial incapability to satisfy infrastructural needs and deliver quality service to the public (Edison et al, 2010).

States' share in the aggregate national revenue has drastically decreased since 2001 while their shares of total expenditure remain constant. This trend reflects the ever-increasing vertical fiscal imbalance in the federal system especially since 2006. Though vertical imbalance has always been an issue to worry about in the federation, the degree to which it has grown overtime is even more worrisome (Zemenu Yesigat, 2016).

Over the preceding decades, the Government of Ethiopia has implemented various tax policy and administrative reforms to increase its domestic revenue collection. For instance, the introduction of the VAT in 2003, the creation of the Ethiopian Revenue and Customs Authority (ERCA) in 2008, and ongoing efforts to automate tax systems. Most recently, the government has divided ERCA into the Ministry of Revenue (MOR) and the Customs Commission. Despite these semi regular revisions to existing tax policy and administrative systems, revenue collection remains relatively low. Ethiopia's tax-to-GDP ratio has stagnated at less than 13 per cent, compared to the average of 19.1 per cent among African countries and over 25 per cent in developed economies (IMF 2013; Moore 2015). Ethiopia's current tax-to-GDP ratio is also lower than the tipping point of 15 per cent, which is widely acknowledged to be associated with a significant acceleration in economic growth and development. Below the 15 per cent threshold economies tend to struggle to

function and to provide basic social services. Given existing trends, if no significant new measures are adopted, the government's aspiration to raise the tax-to-GDP ratio to 17 per cent by the end of 2020 is unlikely to be realized (UNDP, 2016). Similarly, government expenditure-to-GDP is much higher than the tax-to-GDP ratio. As a result, tax revenue is unable to fully finance the budget and government continues to rely on external borrowing to cover budget deficits (Ronald Waiswa, etal, 2019).

A number of factors explain low tax collection performance in Ethiopia, including the country's huge informal sector that by some estimates contributes 38 per cent of GDP (IMF 2013; Schneider, Buehn and Montenegro 2010). A poor tax-paying culture and shortcomings in tax administration also contribute to making revenue collection difficult in Ethiopia deficits (Ronald Waiswa, etal, 2019).

Generally, fiscal decentralization in Ethiopia have been seen with different limitations including high vertical fiscal imbalance and regional disparities, problem of effectiveness and efficiency in resource utilization, problem of administrative malpractice and local level political influence and problem of spillover effect (Defere.G, 2018). Therefore, this study was focused on examining the existing challenges and prospects facing revenue generation and utilization in urban local government settings within Addis Ababa City Administration.

1.2 Statement of the problem

Over the years, a major concern of urban governance in the developing countries has been the financial management and performance of local governments. The primary problem cited is the mismatch between the revenue authority and the expenditure responsibility. Thus, an essential prerogative of fiscal decentralization is the power given to local units to raise their own revenues through taxes, fees and user charges, and carry out spending activities (Vandana Sareen, 1997).

The fundamental problem most local authorities are facing, especially those managing cities in developing countries, is the widening gap between the availability of financial resources and municipal expenditure needs. One of the main reasons for this increasing fiscal gap is the rapid growth of urban population, which creates an ever-increasing demand for public services and new public infrastructure and its maintenance (UN-HABITAT, unknown year).

Most cities depend largely on central government transfers and to a lesser extent on revenues derived from property taxation and service charges, while more lucrative sources of revenue potentially suitable for financing urban areas, such as income taxes, sales taxes, and business taxes,

continue to be fully monopolized by the central governments. Where local authorities are able to derive revenues from property taxes and service charges meaningful tax increases are sometimes refused or delayed by central governments for fear of eroding political support from the urban population or by the local authorities themselves for fear of political backlash from local taxpayers. In most countries, there are huge vertical imbalances in terms of sharing responsibilities and resources between central governments and local authorities. Stated differently, many central governments continue to refuse to pay the political and financial costs of the decentralization of roles and responsibilities (Ibid).

Smoke (2001) argues that fiscal decentralization in developing countries is characterized by limited revenue responsibilities along with the tendency to pushdown expenditure responsibilities to sub-national governments by federal government. Hence lack of independent sources of revenue constraints sub-national governments from influencing the allocation of public expenditures.

Ethiopia's 1995 Federal Constitution officially promulgated and assigned autonomy and functions to federal authorities and the nine autonomous states in the country (World Bank, 2015). An exception, however, applies to the cities of Addis Ababa and Dire Dawa, who are both granted the same autonomy level as state governments. Each regional state government is sub-divided into zones which, in turn, are sub-divided into Woredas - semi-independent localities with their own legal status and leadership structure (councils). Woreda council members are independently elected to represent each of the Kebele sub units. However, the cities of Addis Ababa and Dire Dawa are allowed to establish local structures (sub-cities) and then Kebeles as the smallest administration unit. Recently, Kebeles are being replaced by Woredas in Addis Ababa and other major cities, and the structural arrangement is thereby formed by the city administration, sub-city, and Woreda. Based on the Ethiopian constitutional framework that offers regional states the autonomy to establish urban local governments at the lowest administrative structures, Addis Ababa has developed an urban local government structure that reflects its dual mandate as a federal capital as well as its autonomous municipal functions (UN-HABITAT, 2017).

The FDRE Constitution of Ethiopia 1995 has also provided a legal foundation to govern the principles of fiscal decentralization and autonomy of local governments in Ethiopia. Article 50 (4) of the Ethiopian Constitution directs the governments of regional states to grant adequate power to the lowest units of government (Werner and Nguyen, 2007 as cited in Tiwari, P. 2017).

Hence, for such fiscal decentralization to be effective and meet its desired objectives, it demands linking spending with revenue generation. For cities, fiscal decentralization is a key tool to help them manage their revenue raising efforts and match them with their ever-increasing expenditure demands. Legal and regulatory frameworks must define local authorities decentralized fiscal powers, revenue generation, budget preparation and administration for fiscal decentralization to become effective (UN-HABITAT, 2017).

Under the highly centralized Derg regime (1974-1991), Ethiopia's municipalities were marginalized and did not function as independent local authorities. Since 2000, national decentralization policies have formed part of a large-scale reform of government resulting in creation of institutional and legal frameworks for urban local government authorities. The objective has been to create and strengthen urban local government that will ensure public participation, democratization and enhance decentralized service delivery through institutional reforms, capacity building, systems development, and training (Ritam Chaurey and Megha Mukim, Unknown year).

Currently in Ethiopia, more than 160 Urban Local Governments (ULGs) are established within relatively large and medium-sized towns of the country based on the state legislations. Unlike municipalities during previous times, ULGs are now responsible to provide both "state services", such as education, health, justice, and security, as well as "municipal services", such as urban roads, drainage, solid waste collection and disposal, and sanitation. All municipal functions are expected to be funded from own local revenues (MOUDCo, 2014).

The Addis Ababa City Government's revised charter proclamation No. 361/2003 Article 52 dictates the city's fiscal power and the jurisdictions of revenue generation. The same proclamation indicates the boundaries for revenue generation whereby the city government raises its revenue from bodies under its charge, income-generating activities, (joint) investments, funds' investments, rentals and donations. The city government can also make contractual agreements and undertake activities to gain and generate revenue. It is also allowed to resort to sources from the federal government and also loans. However, where it concerns loans from abroad, the city government shall solicit the federal government to take loans on its behalf (UN-HABITAT, 2017). However, the findings of different researches conducted (Melkamu, 2004), (Demelash, 2011), (Tesfaye, 2015) and (Alam, M. and Girma, 2017) which are cited in (Alam, Minhaj and Debela B.G, 2019) indicated that, fiscal decentralization in Ethiopia is constrained by imbalances, lack of

capacity, centralization of revenue bases and inadequate devolution of functions. These researches revealed that the challenges of fiscal decentralization in the country at lower levels of government are exacerbated due to lack of autonomy in the sectors. On the other hand, there is an argument that the fiscal autonomy of local institutions (sectors) enhances the efficiency of service delivery. The Bureau of Finance and Economic Development of Addis Ababa City Administration in its 2015 revenue enhancement plan cites five major reasons for low performance in revenue collection: (a) weak institutional and human resource base, (b) low tax base and rates, (c) low tariffs, (d) low charges and fees for utilities, and (e) weak debt collection and non-recovery of major investments.

With regard to institutional and human resource capacities, Addis Ababa's city administration lacks skilled personnel and appropriate data management facilities and equipment. The city administration collects land rents at rates set long ago and can therefore not reap the full benefits of its agglomeration economy and the recent economic boom. Land rents, roof tax and rental income on city-wide properties are all well below today's market rates and need upward revision if the city is to enhance its revenue (ibid, 2015).

The effectiveness of municipal revenue and tax collections reflects the extent to which a city administration can finance itself. With a current rate of urbanization of about 3% annually (according to CSA, 2015), the city has to aggressively work on raising its revenues.

This study is motivated on the premise of deficiencies in empirical researches on city administration revenue generation and utilization for the provision of public service. However, the study examines the challenges and prospects of revenue generation and utilization in Addis Ababa city administration.

1.3 Research questions

In order to carry out this study, the following research questions were designed and the study attempted to answer them.

- How the city's institutional framework is organized to generate and utilize revenue?
- What trends are observed in the city's revenue generation practices?
- To what extent the city can generate the revenues for its own expenditure?
- What are the existing challenges surrounding the efficiency of revenue generation and utilization in the city administration?

- What are the means and prospects to strengthen the city's revenue generation and utilization capacity and efficiency?

1.4 Objective of the Study

1.4.1 General Objective

The overall objective of this research was to identify the challenges and prospects of revenue generation and utilization in the urban local government system of Addis Ababa City Administration.

1.4.2 Specific objectives

- ❖ To examine the institutional frameworks in place to generate and utilize revenue in the city administration.
- ❖ To examine the existing trends in revenue generation and utilization of the city administration.
- ❖ To examine the extent to which the city can generate the revenues for its own expenditure
- ❖ To identify and analyze the major existing challenges surrounding the efficiency of revenue generation and utilization in the city administration.
- ❖ To identify the means and prospects to strengthen the city's revenue generation and utilization capacity and efficiency in the city administration.
- ❖ Based on the findings of the research, forward the necessary recommendations to the concerned authority about the overall revenue generation and utilization issues in Addis Ababa city Administration.

1.5 Scope of the study

Fiscal decentralization is a set of rules that defines roles and responsibilities among different levels of governments for fiscal functions including budget preparation, budget execution, revenue generation and public sector borrowing. Fiscal decentralization lies at the heart of any local government system as its rules define the generation and distribution of resources (both between and within different government levels) that are utilized to fulfill citizens' demands (Serdar Yilmaz & et al, 2010).

In this view, to incorporate such broad subject made the assessment of main pillars of fiscal decentralization very difficult. Hence, this study was limited to identifying the main challenges and prospects of revenue generation and utilization in the urban local government of Addis Ababa city administration. The study addresses the organizational frameworks for revenue generation and

utilization, trends of revenue generation and utilization observed in the last five years from 2014/15-2018/19 G.C, the extent to which the city can generate the revenues' for its own expenditure and means and prospects of revenue generation and utilization process. This was done by examining generated and utilized revenue and analyzing the responses of study respondents in the study area.

The study considers all sources of revenues and their utilization which were generated by Addis Ababa City Government Revenue Authority and Finance and Economic Development Bureau from 2014/15-2018/19 G.C. With regard to geographical location the study was limited to collect data with in Addis Ababa city administration only.

1.6 Significance of the Study

Local governments around the world today play a key role in facilitating development and improving living standards. As more robust governance mechanisms are adopted and civil society develops even where they have historically been weak, local governments have grown to operate in an increasingly open and responsive manner (Jorge Martinez-Vazquez and Paul Smoke, 2011). An important problem of local government finance is sustainability, which is the ability of local governments to continue to deliver assigned social services with expected level of quality and access (Jan Herczyński, 2018).

However, these are possible only in the presence of continuous follow-ups, ongoing identification of challenges, and their proper remedies. In this regard, this research tried to bring relevant information in the study area on the challenges surrounding the revenue generation and utilization process in the urban local government of Addis Ababa city Administration.

The finding and concluding remarks of this study will help the concerned decision makers and policy executives to understand the existing trends, challenges and prospects facing the revenue generation and utilization efforts in the Addis Ababa city administration. This study will also have significant for the following reasons:

- Policy makers and Addis Ababa city administrators will use the findings as an input to modify, revise, and design different policies, and initiatives to improve revenue generation and utilization efforts based on recommendations and suggestions given by the researcher,
- This study is valuable for employees to understand trends, challenges and prospects of revenue generation and utilization process in their institutions to generate enough revenue to meet the

city's basic expenditures by taking lessons from findings and recommendations forwarded by the researcher,

- Finally, the study may also encourage and help as initial reference for other researchers who want to conduct in-depth study on the subject.

1.7 Limitations of the Study

This study was encounter different limitations associated with its design and coverage. In this regard, the study was not included all pillars of fiscal decentralization. It only concerns with revenue generation and utilization aspects. As a result, the findings and/or outcomes reported in this research were not fully represented or reflected the situation in Ethiopia as a whole. The findings and conclusions, therefore, were not being taken as generalizations for urban local governments in developing economies as a whole.

The other limitation was be lack of previous studies the area hinders the researcher to perform review related literatures in order to fill the gap and poor record-keeping of revenue generation and utilization trends from the relevant offices at the center. So, it was difficult to get organized and well-developed time series data and documents in such situations.

Besides, the reluctance to help was a major problem. Moreover, due to time shortage and existence of hundreds of employees and Officials, it was only possible to handle smaller group through sampling for interview and questionnaire. However, unreserved effort was made to overcome the limitations.

1.8 Organization of the study

The thesis was organized into five chapters. The first chapter is the introduction, which consists of the background of the study, statement of the problem, objectives of the study and others. The second chapter presents a review of related literature on the theoretical, conceptual, and empirical issues that provide a brief framework for the study. The third chapter presents the methodology and methods of the study while the fourth chapter presents the analysis and interpretation of data. Finally, chapter five presents conclusions and recommendations of the study. In the end, references, appendixes and other relevant documents were attached.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1 Introduction

This chapter is designed to review literature on relevant concepts and theories relating to the research. This chapter provides a theoretical structure of the research highlighting on the vital and relevant definitions, explanations and concepts. Among these concepts and issues are theoretical framework, pillars of the fiscal decentralization, and the determinants of fiscal decentralization, arguments for and against fiscal decentralization, fiscal decentralization and urban local governments finance, guiding principles for urban local government finance, purposes for levying local revenues by urban local governments, revenue sources and legal frameworks in urban local governments, the nature of local revenue sources existing in urban local governments, factors influencing revenue generation and utilization in urban local governments, challenges of revenue generation & utilization in urban local government discussed in this chapter.

2.2 Theoretical framework of fiscal decentralization

The starting point of fiscal federalism – or the economic analysis of decentralized public governance – is that there are some economic functions that a central government should simply not be concerned with. Granted this, the substantive issue is organizational: to precisely define which functions should be centralized and which should be left to local jurisdictions (e.g., should health care and education be centralized or local?). Since the definition of the local versus central function most often also coincides with the public financing question – e.g., if local government is responsible for garbage collection, then should it also extract the garbage collection tax? – The public organizational issue has become the staple of the public economist rather than of the organizational economist (Giampaolo Garzarelli, 2004).

The topic of fiscal decentralization, or more generally fiscal federalism, was brought about into the normative theory public finance in the middle of twentieth century. The main issue to solve was the extent to which fiscal competences and responsibilities should be decentralized from central to lower sub-central levels of government. Traditional theory of fiscal federalism and intergovernmental fiscal relations draws heavily from the seminal contributions of Tiebout (1956),

Musgrave (1959), Oates (1972) and Olson (1969) among others (Jorge Martinez-Vazquez et al, 2016).

Fiscal decentralization refers to the process of devolving fiscal responsibility to lower levels of government in accordance with these local needs and preferences. It involves defining fiscal responsibilities of the different levels of government. It also consists of fiscal instruments and procedures that have the aim of helping in the delivery of public goods (Bird, Ebel, and C. I. Wallich, (Eds, 1995). In general, fiscal decentralization means that the authority of tax collection or expenditure is transferred from superior offices to subordinate offices (ChoiJung, 2001) for the purpose of producing appropriate public-services for improving the public welfare of residents. Thiessen (2001) views fiscal decentralization as entailing “a transfer of responsibility associated with accountability to sub-national governments” (Kasumba Stephen Robert, unknown year).

Theory suggests that close match between revenue and expenditure assignment at sub-national levels benefits allocative efficiency, and hence economic growth. That is a convergence of revenue and expenditure assignments at sub-national levels of government should be according to the theory, and be positively associated with higher growth rates. This belief is further evidenced in various studies though there could be implications for resource redistribution (Martinez-Vazquez & McNab, 2001). Fiscal decentralization is often seen as part of a reform package to improve efficiency in the public sector, to increase competition among sub national governments in delivering public services, and to stimulate economic growth (Bird &Wallich, 1993). The main issues of concern regarding fiscal decentralization and economic growth are tax jurisdictions, expenditure responsibilities and resource allocation (Ibid).

The gradual development of the theory of fiscal decentralization led to distinguishing between a first and a second-generation theory of fiscal decentralization, as explained in W. Oates, E. (2005) and VO (2010).

2.2.1 First generation theory of fiscal decentralization

The first generation of fiscal decentralization, or "fiscal federalism", sets forth an active and positive role for the government in terms of correcting various forms of market failure, establishing equitable distribution of income and stabilizing the macro-economy at high levels of employment with stable prices. According to Oates (2005), the implicit assumption is that government agencies, as “custodians of the public interest”, will seek to maximize social welfare, either because of some

kind of benevolence or because of electoral pressures in a democratic system. In short, where market failure prevails, there is a presumed need for public intervention. Another implicit assumption is the political stability of a sustainable nation-state, which provides the context for the theory (<https://www.google.com/search?client=firefox-b-d&q>).

In the influential book *The Theory of Public Finance – A Study in Public Economy*, Musgrave (1959) introduced three different branches or categories of public finance: economic stabilization, income distribution and resources allocation. These categories are called three main functions of government:

- Allocation function. Musgrave and Musgrave argue that ‘although social goods are available equally to those concerned, their benefits may be spatially limited’. Thus, national governments may provide public goods benefiting the total population in the country while local governments produce social goods for their constituencies.
- Distribution function. Redistribution should be conducted by the national government given that spillover effects may render local governments’ redistribution function ineffective.
- Stabilization function. Fiscal and monetary policies should be coordinated by the national government in order to maintain economic stabilization.

These branches have come to represent the benchmarks from which issues in public economics are treated by the non-public choice group within their first-generation studies of fiscal decentralization. In general terms, each branch is individually subject to consistent theoretical analysis. Between these branches, analytical consistency is more difficult because of diverse and subjective assessments of the relative importance of stabilization, income distributions and efficiency. In the specific public finance perspective on federalism, the Musgravian branches of public finance proved useful in setting the constraints to fiscal decentralization (stabilization and distribution) and the potential benefits of fiscal decentralization (efficiency) (Neringa Slavinskaite, unknown year).

2.2.2 Second generation theory of fiscal decentralization

The second-generation theory of fiscal federalism draws on ideas from outside the traditional scope of the normative public finance literature, notably from the theory of public choice, theory of the firm, the economics of information, the principal–agent problem, and the theory of the contract (W. E. Oates, 2005). The contribution of public choice theory to the fiscal federalism theory started to be significant with erosion of the central assumption of the first-generation normative theory,

which was that the government is benevolent, pursuing exclusively the fulfillment of citizens' preferences. The public choice theorists considered the governments, i.e. politicians and bureaucracy to be self-interest players. Such an assumption shifted emphasis to institutional, i.e. political, administrative and legal aspects of decentralization. This approach points the way toward the second generation of more precise empirical research that takes politics and institutions seriously. Among the most influential papers attributable to the second-generation theory are Weingast (1995), Seabright (1996), Inman and Rubinfeld (1997), (Lockwood, 2002), Besley and Coate (2003), Rodden (2004) and Weingast (2009) and (2013).

The massive body of the normative literature on fiscal federalism, the prevailing attitude within the literature, pays attention to allocation efficiency gains from fiscal decentralization and to different roles of government levels (Musgrave, 1959; W. E. Oates, 1972). The positive approach to fiscal federalism has been much less frequent. The positive literature (W. E. Oates, 1972; Wallis, Oates, & Oates, 1991) on decentralization suggests that there are empirical regularities concerning factors that promote or discourage decentralization (Kibre Moges, Unknown year).

The second generation of fiscal decentralization is often history and politics—not economics—that determine the sub-national structure of government and drive fiscal decentralization reforms. Many fiscal decentralization reforms have shifted financial resources to the local government level but failed to decentralize the discretion to manage these resources (Wallace. E. Oates,2005).

As described by Wallace. E. Oates (2005), second-generation fiscal federalism examines the workings of different political and fiscal institutions in a setting of imperfect information and control, with a basic focus on the incentives that these institutions embody and the resulting behavior they induce from utility-maximizing participants. It builds on first-generation fiscal federalism but assumes that public officials have goals induced by political institutions that often systematically diverge from maximizing the welfare of the citizenry.

This new perspective implies that fiscal decentralization requires more than just a “pushing down” of financial resources: control over these financial resources matters just as much. Additionally, if you look at things through this new lens, decentralization is tied much more closely to governance and poverty reduction (empowerment). This new—more people centered—line of thinking about fiscal decentralization is reflected in Bahl's (2005) definition of fiscal decentralization: “[Fiscal] decentralization is the empowerment of people by the [fiscal] empowerment of their local governments” (Wallace. E. Oates,2005).

2.3 Pillars of Fiscal decentralization

Fiscal decentralization covers the whole spectrum of intergovernmental fiscal relations coming under the literature of fiscal federalism. Fiscal federalism encompasses principles of fiscal relations between central and sub national levels of government, which is the command over resources by the various levels of government and the direction and size of inter-governmental fiscal flows. This includes the division of tax powers and the means through which resources are adjusted to match expenditure responsibilities for central and sub national levels of government. What types of spending should be conducted by what level of government? Which level of government should levy what types of taxes? How should grants-in-aid be allocated? How should financial regulations be harmonized? These are the major issues of fiscal decentralization (Kibre Moges, unknown year).

The principle of fiscal decentralization attempts to search for the optimal pattern of inter-governmental fiscal relations, i.e., expenditure and tax assignment, and inter-governmental transfers, which promotes economic development (Kibre Moges, unknown year).

2.3.1 The assignment of responsibilities for expenditure

According to Leonardo Letelier (unknown year) Expenditure Fiscal decentralization is measured as the share of the general government's expenditures made by sub national governments. Kibre Moges (unknown year) also argues that fiscal decentralization draws its argument largely on efficiency grounds, though it is also argued that lower level governments have some degree of distributional and stabilization roles.

The basic rule of efficient expenditure assignment is to assign each function to the lowest level of government consistent with its efficient performance. So long as there are variations across jurisdictions in tastes and costs, there are clearly efficiency gains from carrying out public services in a decentralized manner. Oates (1972) shows how jurisdiction size can be determined by the balance between competing forces - the welfare loss from taste differences, which argues for small jurisdictions, and the welfare gain from burden sharing, which argues for large jurisdictions. According to his decentralization theorem each public service should be provided by the jurisdiction having control over the minimum geographic area that would internalize benefits and costs of such provision (Oates 1972: 55). A corollary of this is that efficiency can be further promoted by having central government grant or interjurisdiction arrangements to ensure that those

living outside the jurisdiction pay their appropriate marginal share of the benefits of public services.

The rationale for decentralized expenditure assignment, apart from allocative efficiency, is also based on other economic and political arguments such as accountability, autonomy and manageability. Accordingly, decentralization ensures consistency between the level and mix of public services with local preferences, tastes and needs; induces more responsiveness to local issues and creates fiscal responsibility since decision making is vested in relevant local bodies; eliminates multiple layers of jurisdiction; and enhances inter-jurisdiction competition and innovation in the provision of public services (Shah 1991: 3).

Using this logic of the benefit principle, public services that are sensitive to regional or local conditions, such as schools, roads, police, fire service, etc would be provided by local governments covering that particular jurisdiction or area, perhaps with matching grant support from the center (Shah 1991).

On the other hand, other political as well as economic considerations dictate that certain services would be best delivered by the central government (Wallace. E. Oates,2005).

2.3.1.1 General Principles for Expenditure Assignment

Most countries in transition have been carrying out in one form or other decentralization policies. But typically, there has been a lack of clearly designed decentralization strategy. It has been quite common to give regional (when these exist) and local governments' autonomy to formulate budgets and spend their funds any way they wish. This is a practice similar to that followed in decentralized government systems. But on the other hand, the typical situation is for revenues and the overall level of the budget of sub national governments to be determined by the central government as in a unitary state. From a governance viewpoint, regional and local governments have autonomously elected legislative powers but often the heads of the executive powers continue to be appointed by the center, an institution associated with centralized unitary states. The present confusion in institutions has led in many transition countries to an unwieldy mix of deconcentration and decentralization of government activities. One way to examine the adequacy of expenditure assignments is to analyze how well the actual assignment of responsibilities fits the fundamental rules for the ideal assignment of responsibilities in a decentralized system of government (Charles E. McClure & Jorge Martinez-Vazquez, unknown year).

There is no absolute best way for deciding which level of government should be responsible for particular public services. The adequacy of any assignment has to be judged in terms of how well it achieves the goals or objectives set up by the government in its decentralization strategy. The fact that it is up to the government to set these objectives should not be interpreted to mean that a murky assignment is acceptable. Clearly, without a specific assignment of expenditure responsibilities it will not be possible to assess the adequacy of the revenue and tax assignment to different levels of government, or the need and effectiveness of a system of intergovernmental transfers. As we argued above, expenditure assignment needs to be the first and fundamental step in the design of a decentralized system of intergovernmental finances (Charles E. McClure & Jorge Martinez-Vazquez, unknown year).

According to Nicoletta Feruglio (2007) there are five basic Principles for Expenditure Assignment.

- Efficiency Criteria or Subsidiary principle: Providing goods and services at the lowest level of government that can efficiently deliver the good or service.
- Service or Benefit Area: Delivering Services across political boundaries
- Economies of Scale: The extent to which the provision of a service at a smaller or larger scale affects the cost of the service
- Cultural Values: Some services, such as education and health, may have a high cultural value and requires more centralized or controlled delivery
- Size and Diversity: Geographic and population size and diversity may affect expenditure assignment.

In connection with stabilization measures, lower level governments have also some role to play. Gramlich (1993) contends that regional cycles can be counteracted by sub national governments. "The way lower governments can operate stabilization policy is for governments to build up their asset stocks in good years and run down these assets in bad years, or to borrow in bad years and repay in good years" (p. 234).

Nicoletta Feruglio (2007) also identifies eight strategies for Expenditure Allocation.

- ✚ Recognize why you are where you are
- ✚ Ensure clear and stable allocation of responsibilities
- ✚ Focus on core services, then devolve additional responsibilities incrementally

- ✚ Recognize that the allocation of expenditure responsibilities must be linked to capacity
- ✚ Recognize that sub-national governments are different in terms of population, expenditure capacity and revenue sources in almost every country. This asymmetric decentralization speaks to the need for performance indicators.
- ✚ Phase in additional responsibilities to more competent sub-national authorities
- ✚ Establish a ranking system to classify the sub-national governments on the basis of technical financial, administrative and planning and policy capacities
- ✚ Monitor implementation and adjust as necessary

2.3.2 Revenue assignments and local revenue administration

The second pillar of inter-governmental finance—revenue assignment—refers to the mix of user charges, taxes and transfers assigned to each level. Local governments in developed as well as developing countries rely to a greater or lesser degree on a number of local own-source revenues to fund expenditures within the local realm of responsibility (<https://search.yahoo.com>).

Finances should follow functions so that the sub national governments can vary the public services across jurisdictions according to the preferences of the people by varying tax payments on them. Assignment of revenue sources is necessary for, a strong link between the decision to spend and the decision of raise revenues to finance the spending imparts greater efficiency and accountability in public service provision. Thus, proper assignment of functions and sources of finance, consequences arising from their overlap and the mechanism to match their functions and finances both vertically among different levels of government and horizontally among different governmental units constitutes the subject matter of fiscal federalism (M. Govinda Rao et al, 2011). The DPWG-LGD (2009) recommends an ideal local revenue source that fosters the sustainable mobilization of own resources by local authorities in connection with the relevant services. Taxes that are “ideal” for local governments to mobilize are taxes

- that achieve a “correspondence” between the tax and the benefits from local government services
- are relatively easy to administer
- do not easily give “perverse incentives” to taxpayers

Revenues commonly assigned to the local level include taxes such as property taxes, user fees (for example, utility fees, fees for garbage collection or market fees), licensing and permit fees, and rent on local government property, such as buildings and equipment.

Using the criteria of equity and efficiency Musgrave (1984) suggested the following broad principles of revenue assignment:

- o Taxes suitable for economic stabilization should be assigned to central governments;
- o Tax bases distributed highly unequally between jurisdictions should be centralized;
- o Taxes on mobile factors of production are best handled centrally;
- o Resident based taxes such as sales of consumption goods to consumers or excises are suited to states;
- o Taxes on completely immobile factors of production are best suited for local levels;
- o Taxes of lower levels of government should be cyclically stable;
- o Benefit taxes and user charges are to be used appropriately at all levels;
- o Resource taxes and Value Added Tax (VAT) are appropriate for sharing between governments.

2.3.3 The design and provision of inter-governmental fiscal transfers

No design of a decentralized system of finance ever reaches a perfect balance between expenditure assignments and revenue assignments. Horizontal imbalances can be caused by differences in local economic activity, wealth or resource endowments; or due to differences in expenditure needs. These latter differences may arise from either different prices or costs of service provision due to geographical or climatic conditions, or from adverse demographic profiles such as population groups with special needs. Horizontal imbalances can be enlarged from physical and institutional impediments to population migration or the mobility of capital across provinces, and from government policies that implicitly or explicitly favor some areas of the country over others. The typical measure of horizontal fiscal imbalance involves the comparison between fiscal capacity measures and expenditure need measures. Vertical fiscal imbalances are also an issue for most decentralized countries. Vertical imbalances arise when the revenue sources assigned to each level of government do not broadly correspond to their assigned expenditure responsibilities. These include not only central–provincial relations but also provincial–local relations. In most cases vertical imbalances are against sub national governments with expenditure responsibilities and needs exceeding their revenue sources. However, measuring the lack of correspondence between expenditure responsibilities and available sources of revenue is made difficult by the ambiguity surrounding measures of expenditure needs. Vertical imbalances have been sometimes associated with the existence of structural budget deficits. But this is an imperfect measure because, by law and practice, in most countries budget deficits have been consistently higher at the central than at

the sub national level. Local governments in many countries are not allowed to run deficits and in some cases, they are also not allowed to borrow for capital spending. A more accepted and sounder approach to measuring vertical imbalance is to identify the ability of different levels of government to finance expenditures from their own sources of revenues. Transfer systems generally use three types of grants to address those vertical and horizontal imbalances: tax sharing, unconditional equalization grants, and conditional grants (UN-HABITAT, 2015).

2.3.4 Local government borrowing and debt

Local borrowing can act as a significant and sound source of financing, especially in countries where own-source revenues and inter-governmental transfers fall short of responding to local investment needs. However sub-national governments should borrow only for financing capital (investment) expenditures, such as improvements in infrastructure, which provide a flow of benefits over time (Ibid).

According to Swianiewicz (2007) the main arguments for using borrowed money for capital projects may be:

- Efficiency. Because capital (investment) expenditures provide a flow of current benefits over time (the life of the project), it is efficient to spread the recovery of capital costs over that same time period.
- Equity. Equity or fiscal “fairness” is enhanced by spreading out the payment of the capital costs over successive generations that benefit from the subsequent year to year flow of services.
- Timing. Borrowing allows for faster implementation of projects, and benefits derived from investments can be enjoyed earlier. Indeed, in some cases, earlier completion of a project may generate additional revenues or reduce current expenditures (e.g., new, more efficient lighting or heating systems). Moreover, faster implementation often reduces the total cost of an investment project.
- Practicality. Borrowing often enables the use of external grants that require pre financing.

Borrowings from the central government and transfers to local governments which are easy to obtain may lead to three undesirable effects: (i) a decline in the local fiscal effort (local tax revenue and other sources of revenue like user charges), (ii) overspending, and (iii) inefficient budgetary allocation (Cecilia Ugaz, 1997).

2.4 Determinants of fiscal decentralization

Milan Jílek (2018) cites five determinants of fiscal decentralization. The suggested determinants of fiscal decentralization relate the decentralization to the cost of decentralization (technical efficiency factors), preference heterogeneity (allocation efficiency factors) and political and institutional factors.

1. Geography

In countries with larger and more diverse geographical area more important role of local governments can be expected (Canavire-Bacarreza, Martinez-Vazquez and Yedgenov, 2017; Wallis et al, 1991). The cost of centralized information, administration and decision-making will increase with the geographical area of country. Remote regions may be poorly served by the central government, due to higher transportation costs, poor information, and inattention of the center to demands of remote regions with different ethnic backgrounds and preferences. These bring pressures to decentralize (Tiebout, 1956).

2. Population

The local governments in countries with smaller population might not be able to use the scale economies on both, expenditure and revenue side of budget. Important factor can be the urbanization, where higher urbanization, bringing higher need for spending of sub national government, might exert higher decentralization (Kee, 1977; Litvack and Oates, 1970). On the opposite, with growing population number, in large and less densely populated countries it is likely that the decentralized public administration would be most costly (Arzaghi and Henderson, 2005; Bahl and Nath, 1986; Cerniglia, 2003; Letelier-Saavedra, 2005; Panizza, 1999)

3. Level of country development

The government sector is known for its growth bias. As a consequence, the role of government sector tends to be more important in more developed countries. This might have important consequences for decentralization. Wallis et al. (1991) suggest that the growth of the relative size of government sector allows better exploitation of scale economies in local public good provision, making local provision more efficient. In such a case, however, one may expect that centralized income redistribution gain higher relative importance. According to number of studies (see Mullen, 1980; W. E. Oates, 1985; Panizza, 1999) the decentralization itself is a superior good, where the demand is likely to grow with the income per capita. Increasing wealth is expected to raise the diversity of preferences and thus the demand for decentralization (Bodman and Hodge, 2010).

4. Preference heterogeneity

The higher heterogeneity of preferences is a classical argument supporting decentralization (W. Oates, E., 1968, 1999; Panizza, 1999). As it is not possible to measure the heterogeneity directly, it must be approximated by proxy variables, for example by language, religious or ethnical fractionalization or even geographical fragmentation (Alesina et al., 2003; Cerniglia, 2003; Panizza, 1999).

5. Institutional determinants

While the above-mentioned determinants generally coincide with the first-generation theory of fiscal federalism, the institutional determinants should capture the explanations within the second-generation theory of fiscal federalism (Arzaghi and Henderson, 2005).

2.5 Arguments for and against fiscal decentralization

According to Jorge Martinez-Vazquez et al (2016), the positive effects of embarking in a fiscal decentralization reform can be summarized as follows:

- ✚ Improved efficiency (or economic benefits): This argument is linked to the notion of improved efficiency in the use of public resources, which is also related to increased competition for better use of public resources. Specifically, it can be persuasively argued that decisions about public expenditure, that are taken by a level of government closer to the people it is serving, are more likely to reflect the actual demand for local services, and thus appropriate resource allocation, than a one size fits all approach more typical of a central government (allocative efficiency). Different sub-national governments offer different mixes of tax-expenditures, and local constituencies are supposed to locate themselves accordingly to their preferences (Tiebout, 1956). Therefore, fiscal decentralization promotes competition among sub national governments for limiting taxing power and maximizing their service delivery.
- ✚ Improved political and financial accountability: This is related to the notion that increased authority at the sub-national government level may increase democratic accountability by giving citizens greater opportunities for input and participation. In addition, to the extent that sub-national services are financed through own revenues, the citizens tend to closely monitor sub-national authorities.
- ✚ Improved effectiveness: This argument supportive of decentralization reflects the principle of subsidiarity, which is the view that government functions should be carried out at the lowest level that can perform those functions effectively and efficiently. This is linked to the notion

that decentralization can lead to improved service delivery, because local officials, as compared to the central government, due to their knowledge of local needs and the incentive to use this information, are better equipped to respond to local variations in conditions, standards and requirements for services and infrastructure. In addition, in order to meet local needs, decentralization may also encourage experimentation and innovation in public policy and service delivery, as individual jurisdictions have both the incentive and freedom to develop and implement new approaches or have incentives to copy successful sub-national governments.

Since sub-national governments are now key actors in the delivery and provision of public goods and services to citizens all over the world, it has become increasingly important to know the impact of fiscal decentralization on the economy, the society and politics. The array of socioeconomic issues is wide and it includes growth and development, reducing poverty and achieving the Millennium Development Goals), improving public sector efficiency and governance, or achieving greater macroeconomic stability and fiscal sustainability. The fundamental question is whether the ongoing decentralization trend is helping or hurting those important policy goals. Moreover, there are other key institutional and political aspects affected by fiscal decentralization and interacting with public choices that merit attention. The set of issues is again wide and diverse, including country unity and separatism, the level of corruption, accountability and political representation, and the nationalization of political party systems (Jorge Martinez-Vazquez et al, 2016).

According to Nicoletta Feruglio (2007) the potential consequences of inappropriately designed fiscal decentralization are:

- ✚ Macro-economic instability: Fiscal decentralization can potentially bring about macroeconomic instability because in a fiscally decentralized system, the control of the central government over public resources is not necessarily suitable. In this framework, indeed, sub-national debts could have national repercussions and the central government might not be able to react to economic shocks introducing monetary or fiscal policies.
- ✚ Declined investment in social infrastructures: Sub-national governments are accountable to their constituencies and compete among themselves to maximize spending while minimizing taxing. Thus, sub-national governments, in deciding to undertake a particular activity or

project, consider the cost of their decision. Therefore, they tend not to invest in social infrastructures (e.g. regional roads) whose benefits go beyond their geographical boundaries.

- ✚ Increased horizontal inequities and conflicts: Sub-national governments in a given country are different in terms of natural resources, level of economic activities, size, population and revenue capacity. Therefore, some sub-national jurisdictions will generate more revenue than others and provide to their citizens more or better-quality services than is provided in poorer sub-national governments. In addition, inter-sub national inequalities may foster politically destabilizing forces.
- ✚ Collapse of the safety net (poverty): This risk comes from the sub-national governments' inability to redistribute resources within their jurisdiction. Indeed, because of individual mobility, if sub-national governments attempt to redistribute from the rich to the poor, an emigration of rich and immigration of poor may follow.
- ✚ Increased corruption: In sub-national governments officials are more likely to be subject to the pressures coming from local elites or other interest groups. In addition, sub national officers have more discretion than national ones. Lastly, sub-national governments' institutions are less developed and skilled than the ones at the central level. So they may be less capable to control abuses of power/resources by public employees and officials.

However, the impact of fiscal decentralization – its effect on the efficiency of public services, on equity, and on macroeconomic stability – depends very much on the specifics of the case. The main challenge is to choose the degree and type of decentralization which is best suited to the circumstances of the country.

2.6 Guiding principles for urban local government finance

In terms of economic theory, the major role assigned to local governments is to provide goods and services within a particular geographic area to residents who are willing to pay for them. Local governments should not do stabilization policy because they do not have access to monetary policy tools and because capital and labor flow freely across local jurisdictions. They should also not engage in redistribution because local efforts to address income disparities will likely result in the movement of high-income groups to Low-tax areas and low-income groups to high tax areas (Kneebone and McKenzie, 2003 cited in UN-HABITAT, 2009).

Although local governments do engage in some redistribution through the act of taxing and spending, redistribution should not be the primary focus of what they do (Bird and Slack, 1993).

According to the “subsidiarity principle” (Barnett, 1997), the efficient provision of services requires that decision-making be carried out by the level of government that is closest to the individual citizen. As long as there are local differences in tastes and costs, there are clear efficiency gains from delivering services at the local level. This principle goes on to say that expenditure responsibilities should only be assigned to a higher level of government if it can be demonstrated that it can carry out the function more efficiently than the lower level. With few exceptions (such as national defense and services that involve income redistribution), almost all public services should be provided at the local or regional level with local policy-makers making decisions about what services to provide, how much to provide, and who should pay for them.

Following from the benefit model of local government finance, there are a number of economics principles that can be used to design or evaluate municipal finance tools.

- Economic efficiency is concerned with the allocation of resources to the production of goods and services where society gets the largest possible bundle of goods and services. Economic efficiency is achieved when the user fee or tax per unit of output of the service received equals the extra cost of the last unit consumed (the marginal cost). The tax or fee indicates what consumers are willing to pay for the service and the marginal cost measures the cost of resources used up in producing that service.
- Fairness (equity) based on benefits-received is achieved when those who consume public services pay for them, just as someone who benefits from a private good pay for it. Fairness based on ability to pay suggests that those with similar ability should pay similar amounts in taxes and user charges (horizontal equity) and those with different ability should pay different amounts (vertical equity).
- Accountability means that taxes (charges) and expenditures should be designed in ways that are clear to taxpayers so that policymakers can be made accountable to the taxpayers for the services they deliver and the costs they incur. The more direct the relationship between the beneficiaries of a government service and payment for that service and the less the complexity of the revenue system, the greater is the degree of accountability.
- Adequacy and Stability requires that revenues provide governments with sufficient funds to finance services on a regular and continuing basis. Revenues should be stable and predictable so that municipalities can budget and plan for future expenditures.

- Autonomy means that municipal governments have autonomy and flexibility to set their own priorities. To do this, they should minimize their dependence on revenues from other levels of government.

Ease and cost of administration means that the time and resources devoted to assess, collect, and account for revenues should be minimized. Moreover, costs of compliance on the part of taxpayers should be minimized (UN-HABITAT, 2009).

2.7 Purposes for levying local revenues by Urban Local Governments

The existence of what is known as Local Government is a universal phenomenon. The central government cannot possibly attend to every detail of local administration; give weight to local preferences and prejudices in every issue. This is why national or central government all over the world, irrespective of the system of government, attempts to make use of its citizens, local loyalties by delegating local functions to local administrative bodies (Suleiman OlayiwolaRabi'u, 2016).

Every Government need revenue to lead the economic, infrastructure, medical, transport, education, telecom, electricity, staff, research, to concession, subsidies, free facility for the unable sector community in the country. To generate the income Government has a constitution as a law to charge a tax for different sectors of people which brought into different categories of the people. No Tax, No Income; No Income, No Revenue; No Revenue, No Government (M. Moses Antony Rajendran, 2016).

According to SEATINI-Uganda & KIWEPI (2017) Local governments levy taxes or charge fees for multiple purposes besides purely revenue generation, which include the following:

- Service provision

LRRs are a discretionary source of financing and therefore a critical success factor in providing sustainable service delivery and more especially the operations and Maintenance (O&M) costs. This includes all sources, though a more specific example is parking fees and market dues, which are purposely raised for maintaining the parking sites and market facilities, respectively.

- Consumption/production of products/services

These charges may include permits for sale and consumption of spirits, entertainment permits, grazing of animals in urban areas. Such charges may be higher than other usual charges.

- Regulatory purposes

Such cases may include business licenses and permits. The fee is usually considerably low but when it is high, it is often attributed to trying to make the business owner move to the right location/street or choose another type of business.

- Redistributing wealth

Fees for collection of garbage would be higher in richer locations than in low income areas, other examples will include Local Service Tax (LST), and Local Government Hotel Tax (LGHT), and property rates. It is known that these can only be paid by those with high incomes and thus taxing those raises revenue, which is later redistributed by providing services to the general population.

- LRR is important because the operations and functions of the LLG Council largely depend on the availability of revenue

Generally, LRRs finance activities such as: Finance discretionary activities like community roads, bridges, water services; finance administration costs (especially councilors' emoluments & employee costs); and Routine maintenance and administrative costs.

- Promotes accountability to the community resulting into improved quality of services.
- Reduces pressure on central governments & reliance on donations.
- Locally generated revenues promote ownership and sustainability of programs and services, a basic tenet of decentralization.

2.8 Sources of revenue for urban local governments

Revenue generation is ways through which government raise revenue for the purposes of meeting its capital and recurrent expenditure (Enahoro, 2012). A variety of taxes are levied by the urban local government in different states. Urban Local governments in most of the states have been empowered to drive their income from several sources such as taxes, fees, fines and penalties and remunerative enterprises. Apart from these, local bodies also depend upon grants and contributions, loans and some miscellaneous sources. There is tradition to classify the sources of finances into four categories viz.

- A. Tax revenues
- B. Non-tax revenues
- C. Grants and Contributions
- D. Loans and Borrowings

2.8.1 Tax revenues of urban local government

Taxation is one of the direct ways for government revenue generation. Bird (2015) expresses that one of the factors determining capacity of a country to generate adequate revenue from taxation is the tax administration competence and efficiency.

According to Austin N. Nosike and Victor A. Akujuru (2002) Local taxation can be interpreted in three ways:

- Taxes which municipalities impose by their own legislation and which they assess and collect,
- Taxes levied under national legislation but with tariffs determined by municipalities either freely or within statutory limits,
- Taxes which are levied and administered: by central government but whose proceeds are given to, shared with, or surcharged by municipalities.

There are large differences in the fiscal jurisdiction of municipal bodies. These reflect the degree of fiscal decentralization and help explain the state of municipal finances. Across local governments there are also significant differences in how much municipalities earn from non-land sources of income (A. C. Mosha, 2004).

A variety of taxes are levied by the urban local government in different states. The most common taxes are property tax/house tax, profession tax, vehicle tax, Octroi, tolls, technical tax, tax on animals, entertainment tax, tax on transfer of property and tax on advertisements. There has always been a controversy regarding the overlapping of the taxes by the state government and the local government. Following some encroachment by the state government into the field of taxation, the need of reserving certain taxes for the local bodies is obvious. This requires specific provision for the purpose of local government legislation (Municipal Corporation of Patalia, unknown year).

We now discuss the revenue of the urban local governments from tax sources as follows.

I. Taxes on property

Taxes on land and buildings constitute the most common form of direct revenue for local authorities in urban areas. In principle, property taxation is an ideal way to finance many urban services (Bahl, 1979). The value of urban real estate generally grows rapidly with urbanization and can be objectively assessed by physical inspection of an immovable object. In practice, property tax is indeed the most common and comported, among the taxes collected by urban governments. Despite this importance, the evidence indicates that urban property tax revenues

have generally not kept pace with the growth of urban incomes or property values (Austin N. Nosike and Victor A. Akujuru, 2002).

It is one of the most common taxes levied at local level, but its potential is seldom exploited to the fullest extent. Property taxes are levied because the benefits of infrastructure and services provided by municipalities accrue foremost to the owners of property or their tenants. To raise more revenue from property tax in a way that is equitable, both technical expertise, the application of Geographical Information Systems, and institutional tax administration must be improved (A. C. Mosha, 2004).

Land development and betterment fees can recover capital outlays for development work. However, very few countries in the continent have such fees. For equity and distributive reasons, it is logical that landowners provide returns on rising land values. Costs of providing new community services, or fees in lieu of services, may be recovered from large-scale developers at the time of development. These will, in turn, be recovered from resident beneficiaries through a higher purchase price or the creation of dues paying association of residents (A. C. Mosha, 2004).

The legal formation of local improvement districts for financing community infrastructure is another common tool in some countries in the continent. In developing countries, a process that allows quick recovery of investment costs is land readjustment. Local governments, acting as developers, assemble public and privately held land for infrastructure provision (A. C. Mosha, 2004).

II. Business Profit Tax

This is the tax imposed on the taxable business income / net profit realized from entrepreneurial activity. Taxable business income would be determined per tax period on the basis of the profit and loss account or income statement, which shall be drawn in compliance with the generally accepted accounting standards. Corporate businesses are required to pay 30% flat rate of business income tax. This is levied on persons according to occupation, in order to obtain revenue from those who do not pay the property tax but who should also bear their just burden of local expenses. Professional tax is levied on trades, Professions and Callings and may be termed as local income tax. It is elastic as it automatically increases with increase in income and population. Moreover, since it is a personal tax, it assures quick and easy payment. Professional tax is a levy on the

incomes earned while entering in a profession or trade or business etc. (Municipal Corporation of Patalia, unknown year).

III. Tax on Interest Income on Deposits

Every person deriving income from interest on deposits shall pay tax at the rate of 5%. The payers are required to withhold the tax and account to the Tax Authority.

IV. Entertainment Tax

Entertainment tax is levied on programs and luxuries including betting and gambling (Municipal Corporation of Patalia, unknown year).

V. Advertisement Tax

Urban local governments are empowered to levy tax advertisements other than those published in the newspapers with the prior sanction of the state government. Any person, who displays an advertisement on any land, building, and post of structure or in any vehicles playing within municipal or corporation area, or by means of cinematograph, has to pay this tax. However, any advertisement relating to public meetings or election to parliament or state legislature or the corporation is exempted from such tax. The state government can also direct an urban local body to levy this tax (Municipal Corporation of Patalia, unknown year).

2.8.2 Non-Tax Revenue sources for urban local governments

A further source of urban local governments' income comes from non-tax revenues. These are mainly derived from fees levied in markets, bus stands, cart stands, slaughter houses, and rents from Municipal property such as land and buildings (especially shopping centers) income from public utilities and interest on investments.

Apart from taxes and rates there are some sources of revenue such as fines, fees, penalties, rents and income from other minor sources. Income from all these sources is generally not substantial (Municipal Corporation of Patalia, unknown year).

I. Fees (User charges)

The term fee is generally defined to be a charge for special service rendered to individuals by some government or semi government agency. The amount of fee levied is to bear some relationship with the expense incurred by such agency in rendering a service, though costs are uniform and no account is taken of the varying abilities of different recipients to pay. These are undoubtedly some of the general characteristics, but as there may be various kinds of fees, it is not possible to

formulate a definition that would be applicable to all the cases. The distinction between a tax and fee lies primarily in the fact that a tax is levied as a part of common burden, while a fee is for payment of a specific benefit or privilege, although the special advantage is secondary to the primary motive of regulation in public interest (Municipal Corporation of Patalia, unknown year). There is ample consensus that user charges and fees are the most appropriate source of revenue for local governments, in particular because they best fit the benefit principle; economic efficiency advantages of benefit charges, and from a political economy perspective they also offer the advantage of not directly competing for any tax base with central governments (UN-Habitat, 2015 cited Dinka Tesema W/mariyam, 2018). When properly designed, user charges provide information to public sector suppliers on how much clients are willing to pay for particular services and by ensuring that what the public sector supplies are valued by citizens (Ibid, 2018). On other hand, designing and implementing user charges can be difficult and costly because the municipality has to distinguish among services for which charges can be levied, calculate the marginal cost of the service, and find ways to exclude people who do not pay for the service. Even if properly designed, however, user fees are not very popular with citizens, administrators, or politicians' and governments (UN-Habitat, 2015 cited Dinka Tesema W/mariyam, 2018).

Service or user charges are today a much-discussed source of municipal revenue in Africa. Charging immediate users of infrastructure and services has become a common principle, and user charges are growing in importance. User charges are designed to generate revenue to cover operating and investment costs. The system provides for more efficient municipal services and infrastructure and enables rates to be set and adjusted at levels, which reflect real capital costs, finance charges and inflation. Where independent institutions, such as independent public or private water, sewerage and electricity utilities, establish fee levels and handle revenues, financial self-sufficiency can be achieved, as has been shown, in some countries. Cost sharing has been introduced in services provided by municipal governments such as education, health etc. However, experience shows that the charges are too low and inadequate for the effective provision of such services (A. C. Mosha, 2004).

A general problem affecting a number of services provided by local authorities in most countries is under charging. Further, charge rates are infrequently revised, rendering charging services, as a source of local income, inelastic. Inefficient billing in some cities, for example, Nairobi, where water billing is often behind, exacerbates this (A. C. Mosha, 2004).

The successful application of user fees requires a convenient way to measure individual consumption. Increasing user fees to economically efficient levels should be the first priority of an infrastructure strategy. Care must also be taken to avoid excluding the poor from services because of their inability to pay. Cross-subsidies (as used in Botswana) are often used in several countries in the continent to create a more progressive schedule of fees (A. C. Mosha, 2004).

II. Rents

Apart from fees, a substantial portion of the municipal fund is earned by way of rents received from Municipal property. This may include rents from land and buildings, marriage places, rest house, etc. (Municipal Corporation of Patalia, unknown year).

III. Sale of Property

The municipality may also appropriate the proceeds out of sale of its movable and immovable properties which can be sold with the prior sanction of the state government (Municipal Corporation of Patalia, unknown year).

IV. Income-Generating Enterprises

Income generating enterprises is not a significant source of local government revenues in Africa and appears to be getting less and less popular with the increasing preference for privatization (A. C. Mosha, 2004).

V. Fines and Penalties

Urban local governments have been authorized under the statutes to claim fine and penalties in respect of matters under its control (Municipal Corporation of Patalia, unknown year).

VI. License Fees

Tax on provision of goods and services, which is generally in the form of trade licenses and fees, is an important source in most countries. However, in some instances, increasing license fees has proved to be very difficult and politically sensitive. Collection and follow up of defaulters have also proved to be problematic (A. C. Mosha, 2004).

2.8.3 Grants and Contributions

Grant-in-aid forms an important constituent of urban local governments finance. A payment made from the treasury of the state government to a local authority for the purpose of assisting that

authority in carrying out a part or all of its activities is known as Grant-in-aid. Grant-in-aid can be defined as “Money payments furnished by a higher to a lower level of government to be used for specific purposes and subject to conditions spelled out in law or administrative regulations.” Grants are the most important sources of revenue in most of the developing countries like India because national governments absorb the prime sources of public revenue and are therefore, obliged to assist local units (Municipal Corporation of Patalia, unknown year).

In any discussion of finance of urban-local governments, the role of Government grants and contributions assume considerable importance. In a federation, fiscal relation between the federal government and the government of constituent units are constitutionally determined (Municipal Corporation of Patalia, unknown year).

2.8.4 Central Allocations or Inter-governmental Transfers

The grants provided by the state governments are generally found inadequate. It has been maintained that when the state governments themselves are facing financial crisis it will be unrealistic to expect them to provide more financial assistance to local governments. As far as the central government is concerned, it has not been making any grants on continuous basis to urban local bodies. This indifferent attitude should not be allowed to continue for long. Central Government will have to be persuaded to should be the responsibility of financial assisting urban local governments on a regular and rational basis as its counterparts have started doing in many developed countries. In almost all developed countries, central governments have come to the rescue of urban local governments, particularly in the wake of their fiscal crisis originating from global inflation. But this has not happened in developing countries mainly because of the central government’s pre-occupation with rural development through national plans (Municipal Corporation of Patalia, unknown year).

Several systems exist for transferring funds to local authorities. In Botswana, for example, urban authorities get 100% of the development budget and between 40-60% formulas based on their recurrent budget from the central government (Mosha, 2001). In other countries the situation is as follows: In Kenya, there are also formula based block transfers to local authorities; in Malawi, there are general purpose, block transfers or specific purpose formula based transfers; in Nigeria, federal transfers are formula based whereas transfer programs to the LGAs have been historically highly unpredictable, in Malawi, the situation is not clear and lastly in Uganda the 1995

constitution certifies unconditional, conditional and equalization grants(New York University, 2000).

A major problem in some countries is the uncertainty characterizing central government allocations. Local authorities are never certain about when they are going to receive their allocations from central government, or about how much they are going to get. Another problem is the central government's distrust of the competence of local authorities. They do this to cling to the financial muscle (A. C. Mosha, 2004).

With regard to intergovernmental tax sharing most African local authorities including municipalities get revenue from tax money collected by central government. In Kenya, 20% of the tax levies on road fees and 5% of the annual income is normally shared; in Uganda, according to the Local Government Act of 1997, 35% of the total collections have to be transferred to districts. A formula based revenue sharing scheme is also available in the Local Government Act for the distribution to division councils for revenue collected by the municipalities and cities; in Nigeria there is general revenue sharing of national revenues in the Federal Account and in countries like Rwanda the system is not clear and lastly, in Malawi, there is no inter-governmental tax sharing system in operation (New York University, 2001).

2.8.5 Loans and Borrowings

Loans are other sources of 'income' to the urban local government. Borrowing by the urban local government is subject to both statutory and administrative restrictions. These restraints have been imposed lest the financial position of the local government becomes perilous as a result of reckless borrowing. Municipal bodies are obliged to borrow from state government and other agencies to meet emergencies and for capital expenditure which they cannot afford out of their revenues (Municipal Corporation of Patalia, unknown year).

With the increase in urbanization and industrialization, urban local governments require more and more funds to equip the cities with up-to-date facilities. A number of capital projects such as installation of water works, development of residential estates, auditoriums, a town hall, etc., development of adequate sewerage and drainage system, and like are generally undertaken by the urban local bodies for the benefit of coming generations. Normally, the urban local bodies are unable to meet the huge expenditure required to undertake these projects out of their routine

income. Hence, loans are required to meet the development needs of the town (Municipal Corporation of Patalia, unknown year).

In some countries in the African region sub-national governments can borrow to finance their development programs. A few examples where this is practiced are in countries such as Zimbabwe, South Africa and Uganda (A. C. Mosha, 2004).

2.9 Features of local revenue sources existing in urban local governments

Revenue is income collected and received by a Local Government (LG). Revenue refers to a sum of payments received by a LG from individual residents and organizations and transfers by the central government for the purpose of financing service delivery and devolved expenditure functions. The locally raised revenues (LRRs) are expected to be received from within the jurisdiction of the LG (SDS & USAID, 2016).

Many local tax systems in Africa are characterized by high levels of arbitrariness, coercion and corruption (Bahiigwaet al. 2004; Fjeldstad and Therkildsen 2008; Juul 2006; Prichard 2010; Pimhidzai and Fox 2012). Further, a widely found feature is the huge number of revenue instruments used by local authorities (Brosio 2000; Fjeldstad and Semboja 2000). Local governments seem to raise whatever taxes, fees, and charges they are capable of raising, often without worrying excessively about the economic distortions and distribution effects that these instruments may create (cited in Odd-Helge Fjeldstad and Kari Heggstad, 2012).

A complicated and non-transparent local government revenue system is costly to administer and it facilitates corruption and mismanagement (Bardhan and Mookherjee 2002). Moreover, many local taxes have a distorting effect on resource allocation decisions, and, thus, an inhibiting effect on the start-up of new enterprises and the achievement of economic growth (Bahiigwaet al. 2004; Devas and Kelly 2001; Sander 2003). These effects occur when effective rates vary greatly between different goods that are traded, or when license fees are set too high for start-up small-scale enterprises to survive (cited in Odd-Helge Fjeldstad and Kari Heggstad, 2012).

In addition, the levels and types of local revenue instruments by themselves can result in the tax burden falling more on the poor than on the relatively better off in local communities. A recent study from Uganda shows that small informal non-farm enterprises pay local taxes in a regressive way (Pimhidzai and Fox, 2011). While the majority of the micro enterprises in the Ugandan sample were poor enough to be exempted from the national business taxes (i.e. the small business tax and VAT) they ended up paying a large share of their profits to local authorities - with the poorest

paying the highest share of profits. This is mainly due to the basic design of the local revenue system and the way revenues are collected. Thus, a top-down drive toward more tax revenue from this sector through formalization could be counterproductive, and would increase the vulnerability of this segment of informal enterprises (cited in Odd-Helge Fjeldstad and Kari Heggstad, 2012).

Consultations and cooperation between the central government revenue administration and local government authorities are generally limited. In Ghana, for example, national tax officials report that local tax officials sometimes urge citizens to pay local taxes instead of national taxes (Prichard 2010 cited in Odd-Helge Fjeldstad and Kari Heggstad, 2012).

Meanwhile, local officials complain that the national government has monopolized virtually all available tax bases and offers little if any administrative support. This lack of coordination has allowed the emergence of a high degree of arbitrariness and abuse in local tax systems, while little attention is paid to economic efficiency. Due to lack of capacity and poor co-ordination between the central and local government only limited questions are raised at the central level on local governments' tax proposals. Therefore, the local revenue systems often have developed without much interference from the centre. Furthermore, lack of co-ordination between the central and local levels has led to duplication of taxes, and inconsistencies between taxes imposed by local authorities (e.g., high taxes on export crops) and the national government's policy to encourage export production (Prichard 2010 cited in Odd-Helge Fjeldstad and Kari Heggstad, 2012).

Firms often have to negotiate and provide similar information on their operations to several government bodies, imposing high compliance costs on the private sector (Fjeldstad and Heggstad, 2011). For instance, in Tanzania the City Service Levy, a major local revenue source in urban councils, is levied as a fixed percentage on the firm's turnover (0.1% of turnover for the bank/financial sector, and 0.3% for the other sectors), requires the same data for tax assessment that the central government tax administration requires for corporate income tax. The duplication of databases also implies higher administrative costs on the public sector (Prichard 2010 cited in Odd-Helge Fjeldstad and Kari Heggstad, 2012).

A recent study of the tax systems in Mozambique, Tanzania and Zambia, finds that local taxation is still a major constraint on the commercialization of smallholder agriculture and formalization of the small and micro enterprises (ibid). Specifically, multiple taxes (including fees and charges) make it difficult to enter new businesses and markets. Levies are perceived as exorbitant, often charged upfront irrespective of the size and type of business (Mischet al. 2011). New local taxes,

fees and charges are introduced replacing taxes abolished by the government in recent years. This contributes to undermining the legitimacy of the local tax system, encourages tax evasion and delays the formalization of micro- and small-scale enterprises. Furthermore, it undermines compliance enhancing initiatives such as community outreach and taxpayer education (Prichard 2010 cited in Odd-Helge Fjeldstad and Kari Heggstad, 2012).

Arbitrariness, corruption and regressivity have made local taxes generally unpopular and ineffective (Prichard 2010). Despite the many comprehensive central government tax reforms during the last two decades, local government revenue systems in sub-Saharan Africa have remained largely unchanged until recently, though with some exceptions. For instance, in 2003/04, Tanzania conducted a comprehensive reform of its local revenue system (see Box 3). The main elements of this reform were (i) abolition of unsatisfactory local revenue instruments, which were costly to collect from administrative and political perspectives (including the poll tax), and (ii) improvements to remaining revenue bases by simplifying rate structures and collection procedures. The Tanzanian reform demonstrates that radical changes of the local revenue system are possible. The longer-term impact of this reform on local government revenues, however, has been reduced fiscal autonomy and increased dependency on central government transfers (Fjeldstad et al 2010). Generally, a fundamental requirement when redesigning local revenue systems is greater emphasis on the cost-effectiveness of revenue collection, taking into account not only the direct costs of revenue administration, but also the overall costs to the economy, including the compliance costs to taxpayers (Odd-Helge Fjeldstad and Kari Heggstad, 2012).

In addition, losses through corruption and evasion need to be reduced. Clearly, improved revenue administration cannot compensate for bad revenue design. Thus, reforming the revenue structure should precede the reform of revenue administration since there is not much merit in making a bad revenue system work somewhat better (Odd-Helge Fjeldstad and Kari Heggstad, 2012).

2.10 Factors influencing revenue generation and utilization in urban local governments

The revenue administration operates in an extremely complex environment. An array of external actors, forces and circumstances constantly impinge on it. Very often, the weaknesses of the revenue administration can be traced to the constraints imposed on it by the environment. At other times, they stem from the inability of the revenue administration to effectively deal with environmental challenges or exploit environmental opportunities.

2.10.1 The Economic Environment

The performance, complexity, resource requirements and strategy of the revenue administration depends, to a considerable extent, on the economic environment in which it operates. The amount of revenue collected varies according to changes in GDP, interest rates, exchange rates, consumer confidence and business cycles. A high degree of openness of the economy raises knotty issues of international taxation, such as transfer pricing, tax arbitrage and origin or completion of taxable transactions in foreign jurisdictions. High levels of inflation increase the propensity of taxpayers to delay payment of taxes. The lack of formality in economic transactions, prevalence of barter, unreliability of business records and low levels of literacy make enforcement of tax laws difficult. The geographical distributions of business and industrial activity have important implications for the location of field offices of the revenue administration (Jit B. S. Gill, 2000).

2.10.2 Fiscal Policy

Fiscal policy defines the agenda for the revenue administration. The level of budgeted government spending, debt financing and fiscal deficit determine the amount of taxes the revenue administration is expected to raise. Expansionary fiscal policies, high levels of national debt and debt servicing requirements, or fiscal crises create strong pressures on the revenue administration to collect more taxes. They also create opportunities for mobilizing political support for efforts to modernize the revenue administration.

As a subset of fiscal policy, tax policy is the foundation of the revenue administration's work and, therefore, central to its strategy, transformation processes and outputs. First, it prescribes the types of taxes that would be collected.

Some taxes are relatively easier to collect Value Added Tax (VAT) than others (Income Tax). Also, the more numerous the taxes, the greater is the administrative burden. Second, tax policy defines what would be taxed, at what rates and subject to what exemptions and deductions. High rates of taxation create incentives for avoidance and evasion and increase the enforcement burden of the revenue administration. Multiplicity of exemptions and deductions not only erodes the tax base, it creates significant administrative problems as the revenue administration has to monitor claims, verify entitlements and resolve interpretational controversies. Third, tax policy defines the persons and legal entities that would pay taxes. When the taxpayer population is small, easily identified and formally organized, it is easier to collect taxes from it. Conversely, when the potential taxpayers are numerous, difficult to monitor, micro-businesses operating on footpaths,

for example, and not formally organized, the task of enforcing the tax laws becomes difficult. Fourth, the absolute number of taxpayers resulting from a given tax policy influences the administrative workload of the revenue administration and the level of human, financial, technological and physical resources needed to do the job effectively. The rate of growth of the taxpayer population has implications for the rate of expansion of the revenue administration and on its ability to cope with growing workload. Finally, equity in tax policy influences tax compliance. If taxpayers perceive tax policy to be discriminatory or unfair, the revenue administration faces an uphill task in collecting taxes (Jit B. S. Gill, 2000).

2.10.3 Tax Base

Tax revenue can be increased by increasing the tax base which means including or redefining previously exempted tax. A different choice of assessment methods can increase the assessed value to collect more taxes (Wong, 2006). This is done when the increase in tax rate is not enough to cover the budget gap (Pankaj Tiwari, 2017).

2.10.4 Tax Rate

Tax rate also affects revenue collection. The increase in tax rate has positive impact on revenue collection; as a result, local property tax rates changes often. Nevertheless, if there is a large revenue shortage and small incremental adjustment of the tax rate may not be enough. As a result, developing new taxes needs (Wong, 2006). According to Giugle and Webb (2000); sub national governments must have adequate revenue to cover their spending not only changing tax rates but also imposing new taxes. All of the listed are major factors that affect revenue collection either positively or negatively. Effective revenue management will capitalize positive factors and mitigate negative factors (Pankaj Tiwari, 2017).

2.10.5 Types of tax

Revenue is affected by types of bases and its administration nature (Mike sell, 2003 cited in Pankaj Tiwari, 2017). Some taxes can easily be collected, some are difficult or require high effort (Pankaj Tiwari, 2017).

2.10.6 Procedures

If revenue enforcement procedure not properly implemented and revenue evaders are not strictly controlled to pay their tax as per the schedule, this is accompanied with due to lack of clear guidelines and inadequate management system (Pankaj Tiwari, 2017).

2.10.7 Attitude

Revenue collection is also impeded by public attitudes towards public revenue (Yousuf, 2012) .if public attitude towards public revenue is positive it will have positive impact on revenue collection (Pankaj Tiwari, 2017).

2.10.8 Compliance Handling

An effective and efficient program of taxpayer service activities is a critical objective of all revenue bodies. It helps for saving cost of revenue collection and will help reducing the gap between what taxes should be collected and what is actually collected (Pankaj Tiwari, 2017).

2.10.9 Mechanisms for identification and registration of taxpayers

Taxpayer's recognition and registration is a foundation for other tax administration for tasks, according to (Bird and Zolt, 2004), it should establish a system to register non voluntarily taxpayers" registration function of tax administration organization absorbs finding out potential taxpayers for tax objectives and registering them as taxpayers in a central data base. A good tax administration identifies and registers all traders who are liable to register for the tax, according to article 43 of the income tax proclamation," Every person having a taxpayer identification number ("TIN", but in no case may a person obtain more than one "TIN".

2.11 Challenges of revenue generation and utilization in urban local government

The progress of an area depends to a large extent upon the availability of suitable infrastructure and services. There are many developing countries in the world where service levels in urban areas are much below the standards and the citizens lead a difficult life. It is obvious that such conditions also affect adversely the productivity of urban areas. Much of the blame for the prevailing situation goes to the local government institutions, which are the main actors in the governance process at the local level. This is due to the fact that urban local governments, on the one hand, recover costs incurred in service provision by levying a variety of taxes and non-taxes, and on the other, fail to meet the expectations of the citizens (Rumi Aijaz, 2006).

Local government revenues are affected by economic, technological and demographic changes. Because of their openness to the external environment, the productivity of revenue systems and their administrative and political acceptability is subject to change (Bartle et al, 2011).

The fundamental problem of [urban local government] finance in Africa is simply stated as the gap between financial resources and municipal expenditure needs coupled with inadequate financial systems. This fiscal gap is widening as urban populations expand, increasing the demand for infrastructure and urban services. The fact that the growth of municipal revenue does not match the increase in urban economic activity is technically referred to as the lack of (municipal) income elasticity (United Nations Human Settlements Program, 2010).

Experience shows that in many countries, the taxing powers of local authorities are simply not wide enough and the yield from existing sources is often far inadequate to meet their expenditures. Many cities in Africa are largely dependent upon income derived from property taxation and other service charges, while other and more lucrative sources, such as income tax, sales tax and business tax are monopolized by central governments. Thus, many cities have to depend on central government allocations, which are they generally inadequate and often erratic in terms of timing (United Nations Human Settlements Program, 2010).

Most value added taxes are exclusively reserved to central governments and few [urban local governments] levy an income tax, or a surcharge on income related taxes that would capture a proportion of the economic growth for public purposes. Because local taxes lack buoyancy, revenues fall behind the growth of the local tax base. In property taxation, often a main source of municipal revenue, a rise in property values may not be captured immediately with a tax increase because properties are usually revalued every few years rather than on an annual basis (United Nations Human Settlements Program, 2010).

Another reason for the [urban local governments] finance gap is that most municipalities lack the autonomy to establish their tax base, rate structure, and enforcement procedures, and therefore, cannot raise revenues commensurate with their expenditure requirements (United Nations Human Settlements Program, 2010).

Finally, poor financial management is contributing to municipal finance shortages. There are shortfalls in the capacity and technical expertise of local government to handle expenditure responsibilities and to generate revenue. An example often cited is inadequate administration of local property taxation. Studies in many cities have shown that urban administrators are often unable to update property valuation for tax purposes, mainly because of a lack of qualified staff and insufficient, poorly maintained records. One may add to this various corrupt financial

management practices – intentional under-valuation and over-allocation-leading to the inequitable generation and distribution of public revenue and to gaps where there should be none (United Nations Human Settlements Program, 2010).

The extent of control over [urban local governments] income varies. Only a few sources of revenue –some fees and user charges-are completely under the control of local authorities (Ibid).

Financial transfers from higher government authorities sometimes lack transparency and predictability. At times, central governments fail to notify local governments of grants until well into the fiscal year, or central governments may affect sudden reductions. Regular formula-based transfers would be preferable to ad hoc grants for better long-term capital planning and budgeting by local governments (United Nations Human Settlements Program, 2010).

A number of countries have set up specialized public finance institutions, which lend to local authorities for infrastructure investment. Most local governments are not independent enough to borrow long-term funding from capital markets for urban development. That is, they do not have authority to use their taxation powers to guarantee payback. Still, private capital markets appear to be developing rapidly (as in South Africa) and, as conditions change, local governments in the future may tap these (United Nations Human Settlements Program, 2010).

Where local authorities are able to derive revenues from property taxes and service charges, meaningful tariff increases are sometimes refused or delayed by central governments for fear of eroding political support among the urban populace. In short, many governments continue to refuse to pay the political and financial costs of decentralization, which is, granting of more financial and decision-making powers to local authorities. To resolve these problems requires reconfiguration of central-local government relations, either towards more decentralized systems or more effective revenue sharing, and this can only be done if there is enough political will on the part of central governments (United Nations Human Settlements Program, 2010).

A different set of reasons for the failure of urban local authorities to cope with increasing demands is to do with the characteristics of their existing sources of revenue and the inadequacy of the financial regulations and procedures employed. In addition to their inadequacy, many of the key sources of local revenues are generally inelastic, i.e. they do not have the capacity to yield additional revenue in proportional response to inflation, growth of personal incomes and

population growth. This, for a variety of reasons, is often the case with urban property taxes, the cornerstone of the urban finances of many developing country cities, particularly those, which inherited their systems from the British. A second reason, which affects the acceptability of some urban taxes and their long-term suitability, is that they are often regressive, thus failing to be effective instruments for redistribution and attainment of equity. The third reason is that many cities are lacking in administrative capacity and cannot, therefore, fully benefit from the existing sources of revenue. This is quite often the case with regards to property taxes, largely as a result of the absence of proper financial cadasters and the inability to carry out accurate real estate valuation and the necessary periodic revaluations. Collection of charges for urban services rendered may also be inefficient and many cities are owed large amounts of money by consumers, including central government and parastatal consumers. Finally, some urban taxes are politically sensitive, thus affecting the willingness of local authorities to assess and collect such taxes effectively and to enforce sanctions on defaulters (United Nations Human Settlements Program, 2010).

All of these problems affect cities in Africa, in varying combinations and to different extents. Yet, there are also some cities, which have made some progress in improving their financing systems, in terms of their revenue sources, collection systems, yield and financial management. A number of cities and towns have in recent years embarked on wide-ranging reforms of their governance systems, including the enhancement of financial mobilization and management capacity, from which useful lessons could be learnt (United Nations Human Settlements Program, 2010).

Overall, According to World Bank (2001) revenue generation efforts of Ethiopian cities are plagued by six major problems.

1. The tax base for important sources, such as the property tax and the business tax, is artificially small. This is because the municipalities have not been updating their records and also because informal business and properties are not included in the base.
2. The fees and tax rates tend to be obsolete and are, at times, difficult to administer.
3. Collection rates are poor in many municipalities and they vary significantly from year to year. As a corollary, the default rates and cumulative arrears are high, and the problem appears to be worse in the case of property taxes.
4. The payment procedures are slow and inconvenient for tax payers.

5. The enforcement mechanisms are poor and the legal basis to support enforcement is very weak. This further encourages default and adversely affects efforts to settle arrears.
6. Finally, the above problems in the system of tax administration are exacerbated by the weak human resource capacity of revenue staff and poor incentives for enhancing performance.

2.11 Empirical Data

2.11.1 Fiscal Decentralization and [Urban Local governments] Finance

Fiscal decentralization, which can help [Urban local governments] finance their social and physical infrastructure programs is relatively slow in the African sub-continent and this has posed a challenge to most authorities (Source: Smoke (2001:7) Cited in UN-HABITAT, 2010).

The concept of [Urban local governments] Finance in most developing countries is predicated on the practice of decentralization and fiscal decentralization in particular as local governments are almost wholly dependent on the center for a great part of their recurrent and capital budgets. The last decade has witnessed an extraordinary proliferation of local government reforms around the world, including in Africa. Rapid political, economic and technological changes have fueled the trend to rely more heavily on lower levels of government. Fiscal decentralization has not accompanied the decentralization of responsibilities. Although the local authorities are increasingly being charged with service and infrastructure provision responsibilities, they still have to revert to the central government for funding. They are still subjected to the tendering and asset disposal procedures practiced at central government. This inevitably does not give local authorities the latitude to deal with their finances and revenue generating practices as they see fit (UN-HABITAT, 2010).

Fiscal decentralization may appear to be the “easiest” aspect of decentralization because it is not difficult to assign additional powers and revenues to sub national governments, like municipalities. The reality, however, is far more complex. Even if a formal decision is made to decentralize, reluctant central agencies may slow the progress. In addition, giving additional resources to sub-national governments politically, managerially and technically unprepared to use them responsibly can create enormous problems. Finally, the degree to which fiscal decentralization should be pursued is unclear. Empirical evidence to justify or discredit fiscal decentralization is scant and mixed. None of the claims on either extreme—that fiscal decentralization retards economic development and has undesirable macroeconomic effects; or that it improves local service delivery

and enhances local government accountability – has been adequately tested (T.Ter-Minassian, 1979).

Fiscal decentralization may be more effective if it is approached in an experimental, phased version rather than adopted in one fell swoop. Namibia and Mozambique are starting with the cities while Uganda started with the fiscal component of its decentralization program in 13 districts. Tanzania did the same in the early 1980s. Nigeria started in 1976 and Ghana in 1991.

In a study by Smoke (2001) of four countries in the Eastern Africa sub-region (Ethiopia, Kenya, South Africa and Uganda) an insight into local government finance and decentralization was exposed. Public expenditure-to-GDP ratios for Ethiopia, Kenya, South Africa and Uganda are respectively, 29 % (2000), 30.5% (1996), 25.3% (2000) and 21.9% (2000). Their respective deficits in these years were –22.4%, -7.5%, and 2.4% and 10.1%. Thus, the overall size of the public sector is moderate in all cases. All run deficits, with Ethiopia having the largest and South Africa smallest.

The relative importance and fiscal independence of decentralized governments varies considerably across the four countries. Ethiopia's decentralized governments (primarily the states) accounted for 31.2% of total public expenditures (2000) and raised 18.9% of total expenditure revenues, while Kenyan local governments accounted for only 4.2% of expenditures and 5.6% of revenues (1996). In Uganda, local governments accounted for 28% of expenditures (2000), but they raised less than 8% of revenues. South Africa has two sub-national levels of importance. Provincial governments accounted for 46% of total expenditures (2000), but they raised an average of only 4% of their revenues, while local governments accounted for 25% of public expenditures, but they raised on average 92% of their revenues (more in larger urban, less in small rural).

Functional responsibilities are quite different in the four cases. In the Ethiopia and South Africa cases, decentralized levels of government (primarily state/provincial) have dominant responsibility for social services (health, education and in South Africa, welfare). In contrast, only a few large colonial era municipalities are involved in health and education in Kenya – social service expenditures are almost entirely funded and provided by the central government and NGOs. In Uganda, local governments legally have significant responsibilities for health and education, but many have not been able to deliver these services adequately since decentralization due to capacity constraints (Source: Smoke (2001:7) Cited in UN-HABITAT, 2010).

The four countries also have dissimilar local revenue structures. Ethiopian states rely on shared percentages of central taxes (personal income, business, excise, sales) and have only a few modest independence sources, especially enterprise profits and various charges and fees. Kenyan local governments have relied heavily since independence on a property tax, and since the late 1980s on local authority service charge, a combination payroll and business tax. The LADC was abolished in 2000 and replaced by a transfer system. South African provincial government main sources of revenue are motor vehicle fees, gambling revenue and hospital user charges. Local governments rely very heavily on surpluses from trading services (mainly electricity and water), with urban areas also using property rates and large metropolitan councils and districts using the Regional Service Council levy, a productive but problematic combination payroll levy and turnover tax. In Uganda, the most important source of local revenue is the graduated personal tax, an unusual and complex hybrid of payee income tax, a presumptive income tax, a wealth tax and poll tax. Local governments have access to the property tax, but in practice few use it, and it is significant only in the large cities. Sub-national governments in all of the countries use various types of fees, licenses and other minor revenues (UN-HABITAT, 2010).

Finally, the three countries have significantly varied approaches to intergovernmental transfers, both in terms of relative importance and structure. In Ethiopia there is a single block transfer program based on a complex formula that accounts for more than 400% of the national budget (2000). Kenya for many years had no transfers except for teacher’s salary grants to a few municipalities that provide primary education and a very small grant to needy councils. A transfer system to distribute 5% of central income tax revenues to local governments was adopted in fiscal year 2000. South Africa provides to provinces and municipalities an “equitable share” of national resources for recurrent expenditures. This transfer funds more than 95% of provincial expenditures, but less than 10% of municipal expenditures on average. They also have access to a variety of conditional transfers primarily for capital expenditures, some of which are off budget. Uganda’s transfer system is designed to provide three types of grants, block, equalization and conditional (Source: Smoke (2001:7) Cited in UN-HABITAT, 2010).

Table 2.1 Local government finance: selected Countries

Issues	South Africa	Ethiopia	Kenya	Uganda
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Structure of sub-national Government	- Provincial - Municipal (Type A, B, C)	- State Administrative tiers of state - Municipal	Local (Municipal, Town, Urban, County)	- Local (Districts and four levels below)
Size of sub-national government	Provincial and Municipal >60% expenditures <15% revenues	31% expenditure 19% revenue	5% expenditure 6% revenue (prior to recent reforms)	28% expenditure 8% revenue
Sub-national Government Expenditures	Social services (Provincial) Local Services (Municipal)	Social services, infrastructure (state) Local services	Local services and some infrastructure	Social services. Some infrastructure. Local services
Sub-national Revenues	Road tax/fees, Gambling (Provincial) User charges, Property rates and RSC (local)	Enterprise Tax (state) Fees/charges Property tax (urban)	Property rates, User charges Agricultural fees (rural)	Graduated personal tax, Property rates, User charges
Inter-governmental tax sharing	Provided for provinces, not yet used	Income, sales, Business, Excise	Income (newly instituted fiscal year 2000)	None
Inter-governmental Transfer Programs	Equitable share (formula-based distribution of an annual ad hoc allocation) Various capital	Block transfers (formula-based distribution of the proceeds of certain taxes)	Block transfers (formula-based distribution of income tax share, but reform conditions placed on a portion.	Unconditional, Equalization, Conditional (separate formula)

	transfer programs			
Sub-national borrowing	Once substantial in metros, then declined, new framework in development	None, except some at state level for short term cash flow management	Once substantial, now virtually gone	None
Central Government Oversight	National Treasury, Department of Provincial and Local Government	PM Office, Ministry of Finance, Ministry of Works (Municipal)	Ministry of Local Government, Ministry of Finance	Ministry of Local Government, Ministry of Finance, Planning and Economic Development
Sub-national Autonomy	Relatively strong legally and in practice	Strong legally but weak in practice	Relatively strong but some control	Strong legally, but weaker in practice
Sub-National Government Capacity	Mixed (stronger metropolitan)	Weak, but some better than others	Mixed across urban and rural	Mixed, generally better in urban

Source: Smoke (2001:7) Cited in UN-HABITAT, 2010).

From the above it can be seen that the level of autonomy, responsibility and power depends on the political set up of the sub-national governments. It shows that local governments do get financed in different forms depending on the level and scale of fiscal decentralization. Intergovernmental transfers come in different forms and amounts. Efforts to raise their own funds vary and depend on various factors (UN-HABITAT, 2010).

2.12 Conceptual framework

The conceptual framework for urban local governments finance comprises the basic relationship involved in the management of urban local government finance. Me Master James (1994) cited in Abate (2008) divided the relationships in to three categories.

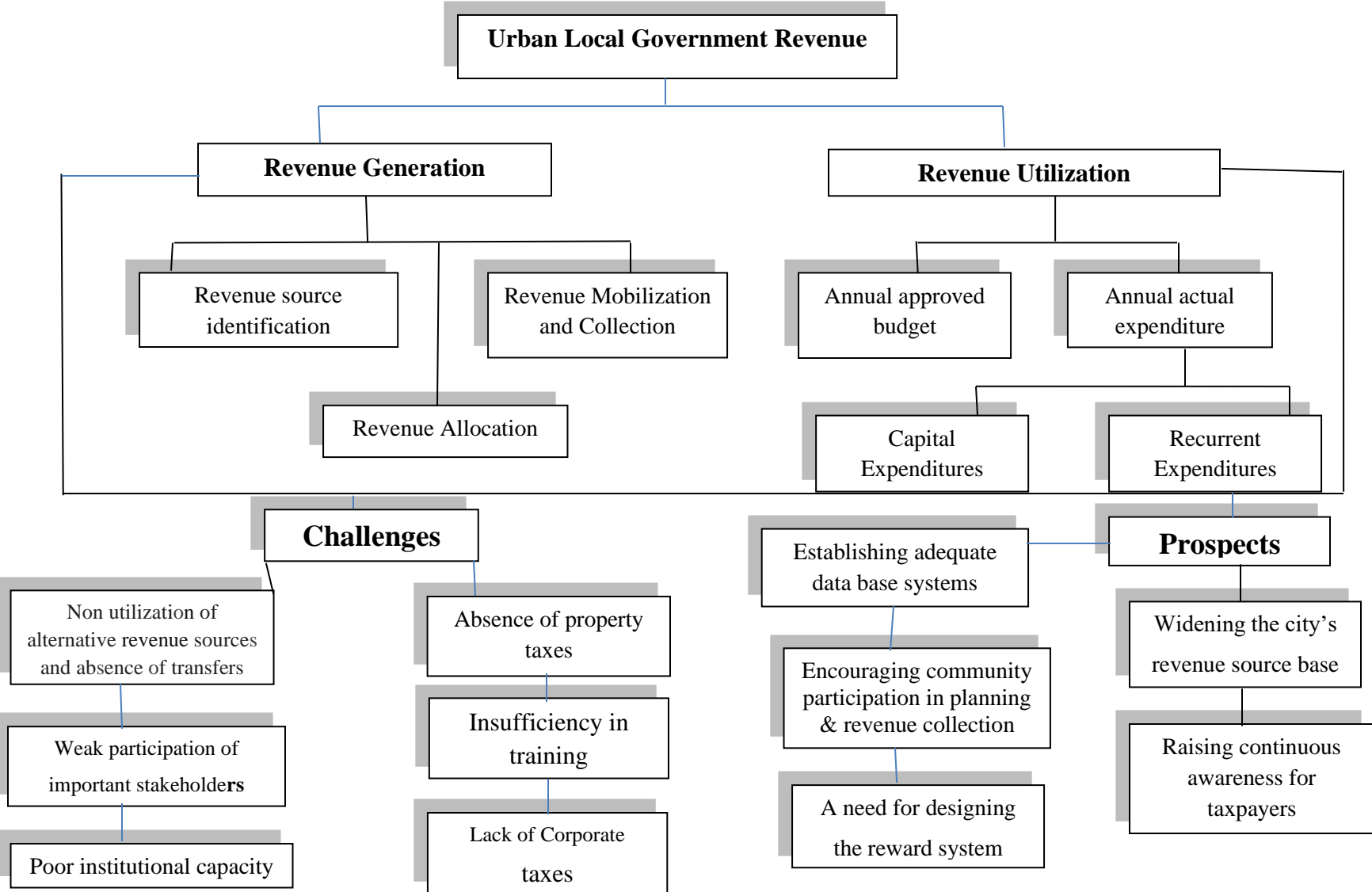
Revenue Generation: - implies how well the municipality is tapping the revenue potential of the city.

Revenue Utilization (expenditure Control): - is related to the cost of developing public service, budgeting and planning aspects and the factors that cause those public spending to rise.

Financial Balance: - the existing balance between revenue and expenditure and the trends projected into the future.

Various literatures on municipal finance indicate that the core problem for the constrained urban development is the inadequacy of municipal revenue to cope up with the ever increasing public expenditure needs necessitated by rapid urban population growth (Bahl and Linn: 1992, Mosha:2004,Mc Master J.1994) cited in Abate (2008). The revenue generation and utilization challenges and prospects are indicated in the following conceptual framework of which this paper draws heavily from.

Figure 2.1 Conceptual Framework



CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is the specific procedures or techniques used to identify, select, process, and analyze information about a topic. Therefore, it is important to select an accurate method that suits the research objective. This chapter explains the method adopted by this research and mentioned every component involved in conducting the research from population, population frame and sampling techniques used for the interview and questionnaire. Finally, this chapter provides a detail explanation of the selected mode of analysis used and data collection method.

3.2 Research design

Generally, research design is a basic plan that guides the data collection and analysis phases of the research project. It provides the framework that specifies the type of information to be collected, its sources and collection procedure (Kinnear and Taylor, 1996).

In this study, the research followed convergent parallel mixed methods research design with descriptive and time series data collection and analyses techniques under mixed methods research approach. Creswell (2012) defines mixed method as a method, which focuses on collecting, analyzing, and mixing both quantitative and qualitative data in a single study or series of studies. Its central premise is that the use of quantitative and qualitative approaches, in combination, provides a better understanding of research problems than either approach alone.

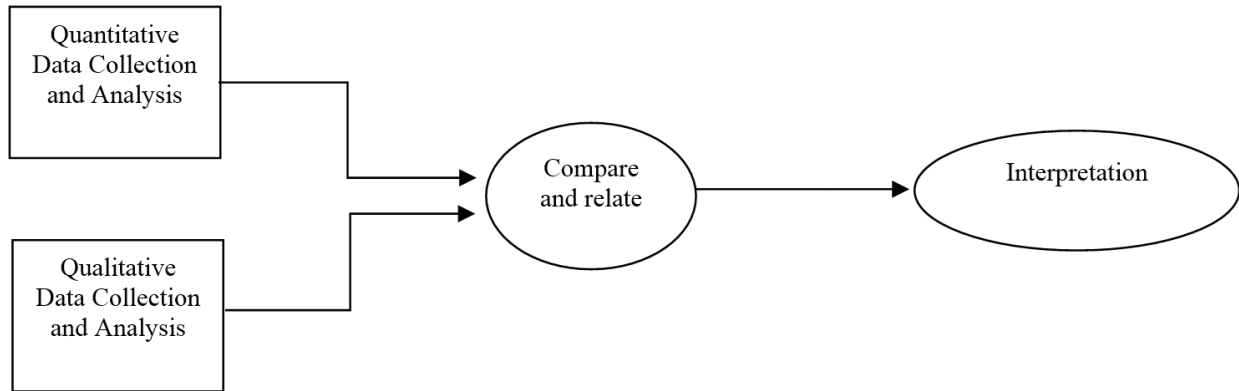
For the purpose of this research it was important to plan in advance how quantitative and qualitative approaches were combined.

For data gathering the researcher conducted parallel data gathering which is gathering qualitative and quantitative data at the same time. For data combination the researcher conducted component design which is collecting data independently and then combining at the end for interpretation and conclusions and the researcher combined the data with the purpose of triangulation.

To gain an in-depth understanding of the topic, this study was carried out using the convergent parallel design, a mixed-methods design. Convergent parallel design has the purpose to best understand or develop more complete understanding of the research problem by obtaining different but complementary data. With the purpose of corroboration and validation, the researcher aims to

triangulate the methods by directly comparing the quantitative statistical results and qualitative findings. In the research process, two datasets have been obtained, analyzed separately, and compared.

Figure 2: The research process in this study using the convergent mixed-parallel design



For this research, method of depth interview was employed. The interview is a mean of measuring the challenges and prospects of revenue generation and utilization in urban local government of Addis Ababa city administration. Interviewing of selected individuals is a very important method often used by qualitative researchers. The rationale for using the interview methods is to enable the researcher to find out what is on their mind, what they think and how they feel about the research problem.

This study critically aims at gathering bits of information received from interviewing tax and finance officials on how aware they are regarding the challenges and prospects of revenue generation and utilization, city's institutional frameworks in place to generate and utilize revenue, trends observed in the city's revenue generation and utilization practices and the extent to which the city can generate the revenues for its own expenditure.

In addition, the researcher examined the city's autonomy in exercising its powers and responsibilities set out in the revenue laws and the city's major revenues sources.

To understand further, method of questionnaire also included for Tax and finance experts of Revenue Authority and Finance and Economic development bureaus and Taxpayers of Addis Ababa city administration. It aimed to gather information about challenges during revenue generation and utilization, source of revenues, method of revenue generation and its utilization and its prospects in Addis Ababa city administration.

3.3 Population, sample size and sampling strategy

3.3.1 Population

According to Explorable.com (Nov 15, 2009) research population is generally a large collection of individuals or objects that is the main focus of a scientific query. It is for the benefit of the population that researches are done. From the definition, population can be understood as the targeted community or group of people which is involved or selected by the researcher for his study.

In this study the population was

- Tax and finance officials of Addis Ababa city administration Revenue Authority and Finance and Economic development bureaus.
- Tax and finance experts of Addis Ababa city administration Revenue Authority and Finance and Economic development bureaus.
- Tax payers of Addis Ababa city administration.

In this proposed research study Tax and finance officials, Tax and finance experts and Tax payers of Addis Ababa city administration are the target population, the population could be defined as all Tax and finance officials, Tax and finance experts and Tax payers of Addis Ababa city administration.

3.3.2 Sampling strategy

As the study seek the in depth information based on the position and experience of Officials, tax and finance experts, to select sample respondents from selected offices, the researcher employed non-probability sampling to select key respondents or informants purposively selected officials, tax and finance experts of Revenue authority and finance and economic development bureaus of Addis Ababa city administration. In qualitative research, the investigator decisively selects persons and sites that can supply the needed information; purposeful sampling means that researchers deliberately select participants who have knowledge with the vital phenomenon (Creswell, 2006). Likewise, this strategy enables the researcher to collect relevant and useful information for answering the research question. Face-to-face interview was conducted for selected officials and

Questionnaire was developed for tax and finance experts and tax payers of Addis Ababa city administration.

For tax payers which include A, B and C categories simple random sampling method was employed. Simple random sampling method ensures that each member of the population has an equal chance for the selection or the chance of getting a response which can be more than equal to the chance depending on the data analysis justification (Creswell, 2006). Questionnaire was developed for tax payers of Addis Ababa city administration.

3.3.3 Sample size

Addis Ababa city for administrative conveniences is divided into ten sub-cities and one hundred sixteen woredas. For registered tax payers, a random of one hundred twenty (120) taxpayers was taken. This random sampling was distributed to the A, B and C categories of taxpayers and ten sub-cities equally. For tax and finance experts, a purposively selected of sixty (60) tax and finance experts was taken. This purposive sampling was distributed to the ten sub-cities and head bureaus equally.

For tax and finance officials four participants were selected from Addis Ababa City Government Revenue Authority main office and large tax payers' branch office and Bureau of Finance and Economic Development.

3.4 Data collection instruments

- Semi-structured interviews which are interviews that allow the researcher to have flexibility in the way he/she asked questions were utilized in interviewing the tax and finance officials. The researcher tried to accurately capture the data and as a result all the interviews were note taken.
- A questionnaire is a data collection instrument consistent of a series of questions and other prompts for the purpose of gathering information from respondents (The Free Encyclopedia, September 2012). The researcher prepared questionnaire for tax and finance experts of Addis Ababa city administration who are working at sub cities and head offices and taxpayers of Addis Ababa city administration. The Questionnaire had both closed ended and open-ended questions.
- Document review is a way of collecting data by reviewing existing documents. The documents may be annual report documents, office manuals, some management documents of two public sectors that of Revenue Authority and Bureaus of Finance and Economic Development of Addis Ababa city administration and Journals, books, different articles, periodicals,

proceedings, magazines, newsletters, newspapers, websites, and other sources were considered that are written about Addis Ababa city administration.

3.5 Sources of data

In order to answer the research questions and to fulfill the objectives the researcher used both primary and secondary data collection methods in this research.

Zimkund (2003) asserted that primary data is gathered and assembled specifically for the research project at hand. The researcher further stated that there are many methods of collecting primary data and the main methods includes questionnaires, interviews, observation, case studies and focus group interviews. In this research the primary data will collected from tax and finance officials and experts and tax payers through semi structured interviews and questionnaires.

Leedy (1997) defined secondary data as the analysis of data by researchers who will probably not have been involved in the collection of data, for the purpose that in all likelihood were not envisaged by those responsible for data collection.

Secondary data offers the researcher a number of advantages. If the required data already exist, then the researcher would not waste his or her time to carrying out the study which is clear indication that from secondary sources it is significantly quicker than designing and conducting a new investigation.

Zimkund (2003) asserts that majority of the secondary data can be collected internally from the organization itself. The internal documents analyzed by the researcher were the annual report documents, office manuals, some management documents of two public sectors that of Revenue Authority and Finance and Economic Development Bureaus of Addis Ababa city administration. External secondary data for the study was primarily obtained from Journals, books, different articles, periodicals, proceedings, magazines, newsletters, newspapers, websites, and other sources were considered that are written about Addis Ababa city administration. The journal articles provided revised information related to the area of study.

3.6 Data collection procedures

The researcher tried to identify officials and experts that had working at Addis Ababa City Government Revenue Authority and Bureaus of Finance and Economic Development of Addis Ababa city administration for one week. The researcher then briefed the officials and experts about the study and gave them the information sheet, and informed them that participation is voluntary.

The officials and experts were given a choice if they wanted to be part of the study or not. From the response that the researcher was received, all the officials and experts, who were presented, want to be part of the study. The researcher chosen four officials, randomly, to be interviewed and sixty experts, randomly, filled questionnaire.

The officials were filling in the biographical information questionnaire which the researcher was provided them with main questions prepared for officials related to basic research questions. The questionnaire was a means through which the respondents will identify themselves to the researcher. The experts also were filling biographical information questionnaire which the researcher was provided them with main questions prepared for experts related to basic research questions.

The researcher asked officials for their permission for the interviews to note to be taken. The researcher wished to be transparent in his work, and as a result, the researcher gave the interview guideline. The interview guideline will firstly to help them better prepare for the interviews. Secondly, the interview guideline will aid in providing information-rich answers, as the officials had time to prepare for the interviews.

The officials were interviewed individually in a private and quiet room, at their offices. Semi-structured, one-to-one interviews was used as in-depth information of the officials' understanding was needed, and also to allow the researcher some degree of flexibility. Officials were interviewed in one week, with one being interviewed each day. The note taking method was used during each interview.

The tax and finance experts' questionnaire as expressed above was prepared with biographical information, close ended and open-ended questions. The researcher initially distributed questionnaires hand to hand to the respondents and finally collected them from the respondents manually.

The tax payers' questionnaire was also prepared with biographical information, close ended and open-ended questions. The questionnaire was distributed to the tax payers by identifying their category of tax pay. The questionnaire was filled by respondents while the researcher waits until respondent finished and collected it immediately.

The interview and questionnaire questions were designed in English Language but to ensure proper responses from the participants, the interview and questionnaire process was conducted using the federal working language of Amharic. The responses had carefully transcribed and translated to

English. The use of the federal working language was used for those individuals who could not understand English thus enabling them to contribute relevant information in relation to the topic under study.

3.7 Data analysis and presentation

Data Analysis is in short, a method of putting facts and figures to solve the research problem. It is vital to finding the answers to the research question (Ahuja, Ram, 2010). The mixed methods research design was applied in this research study to identify the challenges and prospects of revenue generation and utilization in urban local government of Addis Ababa city administration. Regarding qualitative and quantitative analysis of data, Krueger and Neumann (2006:434 cited in Vosloo JJ, unknown year) outline the similarities between qualitative and quantitative methods of data analysis. According to these authors, qualitative and quantitative analyses are similar in four ways. Both forms of data analysis involve:

- Inference -the use of reasoning to reach a conclusion based on evidence;
- A public method or process -revealing their study design in some way;
- Comparison as a central process –identification of patterns or aspects that are similar or different; and
- Striving to avoid errors, false conclusions and misleading inferences.

For the purpose of this study, research results were firstly presented as an analysis of the qualitative data obtained from the document review and tax and finance officials' depth interview. In this regard, the first step in analyzing qualitative data that was derived from document review and depth interview was organized. Once the data have been organized, the researcher was proceeding to the next stage in data analysis, namely description. During the second stage of data analysis, the researcher was describing the various pertinent aspects of the study. The third phase of the analysis process, namely interpretation, was involved an explanation of the findings, answering why questions, attaching significance particular results, and putting patterns into an analytic framework.

The analysis of the qualitative data was followed by an analysis of the quantitative data that was collect by the questionnaire and time series data of the two organizations. Firstly, the quantitative data was presented in table format and by means of charts and other graphics. That is to present data visually for a quick understanding. Each presentation of data was providing an indication of

percentages according to related categories in order to provide an overview of the particular grouping of data. Secondly, the visual presentation of data (tables, charts, and graphics) in numbers and percentages were enabling the researcher to offer an analytical description and interpretation of data by means of descriptive statistical procedures. The city administration trends in revenue generation and utilization were analyzed by using simple average, percentage, rates and annual growth rates.

On the whole, the aforementioned analysis and interpretation procedures were form part of the overall process to make inferences, and to draw conclusions to formulate findings and recommendations in accordance with the research aims.

The results were discussed in the same order as the questions in the depth interview and questionnaire.

CHAPTER FOUR

4. DATA PRESENTATION AND ANALYSIS

This part of the paper deals with discussion, analysis and interpretation of the data gathered through document review, interview and questionnaire. The chapter consists of two parts. The first part presents about the document review and interview. While the second part deals with the demographic characteristics of respondents and presentation of the questionnaire data. Analysis and discussion of the findings will be presented with side by side.

4.1 Legal framework of the city administration

Under the 1994 Constitution, the city of Addis Ababa has complete powers of self-administration and Particulars are determined by Federal Proclamation No. 361/2003, the Addis Ababa city Government Revised Charter Proclamation which replaced the Charter proclamation No 87/1997. The working language of the city Government is Amharic. The Revised Charter establishes the objectives, organization, powers and functions of the city Government and of all its organs. The city council has the power to make laws and exercise judicial and executive powers over matters not specifically included in the powers of the Federal Government. It has legal personality and can establish relations and make agreements with the Federal Government, Regions, private sector, NGOs and (with Federal authorization) international organizations. The city Council is accountable to the Federal Government and to the residents of the City. Its powers and functions are listed in the Revised Charter, Sections 11 and 13.

In accordance with the provisions of Articles 49(2) and 55(1) of the constitution of the federal democratic republic of Ethiopia, Addis Ababa city government proclaims a proclamation number 361/2003 i.e. the Addis Ababa city government Revised charter proclamation as its main legal framework for the current Addis Ababa city administration.

The Addis Ababa city government revised charter in Article 52 outlines the following city's fiscal power and the jurisdictions of revenue generation for the city administration.

- Assess and collect tax on income from employment within the city, excluding employees of Oromia region, of the Federal Government and of Federal public enterprises.
- Fix and collect land use fee within the city.
- Levy tax on income from agricultural activities within the city.

- Assess and collect profit, excise and turnover taxes from individual businessmen trading in the city.
- Receive value added tax collected by the Federal government from individual businessmen trading in, and public enterprises owned by the city.
- Fix and collect urban land rent and levy urban house tax in the city.
- Assess and collect tax on income from rented houses and other properties in the city.
- Assess and collect stamp duty on contracts and agreements as well as on title deeds-registration executed in the city.
- Assess and collect profit, excise and turnover taxes from public enterprises owned by it.
- Fix and collect road-user-vehicles charge in the city.
- Fix and collect rentals from houses and other properties owned by it.
- Assess and collect income tax, royalty and land rentals on small-scale mining operations undertaken within the city.
- Fix and collect royalty on use of forest resources within the city.
- Fix and collect fees on licenses issued, and services delivered, by it.
- Levy municipal taxes and duties as well as fix and collect service charges.
- Assess and collect income tax on gains from renting of patent rights within the city.
- Assess and collect capital gains tax on property situated in the city.

By virtue of proclamation number 361/2003 the city administration reorganized in to three tiers of administration and five organs of power.

4.2 Institutional framework of the city administration

Since 2003, Addis Ababa is a self-administrated chartered city and to a large extent autonomous. The city charter of Addis Ababa lays out the constitutional procedures and structures. The city's main administrative organs are city, sub-city and *Kebele* administrations. The city council is elected by residents of the city for a term of five years and is the main organ of power. Other City organs are the Mayor, the City Cabinet, the City Courts, and the Office of the City Auditor General. The Mayor is also elected for five years. S/he is the chief executive officer of the City and is accountable to the City Council and to the Federal Government. The Mayor nominates persons for appointment to a City Cabinet, which advises the Mayor on policies, development plans and budgets before they are proposed to the Council. The Council approves the budget and levies taxes

and duties and sets service charges. The Mayor hires a City Manager in consultation with the Cabinet to manage municipal services.

The city council is authorized to transfer tasks and decision-making authority to the sub-cities and *Kebeles*. The sub-cities and *Kebeles* are self-governed and are managed by sub-city councils and *Kebele* councils respectively which in turn elect Chief Executive Officers (CEOs) (comparable to local mayors). The councils are supported by standing committees (comparable to the city cabinet) and sub-city/*Kebele* managers. The CEOs are accountable to the Mayor as well as to the council which elected them.

The city administration is divided into two divisions. The mayor coordinates both the state and municipal functions of the city. Under the mayor and his cabinet members there are various sectoral offices, which are responsible for sectoral state functions such as education, health, trade, investment and others. On the other hand, the municipal services manager who is accountable to the mayor and also member of the city cabinet is responsible for the municipal tasks including provision of urban public services and infrastructure. Service delivery is decentralized to the sub city and woreda level with the same organizational structures.

Addis Ababa city government charter outlines functions regard to revenue generation and utilization. In article 14(1(e)) outlines that the council has the power to levy taxes and duties as well as set service charges upon financial matters falling under the power of the city government. Proclamation No. 361/2003 Article 53(1) allows the city's government to generate its revenue from juridical bodies under its charge, income generating activities where it holds the special permit required thereto, joint investment, fund investment, rentals and from donations provided there is no legal prohibition in respect to thereof.

4.3 Institutional Arrangements of the city administration to generate revenue

Addis Ababa city government revenue Authority is established by charter proclamation No. 311/1995 E.C and reestablished by "Addis Ababa City Government Center, Sub-City and Kebele Executive and Municipal Service Organs Reestablishment Proclamation No 15/2009 for the purpose of administering tax within the city. Currently the city's Revenue Authority is directly accountable to the mayor and organized with one main director, three deputy directors, one large tax payers branch office which is established in 2018/19 G.C second half budget year, four medium tax payers branch offices, Ten small tax payers branch offices, one hundred thirteen woreda level

micro tax payers branch offices and eight Mercato tax centers which are responsible for levying and collecting taxes from its territory and revenue sources given to the city by the tax proclamation. Addis Ababa City Government Revenue Authority organizational structure is established based on category of tax payers A, B and C based on their volume of sales and the form of their business. For administrative convenience tax administration requires classification of taxpayers into different groups as it is not possible to extend the same treatment to all taxpayers at the same time. In addition, principle of economy also requires the tax system to concentrate tax efforts on those taxpayers with high revenue potential. Category “A” taxpayers are composed of two groups. The first group comprises of those taxpayers whose annual turnover for a single tax year is 1,000,000 or more. In addition, any company incorporated under the laws of Ethiopia is a category “A” taxpayer irrespective of their annual turnover. The rationale for incorporating companies under category “A” irrespective of their annual turnover seems to dwell upon the idea that given the present local and international business environment by the time companies are established they must have at least 500,000 as a starting capital.

Category “B” taxpayers are those taxpayers with annual turnover greater than 500,000 but less than 1,000,000 Ethiopian Birr.

Category “A” taxpayers’ and category “B” taxpayers are required to keep proper books and accounts. But the books and accounts to be kept by category B taxpayers are less complicated compared to category ‘A’ taxpayers. Thus, they are required to keep an account incorporating mainly profit and loss statements for the particular year. Their income tax liability will be assessed based on the books and accounts kept by the taxpayers.

Category C’ includes those businesses whose annual turnover is estimated by the tax authority to be 500,000 birr or less. In contrast to the other two groups, the tax liability of Category C taxpayers is determined by the tax authority using a presumptive assessment of average daily revenue, rather than internally generated profit and loss statements.

Addis Ababa City Government Revenue Authority has serving tax payers under four office divisions.

A. Large Taxpayers’ Branch Office

Large tax payers’ branch office which is established in 2018/19 G.C and concerned with administrating large tax payers which are dedicated to businesses with annual revenue of 40

million Birr or more. The Authority started its branch by serving 800 large taxpayers of the city administration.

B. Middle Tax payers branch Office

Businesses with annual turnover of 5 million Birr to 40 million Br will settle their taxes at the city's four middle taxpayers' offices.

C. Small Tax payers branch Office

Annual turnovers between half a million Birr and five million Birr is allocated for the small taxpayers and are served at the sub city level.

D. Micro Taxpayers branch Office

Businesses with annual turnover of half a million Birr are categorized under micro and are served at the 113 woreda level offices in the city.

Addis Ababa city Government Revenues Authority organizational structure is established in decentralized form. It generates its revenues by decentralizing its functions to ten sub cities and one hundred thirty-three woredas. Revenue Authority has a total of 8,298(Eight thousand two hundred ninety-eight) standardized job positions and has assigned a total of Five thousand two hundred thirty (5,230) employees, which accounts only 63.03% of standardized job positions.

Table 4.1 Human Resource Coverage of Addis Ababa City Government Revenue Authority

S. N	Branch Name	Standardized Job positions for Branch Offices	Covered Job Positions			Human resource coverage in Percentage
			Male	Female	Total	
1	Arada	455	105	228	333	73.19
2	Addis Ketema	470	152	161	313	66.6
3	Lideta	417	88	175	263	63.07
4	Kolfe Keranyo	503	135	253	388	77.14
5	Akaki Kality	399	113	181	294	73.68
6	Kirkos	580	137	247	384	66.21
7	Bole	698	156	289	445	63.75
8	Yeka	526	112	232	344	65.40
9	Nifas Silk	546	152	243	395	72.34
10	Gulele	387	117	178	295	76.23

11	Mercato No.1	616	173	176	349	56.66
12	Mercato No.2	592	219	169	388	65.54
13	Addis Ababa No. 1	584	138	198	336	57.53
14	Addis Ababa No. 2	589	141	200	341	57.89
15	Large Tax payers Branch Office	584	70	96	166	28.42
16	Head Office	352	96	100	196	55.68
Total		8,298	2,104	3,126	5,230	63.03

Source: own computation from the data obtained from AACG Revenue Authority

The Table 4.1 table shows that Revenue Authority human resource coverage is 63.03 percent of its positions. Best human resource coverage branches are Kolfe Keranyo 77.14 percent, Gulele 76.23 percent, Arada 73.19 percent, Nifas Silk Lafto 72.34 percent and Akaki Kality 73.68 percent. On the other hand, the lowest human resource coverage branches are large tax payers branch office 28.42 percent, Mercato No. 1 branch 56.66 percent, Head Office 55.68 percent, Addis Ababa No. 1 branch 56.66 percent, Addis Ababa No.2 branch 57.89 accounts percent. Others branches found between mentioned branches. During interview researcher understands that Revenue authority unable to cover its human resource positions due to structural adjustments, budget and frequent turnover of the staff. The shortage of trained personnel made an obstacle to assess and collect revenue that the city administration can obtain from different sources.

In relation to staff turnover the revenue authority 2018/19 annual report shows that a total of 332 employees left the organization in 2018/19 fiscal year due to personal, discipline, death and retirement reasons, that accounts 6.34 percent of Revenue Authority total employees.

Table 4.2 Turnover of Employees

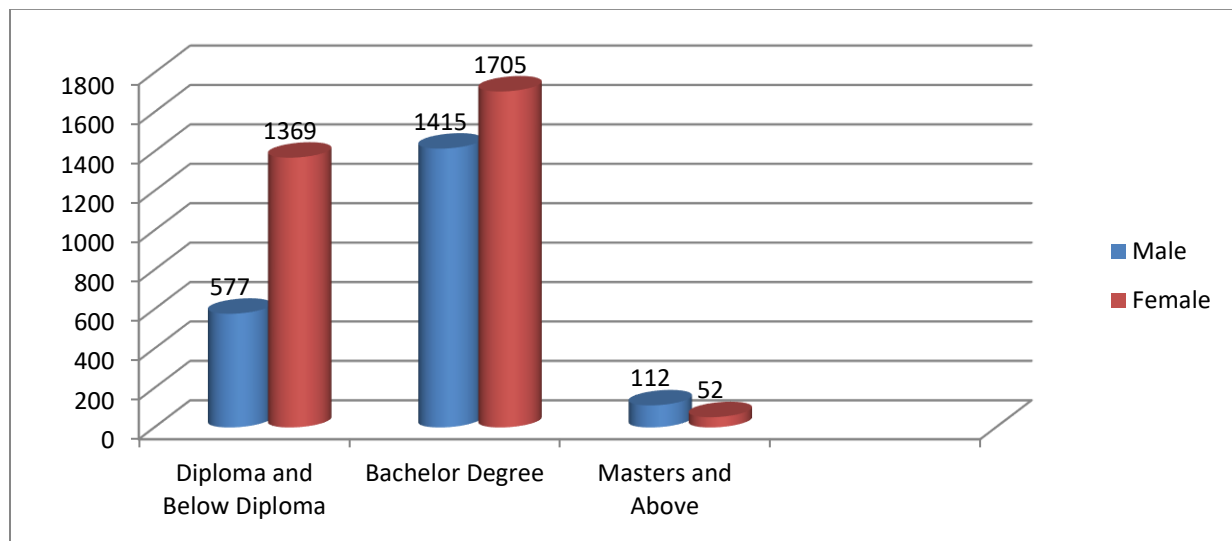
Reasons	Turnover of Employees		
	Male	Female	Total
Personal	158	138	296
Discipline	7	5	12
Death	3	3	6
Retirement	4	9	13

Total	177	155	332
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Source: own computation from the data obtained from AACG Revenue Authority

With regard to Addis Ababa City government Revenue Authority educational status of employees Diploma and below Diploma holders accounts 37.2 percent, First Degree holders accounts a majority of 59.65 percent and Masters and above holders accounts 3.15 percent of a total human resource. In gender composition a majority of employees with 59.77 percent of employees are females and 40.23 percent accounts for male employees.

Figure 4.1 Educational Status and Gender composition of Revenue Authority Employees



Source: own computation from the data obtained from AACG Revenue Authority.

4.4 Fiscal Autonomy of revenue sources for Addis Ababa city administration

Revenue generation play an important role in determining urban local government’s ability to deliver services. The ability of a city administration to generate its own income is an important sign of its independence. Addis Ababa city administration has given significant revenue-raising powers. The city is self-financing, deriving most of its revenues from own source revenue instruments. As a result, there is the foundation on which to develop a more efficient intergovernmental fiscal system. Revenue sources can be organized in to two broad categories based on the degree of the City’s fiscal power of determining their base, fixing their rate, assessing, collecting and determining these revenues.

4.4.1 Revenue sources over which the City has fiscal power to determine their base and/or rates

Addis Ababa city administration is empowered to fix rates, assess and collect revenues from the following sources.

I. Land use autonomy

The power to administer municipal land as well as to fix land use fees provides urban areas with substantial revenue autonomy. Apart from its mandate to prepare and approve its master plan, Article 52(2) gives Addis Ababa the power to fix and collect land use fee, urban land rent and urban house tax in the city. Since urban land is the most productive revenue base of municipalities, land use autonomy implies substantial potential of the city to raise more revenue from it. Under the “urban land-lease” system, Addis Ababa can optimize its revenue provided that the land management system is improved.

II. Non-tax revenues autonomy

The city has the power to fix and collect road-user-vehicles charges, and rentals from houses and other properties owned by it; fix and collect royalties, fees on licenses issued and services provided by it. Thus, the city has full control of its non-tax revenues.

III. Municipal taxes Autonomy

The city can levy municipal taxes and duties as well as fix and collect service charges.

Generally, the city determines the rates of non-tax revenues and municipal taxes. And, the city adopts its own legislations to administer revenues from these sources.

4.4.2 Revenue sources over which the City has full retaining power; but not empowered to fix their rates

The second category of revenue source includes those the city has the power to assess, collect and administer but having no mandate to determine their rates. It is the power of the Federal Government to fix the rates of these revenues. These revenues include

- Employment income tax within the city;

- Profit, excise and turnover taxes from individual businessman and its public enterprises; rental income tax; stamp duty; patent right gain tax; and capital gains on property situate in the city.

Addis Ababa city collects, administers and assesses these revenues as per the Proclamations and Regulations of the federal government. Thus, for instance, Proclamation No. 286/2002 and Regulation No. 78/2002 define the rates and procedures for income taxes, and Proclamation No. 308/2002 applies to turnover tax. The City, therefore, follows these legislations in assessment, collection and administration. Addis Ababa has no fiscal power of determining the rates of these revenue sources.

Generally, city of Addis Ababa has absolute revenue autonomy on municipal tax and non-tax revenues due to its legitimate power to determine the rates of these revenues. Thus, revenues the city earns from these sources can be considered as “own revenues” of the city. Through its discretionary power to fix rates of these revenues, Addis Ababa can completely influence the amount and mixture of its revenue from these sources. The city’s revenue earned from other direct and indirect taxes can be hardly taken as “own revenues” because it is the Federal Government that determines the base and rate of these revenues. The city has minimal control over these revenues. Nevertheless, the city is given the power to assess, collect and administer revenues from these sources, as per the law of the Federal Government, with full retaining and spending autonomy. Thus, though the city has limited autonomy over these sources from revenue side, these revenue sources provide substantial spending autonomy to the city as it can utilize these revenues for any purposes.

4.5 Sources of revenues for Addis Ababa city Administration

Addis Ababa city administration sources of revenue in terms of generation in research period fall mainly under two broad categories: own-source revenue, being the revenue raised by the city administration; and external revenue, being revenue received from other governments and multilateral institutions - which include revenue from grants and money from borrowings.

The total generated revenue from 2014/15 up to 2018/19 was 149,290,265,548 billion birrs. As shown in Table 4.3 below, revenue sources for Addis Ababa city administration for the period under the review are comprised of 79.36% of tax revenue, 11.39% of non-tax revenue, 7.44% of municipality revenue sources, 0.21% of external assistance and 1.6% of external loans.

Domestic revenue of city administration has increased from Birr 20,990,575 billion in 2014/15 to birr 39,056,044 billion in 2018/19. Not only has domestic revenue of the city administration been increasing in absolute terms, but its share in total city administration revenue has also been showing an upward trend. The share of domestic revenue of the city administration in its total revenue has reached 99.64 percent in 2018/19 from 96 percent in 2014/15. The implication is that the city administration is increasingly relying on the more reliable domestic sources for its revenue.

Table 4.3 Sources of revenues and their contribution to Addis Ababa City Administration Total Revenues

	Total Revenues	Tax Revenues	Non- Tax Revenues	Municipality Revenues	External Assistance	External Loan
2014/15	21,761,016	16,975,264	2,356,592	1,658,719	226,899	543,542
2015/16	26,069,060	20,687,941	2,773,149	1,725,688	32,180	850,102
2016/17	28,819,206	22,385,839	3,876,329	2,018,140	23,163	515,736
2017/18	33,445,013	26,543,039	4,002,243	2,527,320	14,705	357,706
2018/19	39,196,030	31,884,609	3,999,597	3,171,838	21,508	118,478
Total	149,290,325	118,476,692	17,007,910	11,101,705	318,446	2,385,564
% to Total Revenues	-	79.36	11.39	7.44	0.21	1.60

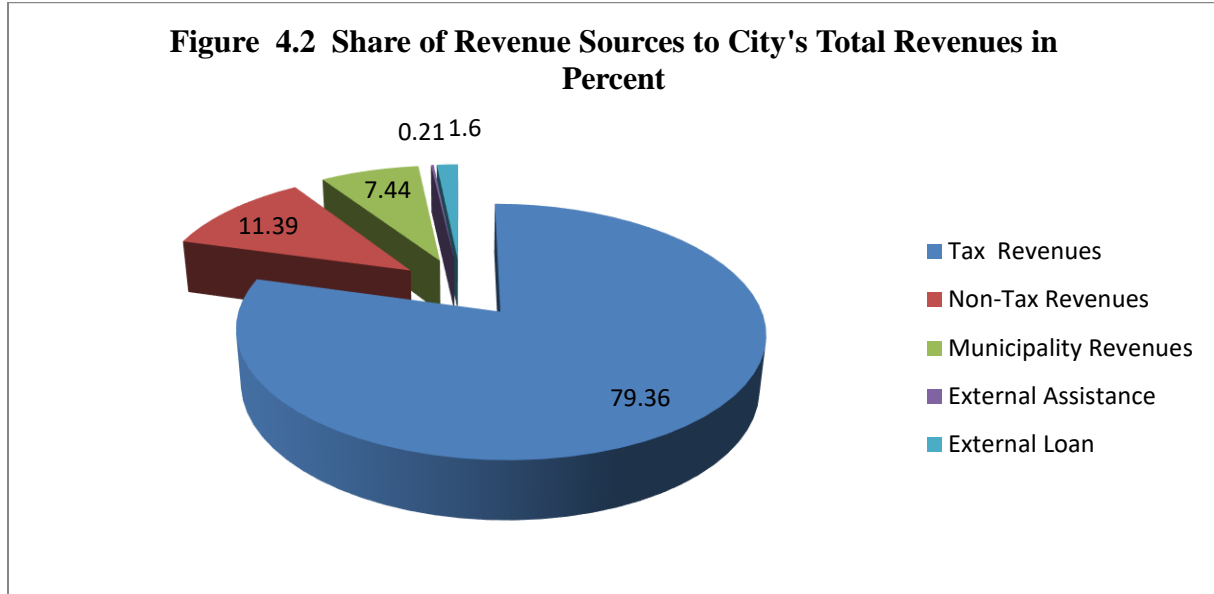
Source: Own computation of the data obtained from Addis Ababa BoFED, 2020

4.5.1 Tax revenue sources

Tax revenue is one of the major sources of income which fall under domestic revenue category. A fund raised through the various taxes is referred to as tax revenue. Taxes are compulsory contributions imposed by the government on its citizens to meet its general expenses incurred for the common good, without any corresponding benefits to the tax payer. The largest share of the city administration revenue comes from taxes. In the past five years which is from 2014/15 to 2018/19 tax revenue sources on average generate 79.36% of the total revenue of the city administration and grow on average on 14.58% under review period.

The tax collection was increased from time to time. According to the city’s Revenue Authority the primary factor for the improvement of tax revenue sources are the deepening of effective

administration of the tax system and the education and engagement of the taxpaying community. These indicate that the city administration is increasingly relying on the more reliable tax revenue as a source of its income.



Source: Own computation of the data obtained from Addis Ababa BoFED, 2020

In principle, tax revenue is classified into direct and indirect taxes. Direct and indirect taxes of the city administration have a significant share in the city's total tax revenue. The share of tax collected from direct taxes is about 68.09%, while the share from indirect taxes is nearly 31.91%. When a direct tax exceeds taxes collected from indirect taxes, it generally hinders trade and business expansion. Nonetheless, both taxes covered more than 79.36% of the total revenue from 2014/15 to 2018/19.

Table 4.4 The share of direct and indirect taxes to the city's tax revenue

	Tax Revenue	Direct taxes	Indirect taxes	% of Direct Tax to Total Tax revenue	% of Indirect Tax to Total Tax revenue
2014/15	16,975,264,550	11,231,874,175	5,743,390,373	66.17	33.83
2015/16	20,687,941,976	13,836,266,742	6,852,152,393	66.88	33.12
2016/17	22,385,839,754	15,036,628,376	7,349,211,377	67.17	32.83
2017/18	26,543,039,773	18,645,084,902	7,897,954,870	70.24	29.76

2018/19	31,884,609,435	21,924,310,650	9,960,298,783	68.76	31.24
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Source: Own computation based on the data obtained from Addis Ababa BoFED (2020).

4.5.1.1 Direct taxes

Direct taxes are collected from the salary of employees of private and governmental institutions, trade profits and rental tax, capital gains and others. Such direct taxes are computed based on the ability of the taxpayer to pay, which means that the higher their capability of paying is, the higher their taxes are.

Direct taxes are the most productive source of revenue to the city administration. On average, it alone contributes 54.04% of the total revenue and 68.09% of tax revenues of the city between the years 2014/15 up to 2018/19. Direct taxes for Addis Ababa city administration include wages and salaries, rental income, profits to individuals, capital gains, agricultural income, royalties, and withholding tax on imports, chat income and other sources.

Table 4.5 Components of Direct Tax Revenues and their contribution to the Total Direct Tax Revenues of Addis Ababa city Administration

Revenue Title	Personal Income Tax	Business Profit Tax	Rental Income	Capital gains	Other sources
Budget Year					
2014/15	6,302,248,301	4,032,554,449	746,864,866	136,806,910	13,399,649
2015/16	7,924,319,149	4,740,373,713	1,018,368,787	133,432,404	19,772,689
2016/17	8,042,217,318	5,633,895,403	1,270,008,826	80,745,213	9,761,616
2017/18	9,991,573,709	7,152,746,313	1,386,731,620	99,251,838	14,781,421.80
2018/19	12,202,526,536	7,794,200,478	1,716,428,013	170,374,834	40,780,788.95
Total	44,462,885,013	29,353,770,356	6,138,402,112	620,611,199	98,496,165
% to Total Direct Tax	55.11	36.39	7.61	0.77	0.12

Source: Own computation based on the data obtained from Addis Ababa BoFED (2020).

As shown in the table 4.5 above, Addis Ababa city administration raises 55.1% of its direct tax revenues from personal income tax from 2014/15-2018/19. Personal income tax is a tax that city government impose on income generated by businesses and individuals within its jurisdiction.

Every person deriving income from employment is liable to pay tax on that income at the rate specified. Employment income includes any payments or gains in cash or in kind received from employment by an individual. Employers have an obligation to withhold the tax from each payment to an employee, and pay the Revenue Authority the amount withheld during each calendar month.

Income tax is one of the more transparent tax systems, since all of the companies are supposed to step through the doors of the tax offices monthly to pay the taxes. The amount could go up, since tax collected from the employees of private companies is handled by schedule "A" taxpayers. This demonstrates that tax generated by the business community is relatively lower than the tax paid by the employees.

As can be seen from the above table 4.5, Addis Ababa city administration generates 36.39% of its direct tax revenue from business profit tax. Business profit tax is the tax imposed on the taxable business income realized from entrepreneurial activity. Taxable business income would be determined per tax period on the basis of the profit and loss account or income statement, which shall be drawn in compliance with the generally accepted accounting standards. Corporate businesses are required to pay 30% flat rate of business income tax. For unincorporated or individual businesses, the business income tax ranges from 10% - 35%.

Tax on income from rental of buildings is the tax imposed on the income from rental of buildings. If the taxpayer leased furnished quarters, the amounts received attributable to the lease of furniture and equipment would be included in the income and taxed. It accounts 7.61% of city administrations direct tax revenue sources during the study period.

Other source of revenue for Addis Ababa city government includes dividend income tax, tax on income from royalties, tax on gains of transfer of certain investment property and others. The rates for the above-mentioned direct taxes are determined based on the federal income tax proclamation No. 286/2002 and council of minister's regulations No. 78/2002.

4.5.1.2 Indirect Taxes

Indirect taxes are consumption taxes paid by the consumers in the form of value-added taxes (VAT), excise taxes, turnover taxes (TOT) and stamp duty taxes. On average, indirect tax alone

contributes 25.32% of the total revenue and 31.91% of tax revenues of the city between the years 2014/15 up to 2018/19.

Table 4.6 Components of Indirect Taxes and their contribution to the city's Indirect Tax

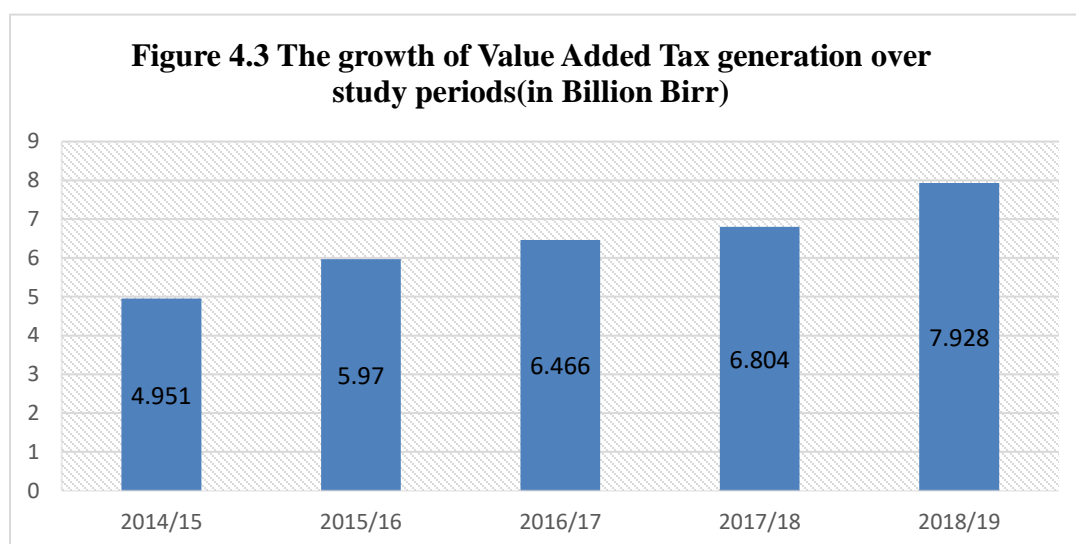
Revenue Title	Turn Over Tax	Excise Tax	Value Added Tax	Stamp Duty
Budget Year				
2014/15	543,072,841	20,303,871	4,951,017,106	228,996,553
2015/16	620,079,151	18,225,281	5,970,309,617	243,538,343
2016/17	650,114,311	45,317,641	6,466,075,719	187,703,704
2017/18	772,347,883	25,933,253	6,804,744,277	294,929,454
2018/19	1,070,673,918	34,406,676	7,928,642,651	926,575,536
Total	3,656,288,104	144,186,723	32,120,789,370	1,881,743,590
% to Total Indirect Tax	9.67	0.38	84.97	4.98

Source: Own computation based on the data obtained from Addis Ababa BoFED (2020).

I. Value Added Tax

As far as administration of VAT in Ethiopia is concerned, the Federal Government is given the exclusive authority to levy and collect VAT on taxable transactions throughout the country. Ethiopian Ministry of Revenues is given the power to administer and collect VAT. However, where circumstances so demand - particularly, in the interest of effectiveness and efficiency, the authority is given the power to delegate, fully or partially, its powers to revenue collective agencies like Addis Ababa City Government Revenue Authority and regional states.

Addis Ababa city administration collect VAT revenues in domestically produced products and on services like soft drink, leather and leather products, plastic products, cotton, yarns and fabrics, chemical and chemical products, non-metallic mineral products, iron and steel, vehicles and spare parts, machines, fixtures and spare parts, wood and wood products, food, stationary and printing machineries, agriculture and forestry products, professional services, rent of goods and other services. Addis Ababa city administration VAT collection accounts 84.97% of the city's indirect tax revenue sources and the figure 4.3 clearly illustrates VAT collection has an upward trend over years.



Source: Own computation based on the data obtained from Addis Ababa BoFED (2020).

Generally, for the city administration there are three types of VAT registration for tax payers: obligatory registration, voluntary registration and registration of special business categories. All this process works smoothly if the tax payers, tax authorities and customers are acquainted with the legal frameworks and the tax authority is furnished with sufficient skilled man power and facilities. Coming to the practice in Addis Ababa city administration, VAT registration and using cash register machines for transactions has its own problems. Table 4.7 shows that from category of "A" taxpayers in the city administration only 87.63 percent of obliged to use cash register machines category uses cash registers machines to make their transactions. 12.36 percent of category "A" tax payers made their transactions without cash register machines.

The problem of using cash register machines in Category of "B" taxpayers is more problematic than category "A". From Category of "B" taxpayers only 69.75 percent uses a cash register machine which means 30.25 percent of Category of "B" taxpayers made their transactions without cash register machines. This implies that the city administration is losing a huge amount of revenue from transactions which made without cash register machines.

Table 4.7 Cash registration machine application status

Tax Category	No. of Tax Payers	Cash Registration Machine				% of STU over OTU	% of NSTU over OTU
		Not Obligated to use	Obligated to use	Started to use	Not started to use		
A	71,632	5,913	65,719	57,593	8,013	87.63	12.36

B	46,258	13,160	33,098	23,087	10,011	69.75	30.25
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Source: Own computation based on the data obtained from Addis Ababa City Government Revenue Authority 2018/19 Annual Report (2020).

With regard to VAT announcement report, every registered person is required to file a VAT return with the tax authority for each accounting period, whether or not tax is payable in respect of that period, and to pay the tax for every accounting period by the deadline for filing the VAT return, i.e., no later than the last day of the calendar month following the accounting period. Thus, the VAT Proclamation allows taxpayers a 30-day period within which to file returns and make payments. Nevertheless, in practice, there are three VAT reporting periods depending on whether a taxpayer is a nil, credit or payment filer. The reporting time from the end of the month is 10 days for nil filers, 20 days for credit filers and 30 days for payment filers. According to tax officials, taxpayers that fail to meet the reduced deadlines would not be fined as long as they report within 30 days from the end of the accounting period.

However, such taxpayers would be given verbal warning that if they do not keep the reduced reporting periods, penalty would be applied. Though the legislation has devised at least three means through which taxpayers may file their monthly return, so far, Addis Ababa city government use only one of the options, i.e., filing return by appearing in person. However, such method of filing return has its own drawbacks, i.e., since every taxpayer has to discharge its obligation in time, they are forced to go to the authority which has drawbacks in terms of skilled man power and technological facilities. As a result, customers are forced to wait for prolonged time until their turn; which kills the time and resources of both the authority and taxpayers.

With regard to VAT proclamation implementation Addis Ababa City Government Revenue Authority claims violations of rules by taxpayers which include; not displaying the cash register machine in a visible place, not notifying the Authority and service providers within two hours of a cash register machine malfunctioning, not keeping adequate records and failing to notify customers to ask for a receipt.

According to Addis Ababa City Government Revenue Authority legal actions were taken on violators of law with regard to cash register machines. But on data collection period taxpayers' expresses their concern over the situation on the ground. According to them sometimes makes it difficult to comply with some of the rules, they complained. They listed such problems as;

inadequate infrastructure, lack of awareness, low tax compliance rate and the inflexibility of the law to consider various situations as reasons for violating the rules.

Table 4.8 VAT Return and Payment report status

Obligated to announce VAT	Report on Average	%	By Payment	%	By Nil	%	By Return	%
63,862	55,455	86.83	18,075	32.49	11,314	20.34	26,066	46.85

Source: Own computation based on the data obtained from Addis Ababa City Government Revenue Authority 2018/19 Annual Report (2020).

As shown in sample table 4.8 which is drawn from 2018/19 annual report of Addis Ababa city Government Revenue Authority on average only 86.83 percent of taxpayers report their VAT and 46.85 percent and 20.34 percent of tax payers report their VAT report by return and Nil respectively. Only 32.49 percent of VAT tax payers report by payment. That means 67.19 percent of tax payers (which report by return and Nil) either they seek a money which is collected from taxpayers who announce their report by payment or they evade taxes.

II. Stamp duty

Stamp duty is a revenue source collected by requiring stamps sold by the government to be affixed to designate documents. The legal instrument which regulates stamp duty in Ethiopia is Stamp Duty Proclamation no. 110/1998. Addis Ababa city administration generates revenue on stamps sales, stamps duty on vehicle sales, stamps duty on house sale and other services. It accounts 4.98% of total indirect tax of the city administration under review period.

III. Turnover Tax

The turnover Tax would be payable on goods sold and services rendered by persons not registered for Value Added Tax. The rate of Turnover Tax is 2% on goods sold locally, for services rendered locally which 2% on contractors, grain mills, tractors and combine-harvesters and 10% on others. Addis Ababa city administration collects TOT on locally manufactured goods like sugar, salt, food, soft drink, mineral water, alcohol and alcoholic products, tobacco & tobacco products, cotton, yarns & fabrics, textiles & clothing, leather and leather products, chemical & chemical products, iron and steel, Stationery, non-metallic mineral products, farm and farm products, wood and wood products and on service turnover tax on services like garage, laundry, tailoring, legal, photography & photo-

copying, auditing, work contract, consultancy, commission agent, entertainment, barbers & beauty salon, tourism, rent of goods, advertisement, pesticide service and financial services. During the period under review which is described in Table 4.6 above Turnover tax accounts 9.67 percent of total indirect taxes and has an upward trend over years.

IV. Excise Tax

Excise tax is a tax imposed on luxury goods and basic goods, which are demand inelastic. It is also believed that imposing the tax on goods that are hazardous to health and which are causes to social problems will reduce the consumption thereof. Addis Ababa city administration generates its excise tax from locally manufactured goods like beer products, gold and other ornaments and other goods. The excise tax accounts 0.38% of city administration indirect taxes and have up-downward trend in study period.

4.5.2 Non-Tax revenue sources

Non-Tax Revenue is the recurring income earned by the government from sources other than taxes. The numbers of sources of non-tax revenue are very large with wide variance in the quantum of collections per source. Non-tax revenue is charged against services provided by the government. The most important receipts under this source for the city administration are administrative fees and charges, government investment income, sales of public goods and services, subsidies, dividends and profits received from public sector companies.

Table 4.9 Components of Non-tax revenue sources and their contribution to total Non-Tax revenues (2014/15-2018/19)

Non-tax revenues	Administrative Fees and Charges	Sales of Public Goods and Services	Government Investment Income	Miscellaneous Revenue	Subsidy Revenue	Capital Revenues
Budget Year						
2014/15	79,813,611	168,452,795	1,726,012,804	338,585,457	43,727,413	
2015/16	80,316,079	212,125,308	2,033,856,984	399,039,339	47,811,481	
2016/17	87,287,287	238,667,593	2,674,455,536	809,652,357	66,142,691	61,943
2017/18	83,238,763	258,044,485	2,431,767,154	1,215,706,408	13,486,384	

2018/19	86,264,718	298,462,652	2,804,900,937	699,772,274	110,196,911	
Total	416,920,458	1,175,752,833	11,670,993,415	3,462,755,835	281,364,880	
% to Non-Tax Revenues	2.45	6.91	68.62	20.36	1.65	0.0004

Source: Own computation based on the data obtained from Addis Ababa BoFED (2020).

Non-tax income accounts for a significant share of city government revenues. From 2014/15 up to 2018/19 which is the period under the review, for Addis Ababa city, non-tax revenue accounted for slightly more than one-tenth of total revenue. The share of non-tax revenue in total revenue was 11.39% which have followed a moderate upward trend over study period.

The greater part of non-tax revenue consists of intakes from city government investment income, sales of goods and services like sales of government newspapers, magazines and publications, media and public relations, advertising revenue, veterinary services, health services, sales of medicines and medical supplies, medical examinations and treatments, printed forms, research and development services, vocational and educational institutions, entertainment, cultural services, agricultural products, forestry products and other miscellaneous revenues. From 2014/15 up to 2018/19 which is the period under the review, Addis Ababa city administration raises 11.39% of its revenue from non-tax revenue sources. As mentioned in Table 4.9, government investment income, miscellaneous revenues, sales from goods and services, administrative fees and charges, subsidy revenue (road fund), and capital revenues accounts 68.62%,20.36%,6.91%,2.45%,1.65% and 0.004% of non-tax revenues respectively.

The subsidy revenue (road fund) is a distribution from the federal government, which is earmarked for the City Road Authority for road and drainage construction and maintenance. The annual transfer is the result of negotiations with the Road Fund and is disbursed monthly.

Through urban land leases and other investments, the city administration generates revenues. But excessive reliance on this single-source income is not sustainable. Land is a limited resource in Addis Ababa while the value of leases is subject total number of factors such as the capacity of the sub-cities to supply enough land to the market. There are also complex political factors attached to land availability. Furthermore, skyrocketing urban land prices have unintended and often severe consequences for, among others, housing supply. Excessive dependence on income derived from

urban land leases could jeopardize the administration’s efforts towards exploring innovative ideas on generating new revenues.

4.5.3 Municipal revenues

It is revenue collected from the provision, rent and sale of municipal goods and services. The contribution of municipal revenue to the city’s total revenue is described in Table 4.10. In this revenue category there are five major components. These are municipality tax revenue; municipality rent revenue, sale of goods and city services, municipality service charge and other capital revenues.

Table 4.10 Components of Municipal revenues and their contribution to Total Municipal Revenues

	Municipality Tax Revenue	Municipality Rent Revenue	Municipality Service Charge	Sale of Goods and City Services	Other Capital Revenue
2014/15	433,030,398	201,220,848	164,845,113	825,801,968	33,820,687
2015/16	445,163,831	199,528,799	209,649,076	840,211,267	31,135,137
2016/17	342,240,788	200,791,562	237,406,697	1,204,806,944	32,894,098
2017/18	518,718,937	217,764,245	278,836,080	1,438,817,768	73,183,956
2018/19	813,427,534	215,781,682	328,482,327	1,744,384,262	69,762,592
Total	2,552,581,488	1,035,087,136	1,219,219,293	6,054,022,209	240,796,470
% to Total Municipal Revenues	22.99	9.32	10.98	54.53	2.17

Source: Own computation based on the data obtained from Addis Ababa BoFED (2020)

A. Municipality Tax Revenue is collected from service giving institutions such as land management, municipality, water authority, hospitals and schools and has tax behavior in

nature which includes entertainment tax, city house tax, assurance tax and other types of municipal taxes. As can be observed, municipal tax revenue has mainly shown an upward trend in its income during the study period. It constituted 22.99% of the total municipal revenue with an average annual growth rate of 8.58% for the same period.

- B. Municipality Rent Revenue** is the revenue imposed on the income from rental of buildings and land which includes city land rent, residential house rent, business house rent, veranda rent, medb rent, beret rent and other rents. It constituted 9.32% of total municipality revenues and have up and downward trend in its collections during the study under review.
- C. Municipality Service Charge** is revenue raised from the provision of municipal services. These service charges are collected from business and professional registration and license fee, housing and fencing construction license, soil dumping space license, Vehicle license on prohibited land, traffic fines, fines on violation of rules and regulations and other charges. It constituted 10.98% of the total municipal revenue with a modest growth for five years.
- D. Sale of Goods and City Services** is revenue collected from the sale of municipal goods and city services. This revenue category constituted the largest share (54.53%) of the total collected municipal revenue and registered an average growth rate of 13.15% in the study years. A list of revenue items under this title are sanitation services, engineering and asset estimation services, building construction supervision, contract registration and confirmation, road transport, water service, sewerage service, fire and emergency service, vital statistic service, driving licenses, garage services, annual vehicle inspection agencies fee, driving teacher and vehicle ownership book, vehicle estimation, driving teacher and others registration service, vehicle plate sales and rent, vehicle parking fees, vehicle service change fee, transfer of vehicle title deed fee, registration fee for land, land plan and ownership book, renewal of plan and housing service, debt and suspension registration fee, funeral service, park service, cart and chariot service and advertising service.
- E. Other Capital Revenues** is a source of revenue in municipal category and includes sales of movable and immovable property and other capital receipts. It accounts 2.17% of total municipal revenues and have up and downward trends in its collections in study years.

4.5.4 External Assistance

External assistances are in the form of grants from bilateral and multilateral development partners. Addis Ababa city administration generates external assistance from two sources. These sources

are multilateral institution and bilateral ones. Multilateral institutions which assist the city administration includes

- International Development Association
- United Nations Children's Fund
- United Nations Fund for Population Activity and
- Bilateral assistance rose from Germany /GTZ.

From 2014/15-2018/19, as mentioned in Table 4.3 the city administration generated 318,447,863 million birrs from external assistance which accounts 0.21% of the total revenue under study period. The contributions of external assistance from multilateral and bilateral institutions decreased and fluctuate from time to time for the city administration. The declining trend of external assistance implies that the city administration tries to rely on its domestic revenue sources.

4.5.5 External Loan

Addis Ababa city administration create resources via external loans for its services and investments which require advanced technology and high amount of financing such as transportation, environment & waste management, purchase of heavy construction equipment etc. In this respect, the development and investment banks and international finance institutions seek providing long term loans to the city administration. As an example, from 2014/15 up to 2018/19 fiscal years the city administration raises 1.6% of its total revenue from multilateral loans of International Development Association /IDA/, World Bank /WB, China and France.

External loans (from a bank or other financial institutions) are an expensive form of financing the capital budget because of the high interest rates. During an interview with Addis Ababa city Bureau of Finance and Economic Development, researcher understands that the city administration uses external loans because of their nature to finance the purchase of major capital items such as roads, buildings, sewerage works and water systems.

4.6 Trends observed in the Addis Ababa city administration revenue generation

Revenue generation in Addis Ababa city administration has significantly grown in the last five years, but it is still not in line with the city's trend in level of economic activity. Aggregate revenue generated compared to original approved budgets is low and volatile. The weak revenue generation has resulted in high expenditure deviation between the budget and actual outlays.

Although expenditure deviation at city level is still high, the deviation has been decreasing in recent years.

Addis Ababa city is an important political, economic, social and commercial center of the country. These realities make possible the city's revenue collection performance better compared to other regional states of the country and have access to tax bases that are productive, and finance a significant share of its budgets from its own resources.

The city administration collects revenues from tax, non-tax, municipal sources, external assistance and external loans. During the study under the review revenue is trending upwards thanks to tax reforms and enhanced tax administration. More recent efforts to broaden the tax base and strengthen tax administration through automation, tax education and enforcement measures drove the increase in revenues on tax, non-tax and municipal sources of revenues.

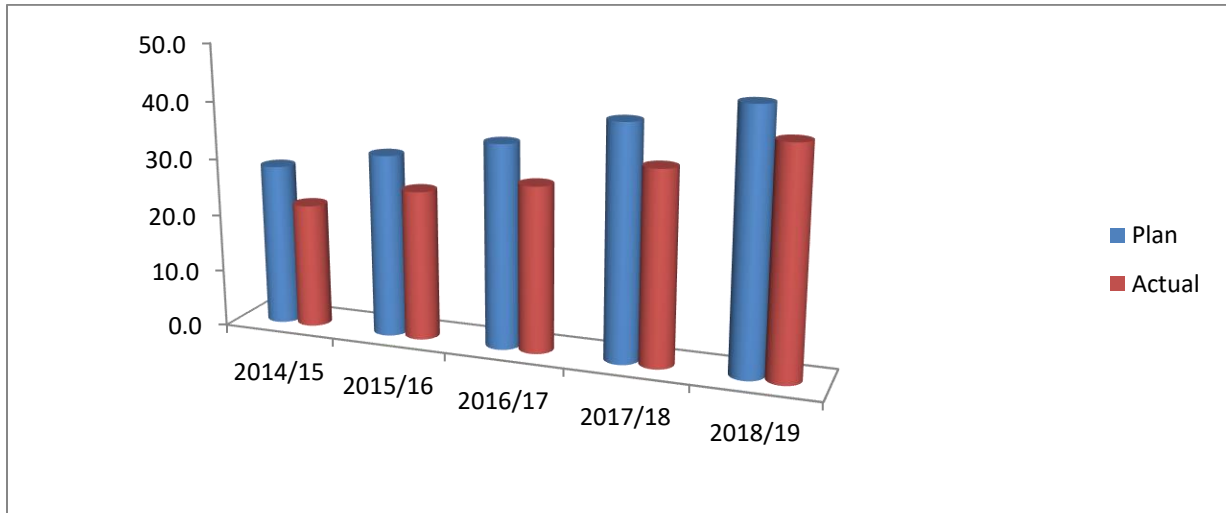
Table 4.11 Planned and Actual performance of the city's administration revenue (in billion birr)

Fiscal year	Projected Revenue	Actual Revenue	AR over PR (%)	Difference	Deficit in %	Annual growth rate of the Plan	Annual growth rate of the Actual
2014/15	28,268,421	21,761,016	76.98	6,507,404	23.02	-	-
2015/16	31,804,845	26,069,060	81.97	5,735,784	18.03	12.51	19.79
2016/17	35,400,000	28,819,144	81.41	6,580,855	18.59	11.30	10.54
2017/18	40,500,282	33,445,013	82.58	7,055,269	17.42	12.59	16.05
2018/19	44,709,550	39,196,030	87.67	5,513,520	12.33	9.41	14.67

Sources: own computation based on data obtained from Addis Ababa BoFED (2020)

The table 4.11 shows that during the study period from 2014/15-2018/19 Addis Ababa city administration projected a total of 180,683,098 billion birr to collect from different revenue sources. But the city administration collects only 149,290,263 billion birr which accounts 82.62 percent of projected revenue. The actual revenue over planned revenue grows in the study period but the city administration on average only achieves 82.12 percent of its revenue plans in study period. This implies that Revenue has been consistently over-estimated or not reached potential revenue sources.

Figure 4.4 Planned and Actual performance of Revenue generated from 2014/15-2018/19



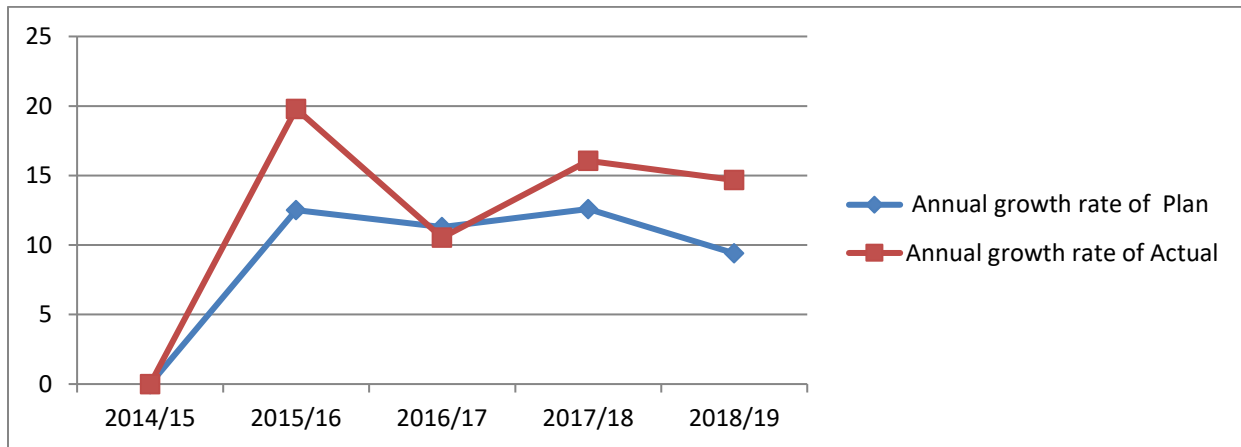
Source: Own computation based on the data obtained from Addis Ababa BoFED (2020)

With regard to growth rate of plan as shown in figure 4.5, the city administration growth rate of plan has fluctuated over study period. According to BoFED Fiscal Policy and Revenue Study Directorate Director, revenue is estimated each year by Bureau of Finance and Economic Development Planning Department in collaboration with the sub-cities and city government Revenue Authority. The revenue budget is finalized and submitted to the Council.

The plan in study period has upward trend but its growth rate fluctuates over time. In 2015/16 the plan grows with 12.51% compared with 2014/15 fiscal year. In 2016/17 period the plan grows with 11.30%, in 2017/18 it grows with 12.59% and it shows a declining trend in 2018/19 fiscal year with 9.41% growth rate.

The actual performance in study period also has an upward trend but its annual growth rate fluctuates over period under review. 2015/16 fiscal year the actual performance grows with 19.59% compared with 2014/15 actual performance. 10.54%, 16.05% and 14.67% of actual performance growth rates are registered in 2016/17, 2017/18 and 2018/19 fiscal years respectively.

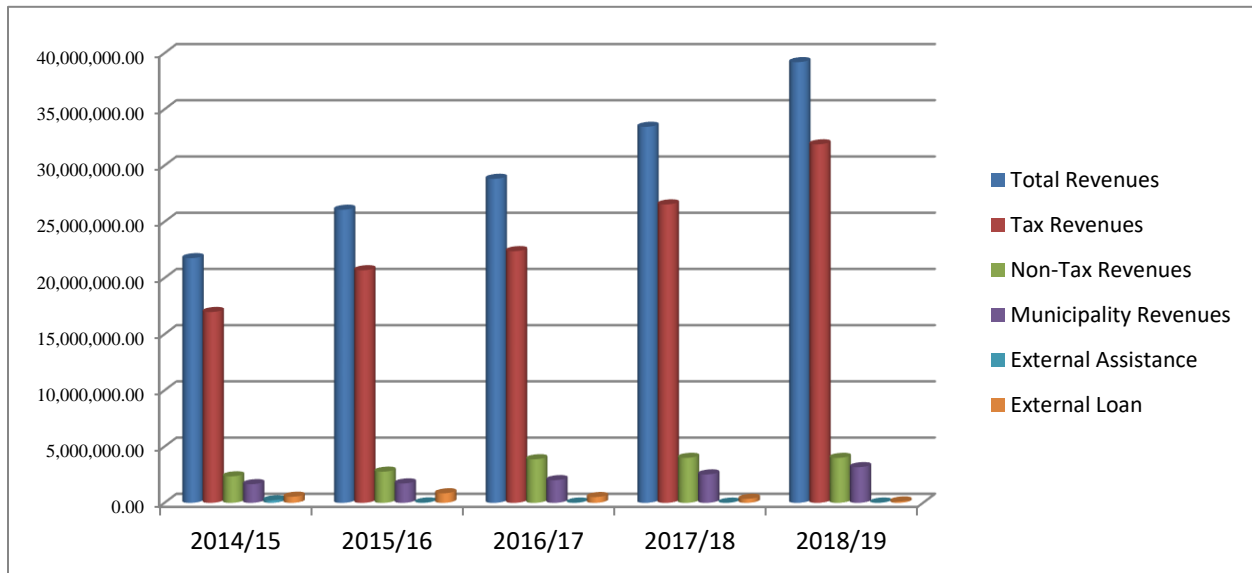
Figure 4.5 Annual growth rates of plan and actual revenue



Source: Own computation based on the data obtained from Addis Ababa BoFED(2020)

It is observed that, revenue generation performance both in amount and sources show high variation in city administration during the period under review. Increasing revenues generation is a matter of concern to the city administration because the rapid rate of urbanization brings mounting demand for funding of new and additional infrastructure, utilities, housing and poverty reduction. In contrast to the declining trend of external assistance and fluctuating trend of external loan, tax, non-tax and municipality revenues shows an upward trend.

Figure 4.6 Revenue generation trends of Addis Ababa city Administration (2014/19-2018/19)



Source: Own computation based on the data obtained from Addis Ababa BoFED(2020).

The figure 4.6 shows that tax revenues constitute the major share of the revenue collected through the 2014/15-2018/19 study period. The city administration's efforts of broadening the tax base,

awareness building, enhancing accountability and trust have born fruits. Five years data as previously discussed shows that, on average, 79.36% of the city’s administration revenue is derived from tax revenues. Tax revenue sources include direct and indirect taxes.

Direct taxes have their own components which include personal income tax, business profit tax, rental income, capital gains and other revenue sources. Direct revenue sources on average during the study period as shown in Table 4.12, accounts 68.09% of total tax revenues. Most of the revenues from direct taxes are generated from payroll tax and taxes on profits and rental income with account of 55.11%, 36.39% and 7.61% respectively.

Income taxes constitute the largest share in the income. That is understandable since taxing employees through the payroll is easier than taxing business profits. This implies room for enhancing revenues derived from the taxation of profits, rental incomes and capital gains. More effort needs to be made in raising revenues from these ‘under-performing’ revenue components. Other direct tax revenue sources which include capital gains accounts only 0.89% of total tax revenues and the decline in its contribution has been reversed from a low 0.54% and 0.53% in 2016/17 and 2017/18 respectively to 0.78 % of total direct taxes in 2018/19 fiscal year.

Table 4.12 The relative contribution of Direct and Indirect Tax revenues to the Total tax revenues of Addis Ababa city Administration

Fiscal Year	Total Tax Revenues	Direct Taxes	Indirect Taxes	DT to TTR (%)	IT to TTR (%)
2014/15	16,975,264,550	11,231,874,177	5,743,390,373	66.17	33.83
2015/16	20,687,941,976	13,835,789,583	6,852,152,393	66.88	33.12
2016/17	22,385,839,754	15,036,628,377	7,349,211,377	67.17	32.83
2017/18	26,543,039,773	18,645,084,903	7,897,954,870	70.24	29.76
2018/19	31,884,609,435	21,924,310,651	9,960,298,783	68.76	31.24
Total	118,476,695,490	80,673,687,692	37,803,007,797	68.09	46.86

Source: Own computation based on the data obtained from Addis Ababa BoFED (2020).

As shown in Table 4.12 above, Indirect taxes on average account 46.86% of total tax revenue sources during the study period. Among the major revenues, the VAT has become an important and growing source of revenue to the city administration. The city administration collects majority of its indirect taxes from VAT and it account 84.97% of total indirect taxes during the period under

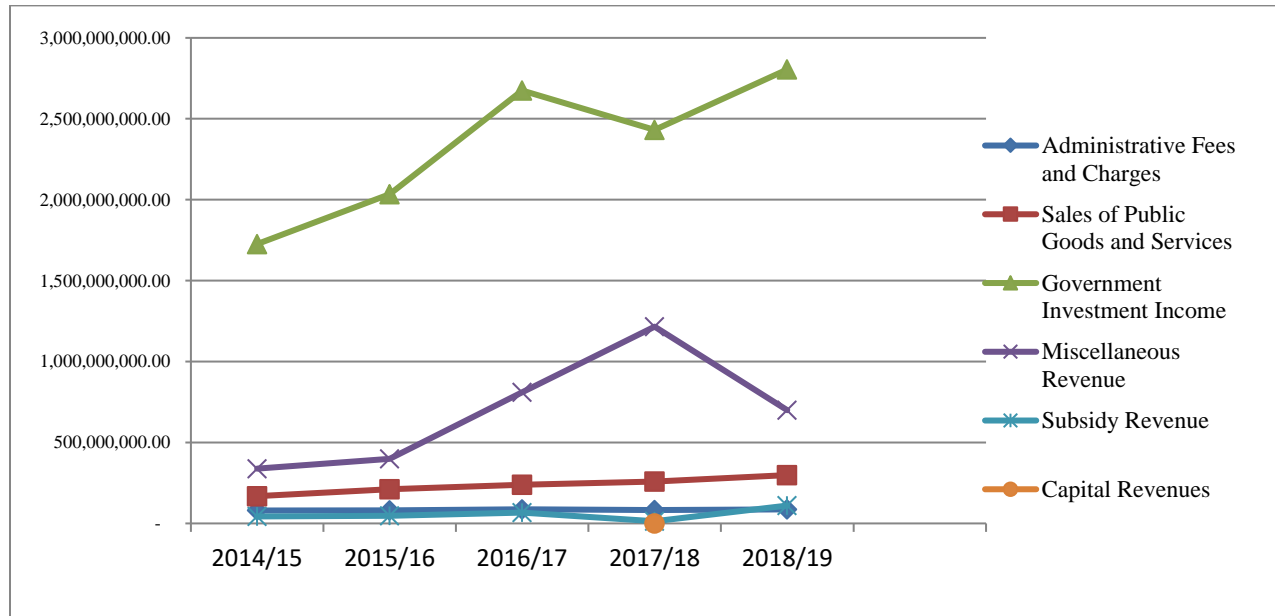
review. Various measures were applied on VAT administration and enforcement like expansion of the tax to additional products, the introduction of new electronic cash registering machines and measures helped to increase VAT revenues in study years.

According to Addis Ababa city government Revenue Authority the upward trend of tax revenues was the result of city's administration measures in strengthening tax administration through tax education, enforcement measures, automation of tax registration and related measures.

Non-tax revenue sources show an upward trend, attributed largely to government investment income and income from urban land leases in particular. Government investment income constitutes about 68.62% of the total non-tax revenue, with funds derived from urban land leases nearly all of the total government investment income. This means that the non-tax revenue is basically the income from urban land leases. But excessive reliance on this single-source income is not sustainable. Land is a limited resource in Addis Ababa while the value of leases is subject to a number of factors such as the capacity of the sub-cities to supply enough land to the market, complex political factors attached to land availability, sky rocketing urban land prices have unintended and often severe consequences for housing supply. Lastly, excessive dependence on income derived from urban land leases could jeopardize the administration's efforts towards exploring innovative ideas on generating new revenues.

The miscellaneous revenue sources accounts 20.36% of total non-tax revenue sources. The sales of goods and city services accounts about 6.91% on average over the last five years followed by administrative fees and charges (2.45%), subsidy revenue (1.65%) and capital revenues (0.0040%).

Figure 4.7 Trends of Non-tax revenue sources in Addis Ababa city Administration (2014/19-2018/19)



Source: Own computation based on the data obtained from Addis Ababa BoFED (2020).

In municipal revenue sources under the study period municipal rent revenues and other capital revenues constitute the lowest share, indicating that these are potential areas to be explored more forcefully. Sale of goods and city services and municipality tax revenue sources contributes a major share of 54.53% and 22.99 % of total municipal revenues respectively.

What is more important, however, is to look into the trend of all revenue sources shares over time. The share of tax, non-tax, municipality and other revenue sources has been increasing in their amount. But revenues share over total revenue is fluctuating over years. Especially Non tax and municipality revenue sources do not have a significant impact on city’s total revenues when compared with their potentials to be collected. If the city did not try to collect its revenues with strong institutional structure, it would have been very hard for Addis Ababa to finance its expenditure demands.

4.7 Institutional Arrangements of the city administration to utilize revenue

In 2011/12 fiscal year the city Cabinet issued Addis Ababa City Government Financial Administration Regulations No. 39/2011. This requires the Bureau of Finance and Economic Development to prepare an annual budget in accordance with the plan and a rolling macro-economic fiscal framework (MEFF).

Bureau of Finance and Economic Development is the main institution for budget preparation and execution (including treasury, internal audit and control functions). It consists of seventeen departments, called core processes (three), sub-processes (seven) and support processes (seven). The City Council approves the draft budget and the annual financial accounts. The Bureau of the City Auditor General is in charge of external audit of city entities as well as of sub-cities, woredas and city enterprises.

Sub-cities and woredas are elected bodies, have legal personality, contract in their own name, and maintain their own budgets and accounts; fiscally they are decentralized units of the City Government. The city budget, monthly accounts and annual accounts consolidate all their revenues and expenditures from the IBEX computer system, which produces monthly reports on each of the budgetary institutions. Payments are made by each BI on a zero-balance bank account that is reimbursed at the end of each day from the City Treasury. Revenue accounts are kept by revenue-receiving BIs and these are also cleared daily to the City Treasury. Payroll and procurement operations are decentralized to the BIs, and they have their own internal audit units. All are closely supervised by Bureau of Finance and Economic Development.

Block grants (untied) are made to the ten sub-cities monthly in accordance with the city budget, which is prepared according to a revenue sharing and block allocation formula based on principles of equity and encouragement of competition. The sub-cities allocate the grants to their woredas, retaining a portion for their own executive offices. The sub-cities have their own formula for horizontal distribution to the woredas, and these are not controlled by the city administration.

Bureau of Finance and Economic Development also prepares a consolidated budget for the sub-cities and an allocation of a block subsidy according to formula. The City Government may also allocate budgets for capital expenditure in particular cases. Budgets should include estimates of all expected aid, including the monetary value of aid in kind.

4.8 Trends observed in the Addis Ababa city administration revenue utilization

4.8.1 Annual approved budget versus Annual actual expenditure

During the period under the review, city administration annual approved budget and annual actual expenditure has an upward trend. In category of expenditure types in nominal terms they have an upward trend.

The Addis Ababa City administration accounts show that total primary expenditure (recurrent and capital) was consistently below approved budget over the study period. As shown in Table 4.13 under the research period, a total of 42,355,671 billion birr was occurred as a difference between annual approved budgets and annual actual expenditures. Except in 2018/19 fiscal year which was 6,611,610 billion birr, the remaining study years unutilized approved budget have upward trend. In 2014/15, 2015/16, 2016/17 and 2017/18 unutilized approved budget of the city administration was [7,493,527], [9,791,798], [7,971,941] and [10,486,795] respectively. Table 4.13 below shows approved annual budget disaggregated into capital and recurrent with that of the actual annual expenditure for the study period.

Table 4.13 Annual Capital and Recurrent Budget and Expenditure of Addis Ababa city Administration

Fiscal Year	Annual Approved Budget			Annual Actual Expenditure		
	Total	Capital	Recurrent	Total	Capital	Recurrent
2014/15	28,268,422	18,455,590	9,812,832	20,774,895	12,149,321	8,625,574
2015/16	31,804,845	20,084,755	11,720,090	22,013,047	12,332,720	9,680,327
2016/17	35,400,000	19,661,710	15,738,290	27,428,059	14,180,614	13,247,445
2017/18	40,500,282	21,179,097	19,321,185	30,013,487	13,768,861	16,244,626
2018/19	44,709,550	23,214,657	21,494,893	38,097,940	19,861,109	18,236,831
Total	180,683,099	102,595,809	78,087,290	138,327,428	72,292,625	66,034,803

Source: Own computation based on the data obtained from Addis Ababa BoFED (2020).

During the study under review, out of the city administrations total expenditure, birr 66,034,803 billion or 47.74 percent is spent on recurrent expenses, while the remaining 72,292,625 billion or 52.26 percent of the total expenditure is spent on capital expenditures.

Table 4.14 The share of Capital and Recurrent Expenditures to Total Expenditure of Addis Ababa city administration

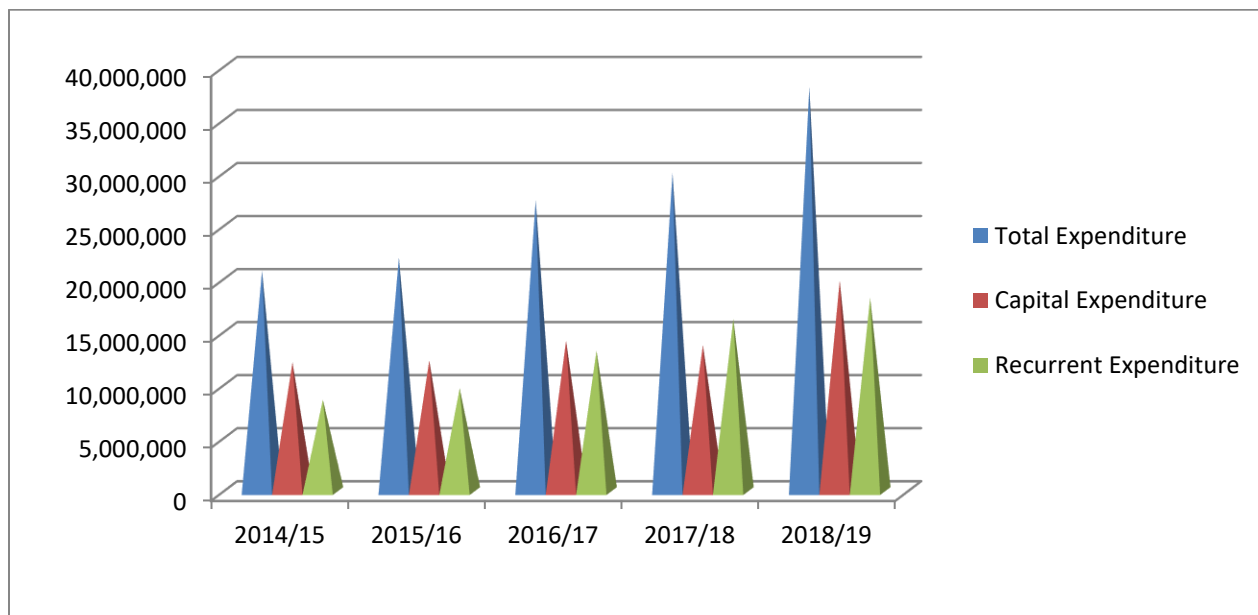
Fiscal Year	Annual Approved Budget		Annual Actual Expenditure	
	Share of Capital expenditure	Share of Recurrent expenditure	Share of Capital expenditure	Share of Recurrent expenditure

2014/15	65.29	34.71	58.48	41.52
2015/16	63.15	36.85	56.02	43.98
2016/17	55.54	44.46	51.70	48.30
2017/18	52.29	47.71	45.88	54.12
2018/19	51.92	48.08	52.13	47.87

Source: Own computation based on the data obtained from Addis Ababa BoFED (2020).

Recurrent and capital expenditures are perceived to support city growth, while capital expenditure is assumed to enhance the urban economy through its impact on long-term productivity. Investment in infrastructure and utilities is expected to yield a positive multiplier effect in the long run. Table 4.14 and Figure 4.8 show the share and pattern of both expenditure types respectively. The data, as expected, shows that capital expenditure exceeds recurrent expenditure. The huge expenditure on road construction is one manifestation of this. Although the trend is positive and justifiable from the long-term productivity enhancing infrastructure investment point of view, the city needs to seek a more sustainable way of financing its recurrent expenses. Also, over time investment in infrastructure could reach a saturation point when further investment benefits will become marginal in relation to the costs. This demands careful analysis of the true economic and social benefits vis-à-vis the costs of infrastructure investment that draws capital from the city.

Figure 4.8 The pattern of recurrent and capital expenditure types in Addis Ababa city Administration



Source: Own computation based on the data obtained from Addis Ababa BoFED (2020).

Generally, this spending pattern is consistent with the stated fiscal policy of the city administration. During the period under the review, recurrent expenditures have an upward trend while capital expenditure has declining trend, indicating that the city administration commitment and capacity to invest on city’s development programs has been declining over time.

4.8.2 Revenue and expenditure Analysis

As shown in Table 4.15 from 2014/15 up to 2018/19, Addis Ababa city administration’s total revenue surpassed its expenditure. On average under the study period percentage of revenue to expenditure reaches 109.20.

Table 4.15 The share of generated revenue to the city administration total expenditures

Fiscal Years	Revenue	Expenditure	Percentage of Revenue to Expenditure	Percentage of Expenditure to Revenue
2014/15	20,995,575	20,774,895	104.75	95.47
2015/16	25,186,778	22,013,047	118.43	84.44
2016/17	28,819,144	27,428,059	105.07	95.17
2017/18	33,445,013	30,013,487	111.43	89.74
2018/19	39,196,030	34,963,551	112.11	89.20
Total	147,642,540	135,193,039	109.20	91.56

Source: Own computation based on the data obtained from Addis Ababa BoFED (2020).

As mentioned earlier, the Addis Ababa city administration accounts show that total primary expenditure (recurrent and capital, excluding externally funded project expenditure) was consistently below budget over the study period.

During interview with the Addis Ababa Bureau of Finance and Economic Development Fiscal Policy and Revenue Study Directorate Director, the researcher understands that the city administration of Addis Ababa has a system for retaining cash for payments of capital expenditure liabilities so as to avoid squeezing the following year’s budget. From this we can conclude that, expenditure was constrained by capacity limitations and revenue was adequate to meet the reduced expenditure.

4.9 Background of respondents and Revenue administration

The following section will attempt to briefly assess the responses of the sampled tax experts, finance experts and taxpayers found within Addis Ababa city administration.

To get an insight knowledge into the respondents back ground we asked the questions about their gender, educational background, age, category of business they are working in and their respective work experiences for Addis Ababa city Administration taxpayers, Bureau of Finance and Economic Development and Revenue Authority employees are presented separately under respective types of questions.

Table 4.16 Gender category of the respondents

Category of the respondents		Frequency	Percent
Taxpayers	Male	83	69
	Female	37	31
	Total	120	100
Tax experts	Male	19	63
	Female	11	37
	Total	30	100
Finance experts	Male	22	73
	Female	8	27
	Total	30	100

From the above table we can see that 69% of the respondents represent male gender and 31% of the respondents have female gender from the total number of taxpayer's respondents. In tax experts' respondents have 63% male and 37% are female respondents. While in finance experts' respondents have 73% male and 27% are female respondents.

From this we can conclude that large percent of the respondents are male under the three groups of respondents.

Table 4.17 Age category of the respondents

Category of the respondents		Frequency	Percent
Taxpayers'	Below 20 years	1	0.83
	20 to 30 years	3	2.50

	31 to 40 years	18	15
	41 to 50 years	63	52.5
	Over 51 years	35	29.16
	Total	120	100
Tax experts	20 to 30 years	3	10
	31 to 40 years	6	20
	41 to 50 years	11	37
	Over 51 years	10	33
	Total	30	100
Finance experts	20 to 30 years	7	24
	31 to 40 years	13	43
	41 to 50 years	6	20
	Over 51 years	4	13
	Total	30	100

From the above table we can distinguish that 0.83% of the taxpayer respondents' age was below 20 years, 20 to 30 years accounts 2.5% of the taxpayer respondents', 31 to 40 years of age accounts 15%, from 41 to 50 years and over 51 years of respondents age accounts 52.5% and 29.16% age of the taxpayers respondents respectively.

Whereas 10% of the tax expert respondents' age was from 20 to 30 years, 20% of the tax expert respondents' age was from 31 to 40 and 37% employee respondents' age was from 41 to 50 years. 33% of the tax expert respondents' age was from over 51 years.

In finance experts' category, 24% of the tax expert respondents' age was from 20 to 30 years, 43% of the tax expert respondents' age was from 31 to 40 and 20% employee respondents' age was from 41 to 50 years. 13% of the tax expert respondents' age was from over 51 years.

From these results we can conclude that large number of tax payers and tax experts' respondents' age was from 41 to 50 years while large number of finance experts' respondents' age was from 31 to 40 years. So, finance experts' respondents are younger than the tax payers and experts. Even though there was no direct relation between age and research questions as man getting older the ability to evaluate things will increase. So, respondents' response may be more valuable if their revenue generation and utilization awareness is good.

Table 4.18 Educational background of the respondents

Category of the respondents		Frequency	Percent
Tax payers	Below Diploma	73	60.83
	Diploma	29	24.16
	Degree	16	13.33
	Masters and above	2	1.66
	Total	120	100
Tax experts	Below Diploma	-	-
	Diploma	6	20
	Degree	19	63.33
	Masters and above	5	16.66
	Total	120	100
Finance experts	Below Diploma	-	-
	Diploma	4	13.33
	Degree	20	66.66
	Masters and above	6	20
	Total	30	100

From the above table we can differentiate that 60.83% of the tax payer respondents' educational back ground was below diploma, 24.16% of the tax payers have diploma, 13.33% of the tax payers have degree and 1.33% of the tax payers have an educational back ground of masters and above. 20% of tax experts have diploma, 63.33% of an employee have degree educational back ground and the remaining 16.66% of an employee have an educational back ground of masters and above. While 13.33% of finance experts have diploma, 66.66% of an employee have degree educational back ground and the remaining 20% of an employee have an educational back ground of masters and above.

From these results the majority of the tax payers have below diploma educational background. Majority of tax and finance experts of respondents are holders of degree, these will have positive impact on the responses from two groups of respondents since they can understand easily the questionnaires and fill carefully which improve the research findings.

Table 4.19 Work experience of the respondents in the organization and business

Category of the respondents		Frequency	Percent
Taxpayers	Less than five years	9	7.50
	Five to ten years	51	42.50
	Over ten years	60	50
	Total	120	100
Tax experts	Less than five years	7	23.33
	Five to ten years	17	56.66
	Over ten years	6	20
	Total	30	100
Finance experts	Less than five years	5	16.66
	Five to ten years	12	40
	Over ten years	13	43.33
	Total	30	100

From the above table presented about work experience of the respondents, 7.5% of the tax payers are having less than five year, 42.5% have an experience of five to ten years, and 50% have an experience of over ten years in their businesses. 23.33% of tax experts are having less than five years work experience, 56.66% of tax experts have an experience of five to ten years and 20% of tax experts have experience of over ten years in their organizations. While 16.66% of finance experts are having less than five years work experience, 40% of employees have an experience of five to ten years. 43.33% and finance experts have experience of over ten years in their organizations.

From the result we can conclude that large numbers of tax payers, tax experts as well as finance experts have an experience of over five years in their businesses and organizations.

Table 4.20 Category of business for tax payers

Business Category	Frequency	Percent
Category A	46	38.33
Category B	42	35
Category C	32	26.66

Total	120	100
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From the above table we see the result of business category of the tax payers in our study to get information about category of the business and their challenges. Accordingly, 38.33% of the tax payer's business category was Category A, 35% was Category B and 26.66 % was Category C. From the result we can conclude that large numbers of respondents are working in Category A business. Our sample covers all categories found in Ethiopia business which help the researcher to get challenges related to the business category accordingly have positive impact on the findings.

Table 4.21 Tax experts' responses on revenue generation and related issues

Tax experts' responses on revenue generation and related issues	Strongly Disagree		Disagree		Agree		Strongly Agree		Total	
	No	%	No	%	No	%	No	%	No	%
The city administration revenue collectors are motivated enough to collect the revenue	2	6.6	15	50	8	26.6	5	16.6	30	100
The city administration has strong institutional and human resource base to generate revenue	11	36.6	14	46.6	2	6.6	3	10	30	100
The management provides the needed logistics to revenue collectors for effective revenue generation	4	13.3	19	63.3	6	20	1	3.3	30	100
The current condition (reality) of Addis Ababa City Administration, tax assessment and implementation are comfortable for Revenue Authority	3	10	1	3.33	12	40	14	46.6	30	100
Addis Ababa city Revenue Authority collects sufficient tax revenue from tax payers	16	53.3	11	36.6	3	10	-	-	30	100
The Revenue Authority of the city administration treats tax payers fairly and equally	-	-	2	6.66	13	43.3	15	50	30	100

The employees of Addis Ababa city Administration Revenue Authority are capable enough by in number, ability and ethics to make the tax system transparent, equitable and modern	9	30	8	26.6	6	20	7	23.3	30	100
Addis Ababa Revenue Authority gives sufficient awareness creation training (tax education) to tax experts	-	-	2	6.66	18	60	10	33.3	30	100

From the above table we can see that 6.66% of the tax experts strongly disagree with the city administration revenue collectors as motivated enough to collect the revenue. 50% of them disagree with it. Again 26.66% of the respondents said that they agree with the idea. In addition, 16.66% of them said they strongly agree with the city administration revenue collectors as motivated enough to collect the revenue. From this result we can conclude that large percent of the tax experts disagree with considering the city administration revenue collectors as motivated enough to collect the revenue.

To identify the availability of strong institutional and human resource base to generate revenue if not it is hinder the tax experts and taken as a challenge to revenue generation, 36.66% strongly disagree with the availability of strong institutional and human resource base to generate revenue. 46.66% of them disagree with it. Again 6.66% of the respondents said that they agree with the idea. In addition, 10% of them said they strongly agree with the availability of strong institutional and human resource base to generate revenue in city's administration. From this result we can conclude that large percent of the tax experts with 36.66% and 46.66% disagree with the availability of strong institutional and human resource base to generate revenue in city's administration.

To identify the role of Revenue Authority management in providing the needed logistics to revenue collectors for effective revenue generation, 13.33% tax experts strongly disagree and 63.33% disagree with the support of revenue authority management in providing the needed logistics to revenue collectors for effective revenue generation. Again 20% of the respondents said that they agree with the idea. In addition, 3.33% of them said they strongly agree with the availability of needed logistics to revenue collectors for effective revenue generation by Revenue Authority management. From this result we can conclude that large percent of the tax experts disagree with

the availability of needed logistics to revenue collectors for effective revenue generation by Revenue Authority management.

To identify whether the current condition of tax assessment and implementation is comfortable for Revenue Authority tax experts, 10% tax experts strongly disagree and 3.33% disagree with the comfortably of tax assessment and implementation. Again 40% of the respondents said that they agree with the idea. In addition, 46.66% of them said they strongly agree with the comfortably of tax assessment and implementation in revenue authority. From this result we can conclude that large percent of the tax experts agree with the comfortably of tax assessment and implementation in revenue authority.

To identify the perception of tax experts towards sufficiency of collected revenue from tax payers, 53.33% of tax experts strongly disagree and 36.66% disagree with the sufficiency of collected revenue from tax payers. Again 10% of the respondents said that they agree towards sufficiency of collected revenue from tax payers. From this result we can conclude that large percent of the tax experts strongly disagree with the sufficiency of collected revenue from tax payers to the city administration.

To get information on fair and equal treatment of tax payers by revenue authority during service delivery, 6.66% of tax experts disagree with fair and equal treatment of tax payers and 43.33% tax experts agree with the fair and equal treatment of tax payers by revenue authority during service delivery. Again 50% of the respondents said that they strongly agree towards fair and equal treatment of tax payers by revenue authority during service delivery. From this result we can conclude that large percent of the tax experts strongly agree with the fair and equal treatment of tax payers by revenue authority during service delivery.

To get information on whether tax experts are capable enough by in number, ability and ethics to make the tax system transparent, equitable and modern, 30% of tax experts strongly disagree with tax experts' capability in number, ability and ethics to make the tax system transparent, equitable and modern in revenue authority, 26.66% of tax experts disagree with the idea. Again 20% of the respondents said that they agree with the idea. In addition, 23.33% of them said they strongly agree with the capability of tax experts by in number, ability and ethics to make the tax system transparent, equitable and modern. From this result we can conclude that large percent of the tax experts disagree with capability of tax experts by in number, ability and ethics to make the tax system transparent, equitable and modern.

In the same table, the research forwarded the statement to tax experts to know their agreement or disagreement on the office efforts on awareness creation program (tax education) to tax payers. About 6.66% of tax experts disagree with getting sufficient awareness creation training in revenue authority. 60% of the respondents agree and said that they got sufficient awareness creation training (tax education). In addition, 33.33% of them said they strongly agree with getting sufficient awareness creation training (tax education) by revenue authority. From this result we can conclude that large percent of the tax experts agree with getting sufficient awareness creation training (tax education).

Table 4.22 Response of the taxpayers regarding their reason of paying taxes to the city administration

S. N	Response	Frequency	percent
1	You know it is the right thing to do	11	9
2	You fear being penalized by the city administration	53	44
3	By paying your account you are helping the city administration to provide better services to the people	39	33
4	There is no opportunity to evade	17	14

As it is summarized above, most respondents (44%) replied that they pay tax because they fear being penalized by the city administration. However, significant number of respondents (33%) also replied that they pay taxes by paying their account by intention of helping the city administration to provide better services to the people. Hence, from this result it is possible to conclude that there is willingness to be abided by the tax rules and concepts in some taxpayers. Though not that much significant (14%), some respondents also replied that they pay taxes because they don't have opportunities to evade. This response is also an indication of respondents' tendencies to engage in tax evasion activities. Lastly, very few respondents (9%) pay taxes as a right thing to do.

Table 4.23 Attitude of taxpayers toward taxation and its administration

	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
	N ₂	%	N ₂	%	N ₂	%	N ₂	%	N ₂	%

The tax levied on you is based on the ability to pay principles	63	52.5	29	24.16	7	5.83	19	15.83	12	10
The time limit given to tax payers to pay their taxes is sufficient enough	22	18.33	17	14.16	11	9.16	49	40.83	21	17.5
The city administration quickly responds to the dissatisfactions of tax payers	59	49.1	31	25.83	-	-	13	10.83	17	14.16
The city administration quickly imposes legal measures on wrong doers of its employees in revenue generation process	64	53.3	28	23.33	3	2.50	15	12.50	10	8.33
There are many illegal traders who do not pay taxes to the tax authority. Do you want to continue this trend?	79	66	17	14	16	13	4	3.33	3	2.5
City's administration gives enough protection from illegal traders' activities	81	67.5	22	18.33	1	0.83	11	9.16	5	4.16
Revenue generation system is exposed for corruption and misuse	7	5.83	13	10.83	17	14.16	22	18.33	61	50.83
Corrupted officials, tax collectors and tax payers usually are not charged and punished for their conduct	12	10	30	25	12	10	17	14.16	49	40.83
Collection of taxes at woreda and Sub cities level in decentralized form is the best option for the tax payers	-	-	6	5	14	11.66	53	44.16	47	39.16

From the above table, about 76.66% of taxpayers indicated that they disagree or strongly disagree with the statement that the tax levied on taxpayers is based on the ability to pay principles while 25.83% agree and strongly agree and there are 5.83% neutral respondents for the above statement. From the above discussion we conclude that, taxpayers argued that tax levied on them is not based on the ability to pay principles.

About 32.49% of taxpayers indicated that they disagree or strongly disagree with the statement that the time limit given to taxpayers to their taxes is sufficient enough. While 58.33% of taxpayers agree and strongly agree with the statement and there are 9.16% neutral respondents for the above statement. From the above discussion we conclude that, taxpayers argued that the time limit given to taxpayers to pay their taxes is sufficient enough. While 58.33% of taxpayers agree and strongly agree with the statement

About 75% of taxpayers indicated that they disagree or strongly disagree with the statement that the city administration quickly responds to the dissatisfactions of taxpayers. While 25% of taxpayers agree and strongly agree with the statement. From the above discussion we conclude that, the city administration is reluctant to respond the dissatisfaction of the city's taxpayers.

Similarly, about 76.66% of taxpayers indicated that they disagree or strongly disagree with the statement that the city administration quickly imposes legal measures on wrongdoers of its employees in revenue generation process. While 20.83% of taxpayers agree and strongly agree with the statement and there are 2.5% neutral respondents for the above statement. From the above discussion we conclude that, taxpayers argued that the city administration does not impose legal measures on wrongdoer employees in revenue generation process.

About 79.99% of taxpayers indicated that they disagree or strongly disagree with the continuity of the trend of illegal traders who do not pay taxes to the city administration. While 5.83% of taxpayers agree and strongly agree with the continuity of the trend of illegal traders who do not pay taxes to the city administration and there are 13.33% neutral respondents for the above statement. From the above discussion we conclude that, taxpayers argued that the trend of illegal traders not paying taxes to the city administration should be stopped and controlled. Some respondents argue with the trend continuity of illegal trade which shows the intention of taxpayers. About 85.83% of taxpayers indicated that they disagree or strongly disagree with the city's administration protection of legal taxpayers from illegal traders' activities. While 13.32% of taxpayers agree and strongly agree with getting enough protection from city administration from

illegal traders' activities and there are 0.83% neutral respondents for the above statement. From the above discussion we conclude that city administration is does give enough protection for tax payers from illegal trade activities.

About 69.16% of taxpayers indicated that they agree or strongly agree with the statement that revenue generation system is exposed for corruption and misuse. While 16.66% of taxpayers disagree and strongly disagree with the statement and there are 14.16% neutral respondents for the statement. From the above discussion we conclude that city administration revenue generation system is exposed for corruption and misuse.

About 54.99% of taxpayers indicated that they agree or strongly agree with the statement that corrupted officials, tax collectors and tax payers usually are not charged and punished for their conduct. While 35% of taxpayers disagree and strongly disagree with the statement and there are 10% neutral respondents for the statement.

From the above discussion we conclude that city administration usually not charged and punished corrupted officials, tax collectors and tax payers for their misconduct.

About 83.32% of taxpayers indicated that they agree or strongly agree with the statement that collection of taxes at woreda and Sub cities level in decentralized form is the best option for the tax payers. While 5% of taxpayers disagree with the statement and there are 11.66% neutral respondents for the statement. From the above discussion we conclude that city administration woreda and Sub cities level revenue generation in a decentralized is best option and comfortable way for service delivery.

Table 4.24 Evaluation of the Revenue Authority by respondents

Issues	Excellent		Very good		Good		Poor	
	N _o	%	N _o	%	N _o	%	N _o	%
Periodic training about tax and related issues	20	17	24	20	33	28	46	38
Honesty of collectors	12	10	30	25	41	34	37	31
Impartiality of assessment committees	23	19	26	22	18	15	53	44
Timely response of grievance hearing Committees	6	5	11	9	35	29	68	57
Treatment of taxpayers with due respect	18	15	26	22	29	24	47	39

From the table it is observed that the respondents rated periodic training about tax and related issues by the tax authority as excellent (17%), very good (20%), good (28%), and poor (38%). Regarding honesty of collectors, they responded excellent (10%), very good (25%), good (34%), and poor (31%). Similarly, they rated the impartiality of assessment committees as an excellent (19%), very good (22%), good (18%) and poor (44%). On the other hand, concerning timely response of grievance hearing Committees, they said excellent (5%), very good (9%), good (35%) and poor (57%) and concerning treatment of taxpayers with due respect, they said excellent (15%), very good (22%), good (24%) and poor (39%).

From the table it is clear that the majority of the respondents rated the honesty of collectors as good and the periodic training about tax and related issues, impartiality of assessment committees, timely response of grievance hearing committees and treatment of taxpayers with due respect as poor. In all the parameters most of the respondents rated the authority's effort as poor and below that. This clearly shows the revenue authority is not effective and not providing satisfying service for taxpayers.

4.17 Existing challenges surrounding the efficiency of city administration revenue generation and utilization

The researcher sought to find out the main problems that are associated with the revenue generation and utilization processes of Addis Ababa city administration.

4.17.1 Existing challenges surrounding the efficiency of city administration revenue generation

4.17.1.1 Poor institutional capacity

The term poor institutional capacity refers to the shortage of trained personnel to assess and collect revenue that the city administration can obtain from different sources. It is also a reference to the city's obsolescent administrative and financial system that is notorious for its inefficiency, inflexibility and time-consuming features. Added to this is the fact that tax collectors lack integrity and can be easily corrupted to reduce taxes or waive the same. All these problems erode the city's tax base.

As discussed earlier in Addis Ababa city administration there is a shortage of well trained and qualified personnel which supposed to serve as tool for generation of revenues at the city

administration, even the few available are not properly trained in efficient budgetary and financial management systems. Also, most of the city administrations revenue authority offices are short staffed to carry out their duties. The revenue generation capacity is inadequate at 63.03% that is to say 5,230 members of staff out of the approved structure of 8,298 members. The infrastructural capacity too is inadequate. The local revenue collection methods are also in inadequate.

In relation to institutional capacity, several factors are influencing city administrations revenue generation. The study established that institutional capacity influences Addis Ababa city administrations revenue generation negatively. Institutional capacity focused on: human resource capacity, financial capacity, and infrastructural capacity and revenue collection methods. During an interview with Addis Ababa city government revenue authority human resource management and development directorate director, researcher understands that most of Revenue Authority grievances from taxpayers emanates in relation to human resource capacity. Tax experts have unable to clarify tax laws, unable to provide enough information and taxpayers frequently raised punctuality issues.

4.17.1.2 Inadequate capacity for revenue generation

One of the acute problems that the city administration is facing is its inability to collect revenue in full arid on time. Over the past years, the city administration has invariably failed in collecting the full amount of the city's revenue. This has proved to be a major handicap to undertake badly needed socio-economic development in the city.

4.17.1.3 Underutilized revenue potential

One of the current challenges of Addis Ababa city administrations revenue generation is its failure to fully utilize its revenue potential. Due to the city's share in country trade the city administration should be able to collect more taxes than it has been able to accomplish so far. During interview with Addis Ababa city government revenue authority Tax Law Enforcement Division experts in the area justify that there are many businesses that are not in the tax system. "The city tax authority has failed to bring thousands of businesses into the tax system," they said. "There is also no comprehensive reform or initiative from the Authority in bringing untaxed businesses on board. "For the periods under study, the Authority targets on average to collect 26.64 billion Br in taxes annually. According to experts "There is a potential of collecting between 50 billion and 80-billion-birr revenue in the city," said the expert. "Thus, the city needs to work on bringing more businesses into the tax system."

4.17.1.4 Absence of property taxes

Concerning property taxes, it is still at a rudimentary level since there is no valuation process, procedure manuals and use of information technology for the assessment of land as well as roof (building) taxes.

Due to 1974 nationalization measure city administration is a major immovable property owner. Since then, no taxes could be collected on a significant chunk of real estate owned by the government. There are institutional and political constraints that have prevented Addis Ababa from deriving revenue from real estate property. These relate to national policy dealing with acquisition and ownership of land in the country. First, it is government policy in Ethiopia that individuals can secure urban land only through a lease system. Such land is not subject to sale, inheritance and cannot be given as collateral. Annual taxes can be accessed on the building and house on the land. This will inevitably reduce the amount of revenue the city should be able to collect.

The second explanation for inadequate property taxes is institutional. There are four land owners in the city of Addis Ababa. These are the government whose representatives are the Agency for the Administration of Rented Houses (AARH) and Kebeles, the Ethiopian Orthodox Church, the Ethiopian Islamic Affairs Council and private individuals. The central government is the biggest landowner accounting for 40 per cent of the buildings and rented houses in the city. At present, the city administration receives no property taxes on such urban property owned by the state. It is not clear whether the two religious organizations pay taxes either. Only individual owners, which account for nearly 30 per cent of the housing stock in the city, are obliged by law to pay building taxes to the city of Addis Ababa. This situation has meant that Addis Ababa and all towns and municipalities throughout the country earn substantially much less from property tax than they should.

Generally, the absence of a clearly defined status and jurisdiction has constrained the city's authority to raise sufficient revenue for development.

4.17.1.5 Corruption

During an interview with Addis Ababa city government revenue authority human resource management and development directorate director, researcher understands that in 2018/19 fiscal year bureau has witnessed 86 alleged cases of corruption on tax experts. In order to reduce such kind of corruption cases revenue authority took different kind of measures such as salary punishment, salary and level decrement and farewell from job.

4.10.1.5 Tax Evasion

In an exclusive interview with Addis Ababa city government Revenue Authority said that full and partial tax evasion mainly emanate from the counterfeit invoices, manipulations on cash register machines (CRMs), fake invoices and unauthorized cash register machines and unlimited cash transactions have become the major challenges in the city's revenue generation process.

One of the major challenges with taxpayers in Addis Ababa city administration in relation with VAT invoice is that though it is common to see everywhere the text "*Do not pay if a receipt is not issued*", practically transactions are held without invoice. In an interview with the tax operation officials, they admit the existence of the problem and held that the bureau uses its own surveillance system, most often sending investigators to the business vicinity, and trying to control transactions without VAT. According to the officials, if the goods sold without VAT are discovered, they will be seized and, administrative and criminal measures will be taken. Despite the alleged measures, there is rampant practice of not issuing VAT invoice during transactions. This means that the tax collected by taxpayers is not paid to the tax authority and the normal tax operation will be compromised, including the refund system.

The other challenge identified during interview is that, during transactions, buyers are given the option whether they opt for transaction with VAT or not; and if they choose the latter, VAT will not be collected and receipt will not be issued. Most often, the taxpayers covertly agree with the purchaser and if the latter consents, the transaction will be effected without VAT. In order to solve such kind of challenges the city administration uses secrete agents and investigators who will monitor and control the illegal activities. However, despite the fact that such agents and investigators work is not regular, the tax authority has not assessed to what extent it managed to break the practice and maintain order. The practice on the ground reveals, however, that the practice is intensified than lessening. One can easily appreciate these observing taxpayers to deal with every customer on the matter. It indicates that the taxpayers noticed the inefficiency of the controlling and monitoring mechanism set by the authority.

4.10.1.6 Lack of Corporate taxes

Addis Ababa city administration hosts and serves most of corporate companies in the country. But the city administration does not receive profit, excise and turnover taxes from corporate companies. But regions share these revenues with the federal government based on the provision

of the federal constitution. The Fiscal Policy and Revenue study Directorate Director of BoEFD said that the city administration has been claiming for sharing these revenue sources. But the federal government has neglected it by arguing that the city has been collecting revenues from other sources that should have been used by the federal government. For instance, taxes from rent and employment income from private limited companies and employment income tax from non-government organization belong to federal government, but the federal government allows the city to collect these revenues. Hence, this advantage of the city would compensate the lack of corporate taxes. Third, although property tax constitutes the major revenue source for large urban areas like Addis Ababa, it is relatively insignificant mainly due to outdated and inefficient property registration and valuation system of the city administration. Finally, Article 52(5) states that the city would receive value added tax (VAT) collected by the federal government. But, according to the Head of Revenue Agency, VAT does not belong to the category of “shared tax” since it is the federal government that determines the rate and base of VAT throughout the Country.

On the whole, Addis Ababa faces complex governance and institutional problems which have to be addressed as a matter of urgency. The revenue generation and utilization challenges are manifestations of a deeply flawed urban governance and leadership structure.

4.10.1.7 Weak participation of important stakeholders

The stakeholders are the ultimate beneficiaries of development that arises when the city made improvements. In revenue generation and utilization process in Addis Ababa City Administration there are different stakeholders such as Trade and industry, police commission, courts etc. As data obtained in the field work, Revenue Authority did not get enough cooperation from stakeholders in controlling illegal trade and settling legal issues and grievances raised by taxpayers. Revenue Authority tried to utilize existing structures and processes to engage stakeholders is to be encouraged, as this may provide opportunities for issues to be raised before they develop into more significant grievances.

In addition to above challenges tax experts were asked to rate the items given in the questionnaire according to how the items would influence their efforts of revenue generation in Addis Ababa city administration.

Table 4.25 Challenges in revenue generation process and their influence on taxexperts' efforts

No.	Challenges in revenue generation process	Does not affect		Less strongly affect		Neutral		Strongly affect		Very strongly affect	
		No	%	No	%	No	%	No	%	No	%
1	Lack of the autonomy to establish tax base, rate structure, and enforcement procedures	11	36	8	27	2	7	3	10	6	20
2	Non utilization of alternative revenue sources and absence of transfers	1	3.3	1	3.3	3	10	6	20	19	63
3	Lack of skilled and motivated personnel in the tax administration system	3	10	2	6.6	-	-	8	26.6	17	56.6
4	Low charges and fees for utilities	3	10	2	7	2	7	9	30	14	47
5	City's huge Informal sector (non-licensed trade) and poor tax-paying culture	-	-	2	7	2	7	22	73	4	13
6	Political pressure to relax on revenue collection	7	23	3	10	3	10	4	13	13	43
7	Lack of adequate information on taxpayers	4	13	6	20	6	20	5	17	9	30

From the above table, about 36% of tax experts believe that lack of the autonomy to establish tax base, rate structure, and enforcement procedures in Addis Ababa city administration does not affect revenue generation process. While 27% of tax experts believe that lack of the autonomy to establish tax base, rate structure, and enforcement procedures less strongly affect revenue generation process in Addis Ababa city administration and there are 7% neutral respondents for the above statement. But 10% of tax experts believed that the above statement strongly affects revenue generation process and 20% of tax experts believed that lack of the autonomy to establish tax base, rate structure, and enforcement procedures very strongly affecting revenue generation

process of Addis Ababa city Administration. From the above discussion we conclude that, tax experts argued that currently lack of the autonomy to establish tax base, rate structure, and enforcement procedures does not affect revenue generation process in Addis Ababa city administration.

With regard to non-utilization of alternative revenue sources and absence of transfers, about 3.3% of tax experts believe that it does not affect revenue generation process. 3.33% of tax experts also believe that the above statement less strongly affects revenue generation process of Addis Ababa city administration. 10% of respondents remain neutral. But 63% of tax experts believe that non-utilization of alternative revenue sources and absence of transfers very strongly affecting revenue generation system of city administration. While 20% of tax experts believe that the above statement strongly affects revenue generation process. From the above discussion we conclude that, Addis Ababa city administration revenue generation process is very strongly affected by non-utilization of alternative revenue sources and absence of transfers.

About 10% of tax experts believe that the lack of skilled and motivated personnel in the tax administration system does not affect revenue generation process. While 6.66% of respondents, believe that the above statement less strongly affecting revenue generation process of city administration. But 26.66% of tax experts believe that the lack of skilled and motivated personnel in the tax administration system strongly affecting revenue generation process and 56.66% of respondents believe that the lack of skilled and motivated personnel in the tax administration system very strongly affecting revenue generation process of city administration. From the above discussion we conclude that, Addis Ababa city administration revenue generation process is very strongly affected by lack of skilled and motivated personnel in the tax administration system.

About 10% of respondents believe that low charge and fees for utilities does not affect city's revenue generation process. 7% of tax experts believe that the above statement less strongly affects city's revenue generation process. 7% of respondents remain neutral. But 30% of experts believe that low charge and fees for utilities strongly affecting revenue generation process of city administration. 47% of tax experts believe that low charge and fees for utilities very strongly affecting revenue generation process of Addis Ababa city administration. From the above discussion we conclude that, Addis Ababa city administration revenue generation process is very strongly affected by low charge and fees for utilities.

With regard to city's huge informal sector (non- licensed trade) and poor tax-paying culture, 7% of tax experts believe that the city huge informal sector (non- licensed trade) and poor tax-paying culture less strongly affects revenue generation process. 7% of respondents remains neutral. But 73% of tax experts believe that it strongly affects revenue generation process of city administration. 13% of tax experts believe that the city huge informal sector (non- licensed trade) and poor tax-paying culture very strongly affects revenue generation process. From the above discussion we conclude that, Addis Ababa city administration revenue generation process is strongly affected by city's huge informal sector (non- licensed trade) and poor tax-paying culture. With regard to political pressure to relax on revenue collection, 23% of tax experts believe that it does not affect revenue generation process. While 10% of respondents believe that it less strongly affects revenue generation process. Also 10% of respondents remains neutral. But 13% of respondents believe that political pressure to relax on revenue collection strongly affects revenue generation process. 43% of tax experts also believe that it very strongly affects revenue generation efforts of city administration. From the above discussion we conclude that, Addis Ababa city administration revenue generation process is strongly affected by political pressure to relax on revenue collection.

With regard to lack of adequate information on taxpayers, 13% of tax experts believe that it does not affect revenue generation process. 20% of tax experts also believe that it less strongly affects revenue generation process. 20% of respondents remain neutral. But 17% of tax experts believe that the lack of adequate information on taxpayers strongly affects city's revenue generation process. 30% of tax experts also believe that it very strongly affects revenue city's revenue generation process. From the above discussion we conclude that, Addis Ababa city administration revenue generation process is very strongly affected by lack of adequate information on taxpayers.

4.17.2 Existing challenges surrounding the efficiency of city administration revenue utilization

The researcher sought to find out the main challenges that are associated with the revenue utilization processes and finance experts were asked to rate the items given in the questionnaire according to how the items would influence their efforts of revenue utilization in Addis Ababa city administration.

Table 4.26 challenges that are associated with the revenue utilization processes

No.	Challenges in revenue utilization process	Does not affect		Less strongly affect		Neutral		Strongly affect		Very strongly affect	
		No	%	No	%	No	%	No	%	No	%
1	Lack of skilled and motivated personnel in the revenue utilization system	4	13	4	13	1	3	7	24	14	47
2	Absence of strong and continuous monitoring and evaluation on the implementation of the revenue	1	3	2	7	3	10	13	43	11	37
3	Insufficiency in training	4	13	2	7	2	7	10	33	12	40
4	Lack effective infrastructural requirement that supports effective implementation of the program	-	-	6	20	-	-	8	27	16	53

As indicated in the above table 47% of the finance experts rated lack of skilled and motivated personnel in the revenue utilization system to be very strongly affecting. 24% of the finance experts rated lack of skilled and motivated personnel in the revenue utilization system to be strongly affecting. 3% of respondents remain neutral with the idea. 26% of tax experts rated lack of skilled and motivated personnel in the revenue utilization system to be does not affect and less strongly affecting cumulatively. From the above discussion we conclude that, finance experts argued that lack of skilled and motivated personnel was strongly affecting their revenue utilization system.

About 37% of finance experts believe that the absence of strong and continuous monitoring and evaluation on the implementation of the revenue very strongly affecting revenue utilization system. While 33% of finance experts believe that the statement strongly affecting revenue utilization system and there are 10% neutral respondents for the above statement. 7% of finance experts believe that the statement less strongly affecting revenue utilization system and 3% of finance believe the statement does not affect revenue utilization system. From the above discussion we conclude that, absence of strong and continuous monitoring and evaluation on the implementation of the revenue strongly affecting revenue utilization system.

About 40% of finance experts believe that the insufficiency in training very strongly affecting revenue utilization system. While 43% of finance experts believe that the statement strongly

affecting revenue utilization system and there are 7% neutral respondents for the above statement. 7% of finance experts believe that the statement less strongly affecting revenue utilization system and 13% of finance believe the statement does not affect revenue utilization system. From the above discussion we conclude that, insufficiency in training strongly affecting revenue utilization system.

About 53% of finance experts believe that the lack of effective infrastructural requirement that supports effective implementation of the program very strongly affecting revenue utilization system. While 27% of finance experts believe that the statement strongly affecting revenue utilization system and there are 20% respondents who believe that the above statement less strongly affecting revenue utilization system. From the above discussion we conclude that, the lack of effective infrastructural requirement that supports effective implementation of the program very strongly affecting revenue utilization system.

4.11 Prospects of Revenue generation and utilization

To get information towards the possible ways of improving revenue generation of city's administration tax experts were asked to level their preferences.

Table 4.27 Possible Prospects in revenue generation and utilization process

Possible Prospects in revenue generation and utilization process	Strongly agree		Agree		Neutral		Disagree		Strongly disagree	
	N ₀	%	N ₀	%	N ₀	%	N ₀	%	N ₀	%
Widening the city's revenue source base	17	57	9	30	1	3	2	7	1	3
Improving planning & implementation capacity	11	37	13	43	3	10	2	7	1	3
Establishing adequate data base systems	16	54	11	37	1	3	1	3	1	3
Raising continuous awareness for tax payers	8	37	22	73	-	-	-	-	-	-
Encouraging community participation in planning & revenue collection	6	20	15	50	5	17	3	10	1	3
A need for designing the reward system	7	24	19	64	4	12	-	-	-	-

4.11.1 Widening the city's revenue source base

Most of budget scarcity of the city administration is due to low level of revenue generation. This low level of revenue generation is also the result of weakness in assessing the revenue bases, finding new base and exploiting them exhaustively. As shown from above table, 57% of tax experts strongly agree with widening the city's revenue source base, 30 % of tax experts agree with the idea. While 3%, 7% and 3% of tax experts were remains neutral, disagree and strongly disagree with the idea of widening the city's revenue source base respectively. From the above discussion we conclude that Addis Ababa city administration has wider ranger potentials of revenue sources and city administration should carefully assess and find new revenue sources and exhaustively exploit the existing revenue sources.

4.11.2 Improving planning & implementation capacity of Revenue generation and utilization process of the city administration

As data obtained in the field work and explained earlier, the city's administration revenue is estimated each year by Bureau of Finance and Economic Development Planning Department in collaboration with the sub-cities and city government Revenue Authority. The revenue budget is finalized and submitted to the Council. Poor revenue estimation has an adverse effect on the city's achievement of development activities like assessment and collection of allowable city revenue. As observed from above table about 80% of tax experts strongly agree and agree with improving planning & implementation capacity of revenue generation process. While 10% of tax experts remain neutral and 10% disagree and strongly disagree with improving planning & implementation capacity of revenue generation process of the city administration. From the above discussion we conclude that city administration can generate more revenues by improving planning & implementation capacity of revenue generation process.

4.11.3 Establishing adequate data base systems

Addis Ababa City Government Revenue Authority has started modern tax data administration system in 2008/9. Currently City Government Revenue Authority implements Standard Integrated Government Tax Administration System (SIGTAS) for every type of taxes. But its implementations were limited to large and medium scale branches of Revenue Authority. Micro branch offices were not included in Standard Integrated Government Tax Administration System (SIGTAS). City Government Revenue Authority given Taxpayers Identification Number (TIN) in

online and off line registration bases and controls supply of cash register machines. The city administration has not fully exercised an organized data base management. As a result, revenue planned and actually collected had shown large deviation from year to year.

As observed from above table about 54% of tax experts strongly agree with establishing adequate data base systems. 37% of tax experts agree with the idea of establishing adequate data base systems. While 3% of tax experts remain neutral and 6% of tax experts disagree and strongly disagree with establishing adequate data base systems of the city administration. From the above discussion we conclude that city administration can generate more revenues by improving the data base management and the city administration should smooth the progress of its revenue generation hence promote revenue management.

4.11.4 Encouraging community participation in planning & revenue generation

To reduce tax evasion, illegal trade and unregistered traders and to increase revenue there should be active participation of the residents in needs identification, planning and implementation process. This could help in promoting transparent and participatory decision making. As observed from above table about 70% of tax experts strongly agree and agree with encouraging community participation in planning & revenue generation processes. While 17% of tax experts remain neutral and 13% disagree and strongly disagree with the idea of encouraging community participation in planning & revenue generation processes. From the above discussion we conclude that the city administration has potentials for increasing its revenue generation capacity by promoting community participation during planning & implementation process of revenue generation through the use of full council meetings, seminars and workshops.

4.11.5 Raising continuous awareness for taxpayers

To reduce tax evasion, illegal trade and unregistered traders and to increase revenue, one of important task to be done is to provide organized information to the taxpayers as to why the taxpayers are charged. This enables the taxpayers to link the relationship between tax obligations and city's service delivery and reduces delayed tax payments. As observed from above table about 37% of tax experts indicated that they strongly agree with the raising continuous awareness for taxpayers. While 73% of tax experts agree with raising continuous awareness for taxpayers. From the above discussion we conclude that in order to increase the city administration should design

and implement awareness creation program for the residents of the town in general, taxpayers in particular.

CHAPTER FIVE

5. CONCLUSIONS AND RECOMMENDATIONS

The final chapter of the paper discusses topics about the conclusion driven from the analysis of the study and possible policy recommendations are made.

5.1 Conclusions

Based on the discussion and analysis made in chapter four the researcher concluded that the institutional capacity of the city administration in revenue generation and utilization system was found inadequate in terms of numbers and placement. Both the political and technical teams were found requiring continuous capacity building to increase their effectiveness and efficiency. The knowledge and understanding of tax and finance experts and taxpayers on revenue generation and utilization is poor. Qualified, competent and disciplined human resource is very crucial in revenue generation and utilization processes.

The city's administration current practice in revenue administration comprises short-term forecasting and tax elasticity method by taking into account direct taxes and indirect taxes. The approach is too general and top-down. The revenue generation in real terms is not in line with the city's trend in level of economic activity. There is little knowledge on the city's revenue potential and efforts to reform and improve tax collection are lagging.

Through the city charter and further federal laws, Addis Ababa city receives to a large extent fiscal autonomy (sovereignty). Accordingly, the city is able to finance its expenditures itself through tax and non-tax revenues. Addis Ababa city administration hosts and serves most of corporate companies in the country. But the city administration does not receive profit, excise and turnover taxes from corporate companies. But regions share these revenues with the federal government based on the provision of the federal constitution. The city administration has been claiming for sharing these revenue sources. But the federal government has neglected it by arguing that the city has been collecting revenues from other sources that should have been used by the federal government.

Apart from revenues from the federal road fund which finances road maintenance, the city does not receive any federal aid and is not part of the financial equalization scheme between the federal government and the regions.

In terms of revenue utilization, a consistently more than 52.26% of the city administrations budget were spent on capital expenses. The share of capital expenses has declined from 58.48% in 2014/15

to 52.13% in 2018/19, which is indicating that the city administration commitment and capacity to invest on city's development programs has been declining over time.

During the period under review Addis Ababa city administration's total revenue surpassed its expenditure. On average under the study period percentage of revenue to expenditure reaches 109.20 and the city administration has a system for retaining cash for payments of capital expenditure liabilities so as to avoid squeezing the following year's budget. From this we can conclude that, expenditure was constrained by capacity limitations and revenue was adequate to meet the reduced expenditure.

The key challenges identified related to city's revenue generation were poor institutional capacity, inadequate capacity for revenue generation, underutilized revenue potentials, absence of property taxes, corruption, tax evasion, lack of corporate taxes, weak participation of important stakeholders, low charges and fees for utilities, city's huge informal sector and poor tax-paying culture, political pressure to relax on revenue collection and lack of adequate information on taxpayers.

On other way the key challenges identified related to revenue utilization were lack of skilled and motivated personnel in the revenue utilization system, absence of strong and continuous monitoring and evaluation on the implementation of the revenue, insufficiency in training and lack effective infrastructural requirement that supports effective implementation of the program.

The key prospects identified related to city's revenue generation and utilization were widening the city's revenue source base, improving planning & implementation capacity, establishing adequate data base systems, raising continuous awareness for taxpayers and encouraging community participation in planning & revenue collection.

5.2 Recommendations

Based on the above findings of the study and conclusion, the following recommendations are made.

- It is recommended to strengthen the institutional capacity in a way to enhance the city's revenue generation and utilization. Planning system should be improved in a way that can forecast future actions properly. Moreover, the implementing capacity must be developed through provision of appropriate and sustained training to the staff of the city administration to increase their commitment and fill skill gap.

- Revenue generation and utilization methods should be revisited to suit the environment by making them customer friendly. Regular meetings, seminars and workshops for tax and finance experts and taxpayers should be carried out. Strengthening the revenue generation and utilization in the city should be given focus and priority.
- The city administration should carefully assess and find new revenue sources and exhaustively exploit the existing revenue sources by implementing revenue rules, regulations and procedures and training of revenue collectors towards widening tax bases which increase revenue generation performances.
- In order to promote trade and business expansion, the city administration should focus on collection of indirect taxes and should reduce the burden of direct taxes.
- Improve the property taxation system and negotiate with non-profit organizations which are exempted from paying property tax to voluntarily agree to pay property taxes and undertake periodic revenue analysis and revenue forecasting techniques diligently.
- There is a need to develop and implement comprehensive grievance and taxpayers' complaints handling procedures and mechanisms through which using different tools and approaches that would help to facilitate the settling of taxpayers' grievances. In addition, utilization of existing structures and processes to engage stakeholders is to be encouraged, as this may provide opportunities for issues to be raised before they develop into more significant grievances.
- Finally, in order to support city growth and enhance the economy, the city administration should increase its capital expenditure and decrease recurrent expenditures which have a positive multiplier effect in the city's long run development.

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Annex - I

Addis Ababa University

School of Graduate Studies

Department of Public Administration and Development Management

Title of Thesis: The Challenges and Prospects of Revenue Generation and Utilization in urban local government of Ethiopia.

The case of Addis Ababa City Administration

Interviews Questions

In order to answer the research questions and to meet objectives, primary data will be collected through in-depth interview from two interviewees in Addis Ababa city Government Revenue Authority.

Part I

- A. Your position _____
- B. Age _____
- C. Marital Status _____
- D. Education _____
- E. How long have you served in the current position? _____

Part II

1. Could you explain the legislations that define the fiscal powers of Addis Ababa city administration?-----

2. Did the city administration have enjoyed sufficient autonomy to exercise its powers and responsibilities stated in the revenue laws? -----

3. Howthecity’sinstitutional framework is organized to generate revenue?-----

4. Is the tax authority organizational structure facilitating revenue generation?-----

5. What are the sources of revenue for city administration? -----

6. Explain the nature of each revenue source in terms of its

- A. Base-----

- B. Buoyancy-----

- C. Collection-----
-----and
- D. Rate-----

7. Rank the five top revenues sources based on their high yields-----

8. Over which revenue sources does the city administration have fiscal power to fix their rate?

9. What are the revenue generation methods adopted by the city administration? -----

10. What trends are observed in the city's revenue generation practices in the last five years? Why?

11. Does the existing fiscal decentralized revenue generation system have an advantage for city administrations revenue generation effort? -----

12. How does the city administration collaborate with the tax payers and other stakeholders in revenue generation? -----

13. What are the advantages of stakeholders' involvement in the revenue generation? -----

14. Explain the city-federal government relations particularly in reference to revenue matters? ---

15. Do you have a training or education programs designed for tax payers? -----

16. If yes, what are the major objectives of the programs? -----

17. If yes, how many tax payers have been trained or educated in the past five years? -----

18. How important is tax payers' education on the city's revenue generation effort to combat challenges? -----

19. Do you have a mechanism of checking the effectiveness of such programs? -----

20. If yes how do you assess the effectiveness of such programs? -----

21. What corrective actions are used to increase tax base in city administration? -----

22. Why did you not use city's potentials in revenue collection? -----

23. What are the existing challenges surrounding the efficiency of revenue generation in the city administration? -----

24. What are the means and prospects to strengthen the city's revenue generation capacity and efficiency? -----

25. Do you have conclusive remarks? -----

Thank you

Annex - II

Addis Ababa University

School of Graduate Studies

Department of Public Administration and Development Management

Title of Thesis: The Challenges and Prospects of Revenue Generation and Utilization in urban local government of Ethiopia.

The case of Addis Ababa City Administration

Interviews Questions

In order to answer the research questions and to meet objectives, primary data will be collected through in-depth interview from two interviewees in Addis Ababa city Administration Bureau of Finance and Economic development.

Part I

- A. Your position _____
- B. Age _____
- C. Marital Status _____
- D. Education _____
- E. How long have you served in the current position? _____

Part II

1. How the city's institutional framework is organized to utilize revenue?-----

--
2. What are the expenditures functions assigned to the city administration? -----

3. To what extent the city can generate the revenues for its own expenditure?-----

4. Is the city's revenue collected is adequate to discharge expenditure responsibilities?-----

5. Could you give me explanation on the increasing expenditure trends? -----

6. Can you explain the fiscal status of sub-cities? Could they approve their budget? Retain some portion of their collected revenue? -----

7. How does the Federal Government treat Addis Ababa in its inter-governmental fiscal transfer system? -----

8. Is there a federal government transfer of grants to the city? -----

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

10. What are the basic principles and criteria used in your office to allocate budget for different department in the city administration? -----

11. Are the workers in each department made to know clearly their responsibilities in relation to expenditure assignment? -----

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

13. What are the existing challenges surrounding the efficiency of revenue utilization (expenditure management) in the city administration? -----

14. Can you please mention the prospects for future improvements of revenue utilization practices in the city administration? -----

15. Do you have conclusive remarks? -----

Thank you

APPENDIX III
QUESTIONNAIRE

This questionnaire is designed to collect data for senior essay entitled “The challenges and prospects of revenue generation and utilization in urban local government of Ethiopia: The case of Addis Ababa city Administration” for the partial fulfillment of the Master of Arts in Public Management and policy in Addis Ababa University. So, I request you to give genuine responses for the accomplishment of the study. All personal answer will keep as a top secret. (Please tick appropriately or fill additional information in the space provided). Thank you in advance for your collaboration.

Part One: - Demographic characteristics of respondents

1.1 Gender

- Male
- Female

- Masters and Above
- Other (Specify).....

1.2 Age

- 20-30 years
- 31- 40 years
- 41-50 years
- Above 51 years

1.5 How long have you served in the current position?

- Below 5 years
- 6-10 years
- Above 10 years

1.3 Marital status

- Single
- Married
- Other (Specify).....

1.4 Level of education

- Diploma
- Degree

Part Two: - Revenue Generation

1. Do you know that the city administration is legally mandated to generate revenue?
 - A. Yes
 - B. No

2. Does the city administration have adequate revenue sources?
 - A. Yes
 - B. No

3. Do you know the revenue sources?
 - A. Yes
 - B. No

4. If Yes, name some of the sources
 - A. -----
 - B. -----
 - C. -----
 - D. -----

5. If No then give reasons
 - A. -----
 - B. -----

6. The city administration revenue collectors are motivated enough to collect the revenue: State your view
 - A. Strongly agree
 - B. Agree
 - C. Strongly disagree
 - D. Disagree
 - E. Do not know

7. The city administration has strong institutional and human resource base to collect the revenue: State your view
 - A. Strongly agree
 - B. Agree
 - C. Strongly disagree
 - D. Disagree

E. Do not know

8. The Management provides the needed logistics to revenue collectors for effective revenue generation: State your view

- A. Strongly agree
- B. Agree
- C. Strongly disagree
- D. Disagree
- E. Do not know

9. Does the city administration set revenue targets?

- A. Yes
- B. No
- C. Can 't tells

10. If yes, then How and who set the targets?
.....
.....

11. What are the criteria for setting the targets?

- A.
- B.
- C.

12. Do you achieve your revenue targets?

- A. Yes
- B. No

13. If yes, to what extent do you achieve your targets?

- A. 100%
- B. Above 100%
- C. Below 100%

14. If No, give reasons

- A.
- B.
- C.

15. Would you please explain the mechanism how you are collecting revenue at your institution?

- A.
- B.

16. Have you had any training on revenue generation?

- A. Yes
- B. No

17. If yes when did you train last? How useful is the training for your job?

- A.
- B.

18. Would you say that the revenue collectors could generate more revenue if good systems are laid down?

- A. Yes
- B. No

19. If yes, state other ways which you think can improve revenue generation in city administration?

- A.
- B.
- C.

20. Who would you blame for the city's administration poor revenue performance?

- A. Management team
- B. Cabinet members
- C. Revenue Collectors
- D. Taxpaying public
- E. Others if any specify.....

21. Do you consider the revenue generation process is effective?

- A. Yes
- B. No

22. In what manner will you describe the revenue generation process be effective?

- A. Quantum of revenue collected
- B. Strategies used in the collection
- C. Areas covered in revenue collection
- D. Revenue targets achieved
- E. Others, if any specify.....

23. Give three reasons for your answer

- A.
- B.
- C.

24. What do you think is the general perception of tax payers on your area about tax collectors and your institution?

.....

25. If you are asked to suggest additional revenue source to the city administration, what do you suggest? list them

- A.
- B.
- C.

26. What measures should be put in place to ensure effective revenue generation?

- A.
- B.
- C.
- D.

27. State your view of the following issues related to urban local government of Addis Ababa city

Administration Revenue Authority revenue generation and its service delivery.

No.	Issues related to Revenue generation	Strongly agree	Agree	Neutral	Strongly disagree	Disagree
1	The current condition (reality) of Addis Ababa City Administration, tax assessment and implementation are comfortable for Revenue Authority.					
2	The city tax payers have got sufficient benefits from infrastructures facilities what they have expected and made by tax revenues collected by the government.					
3	Addis Ababa city Revenue Authority collects sufficient tax revenue from tax payers.					

4	The Revenue Authority of the treats tax payers fairly and equally					
5	The employees of Addis Ababa city Administration Revenue Authority is capable enough by in number, ability and ethics to make the tax system transparent, equitable and modern.					
6	Addis Ababa Revenue Authority gives sufficient awareness creation training (tax education) to tax payers.					

28. Indicate the level of influence of the following challenges (factors) during revenue generation process in urban local government of Addis Ababa city Administration Revenue Authority.

No.	Possible Challenges in revenue generation process	Does not affect	Less strongly affect	Neutral	Strongly affect	Very strongly affect
1	Centralization of revenue bases and inadequate devolution of functions by federal government					
2	Lack of the autonomy to establish tax base, rate structure, and enforcement procedures					
3	Non utilization of alternative revenue sources and absence of transfers					
4	Lack of skilled and motivated personnel in the tax administration system					
5	Inadequacy of the financial regulations and procedures					
6	Low tax base and rates					
7	Low charges and fees for utilities					
9	City's huge Informal sector (non-licensed trade) and poor tax-paying culture					
10	Shortfall in the capacity and technical expertise					

11	Insufficient and poorly maintained records					
12	Corrupt financial management practices					
13	Low tariffs					
14	The reluctance of tax payers					
15	Rate determination problems					
16	Political pressure to relax on revenue collection					
17	Lack of Adequate Information on Taxpayers					

29. State your view of the following prospects in order to improve revenue generation and utilization process in urban local government of Addis Ababa city Administration.

No.	Possible Prospects in revenue generation and utilization process	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	Widening the city's revenue source base					
2	Improving planning & implementation capacity					
3	Establishing adequate data base systems					
4	Raising continuous awareness for tax payers					
5	Encouraging community participation in planning & revenue collection					
6	A need for designing the reward system					

Thank you in advance for your collaboration!

APPENDIX IV
QUESTIONNAIRE

This questionnaire is designed to collect data for senior essay entitled “The challenges and prospects of revenue generation and utilization in urban local government of Ethiopia: The case of Addis Ababa city Administration” for the partial fulfillment of the Master of Arts in Public Management and policy in Addis Ababa University. So, I request you to give genuine responses for the accomplishment of the study. All personal answer will keep as a top secret. (Please tick appropriately or fill additional information in the space provided). Thank you in advance for your collaboration.

Part One: - Demographic characteristics of respondents

❖ **Gender**

○ Male

○ Female

❖ **Age**

○ 20-30 years

○ 31- 40 years

○ 41-50 years

○ Above 51 years

○ Masters and Above

○ Other (Specify).....

❖ **How long have you served in the current position?**

○ Below 5 years

○ 6-10 years

○ Above 10 years

❖ **Marital Status**

– Single

– Married

– Other specify.....

❖ **Level of education**

○ Diploma

○ Degree

Part Two Revenue Utilization

1. Does the City administration Finance and Economic Development Bureau is appropriate to achieve the organizational objectives?

- A. Yes
- B. No

2. If your answer is No, why?

- A. Salary problem
- B. Limited organizational structure
- C. Experience
- D. Educational requirement
- E. All
- F. If others, specify.....

3. Is your human resource being competent to achieve your organizational objectives towards?

	Yes	No
Educational requirement		
Experience		
Number of employees		

4. Have you had any training on revenue utilization?

- C. Yes
- D. No

5. If yes when did you train last?

.....

6. How useful is the training for your job?

.....

7. After the annual revenue is approved is it publicized to the public in transparent way?

- A. Yes
- B. No

8. Which type of mechanism is used to disseminate revenue information?

- A. Radio
- B. Newspaper
- C. Public conference

- D. Billboard posters
- E. Brushers and pamphlets
- F. All
- G. Others, specify.....

9. Is revenue information provided in understandable way?

- A. Yes
- B. No

10. Is clear information available on time on how government revenue is allocated to Public sectors?

- A. Yes
- B. No

11. Would you please explain the mechanism how you are utilizing/allocating revenue at your institution?

- A.
- B.

12. What does your relationship look like with the city administrations Revenue Authority?.....
.....

13. Indicate the level of influence of the following challenges (factors) during revenue utilization process in urban local government of Addis Ababa city Administration Finance and Economic Development Bureau.

No	Possible Challenges in revenue utilization process	Does not affect	Less strongly affect	Neutral	Strongly affect	Very strongly affect
1	Lack of capacity					
2	Turnover of the staff					
3	Lack of some conceptual understanding in revenue utilization.					

4	Absence of strong and continuous monitoring and evaluation on the implementation of the revenue					
5	Insufficiency in training					
6	Lack effective infrastructural requirement that supports effective implementation of the program					

14. Would you say that the finance experts could utilize revenue appropriately if good systems are laid down?

- A. Yes
- B. No

15. If yes, state other ways which you think can improve revenue utilization in city administration?

- A.
- B.
- C.
- D.

Thank you in advance for your collaboration!

Annex – V
QUESTIONNAIRES

This questionnaire is designed to collect data for senior essay entitled “The challenges and prospects of revenue generation and utilization in urban local government of Ethiopia: The case of Addis Ababa city Administration” for the partial fulfillment of the Master of Arts in Public Management and policy in Addis Ababa University. So, I request you to give genuine responses for the accomplishment of the study. All personal answer will keep as a top secret. (Please tick appropriately or fill additional information in the space provided). Thank you in advance for your collaboration.

Part One: - Demographic characteristics of respondents

1.6 Gender

- Male
- Female

1.7 Age

- 20-30 years
- 31- 40 years
- 41-50 years
- Above 51 years

1.8 Marital status

- Single
- Married
- Other specify.....

1.9 Level of education

- Diploma
- Degree

- Masters and Above
- Other (Specify).....

1.10 Which types of tax category do you pay?

- A
- B
- C

1.11 How long have you been as a tax payer?

- Below 5 years
- 6-10 years
- Over 10 years

Part Two: - Transparency

1. Why did you pay taxes and service charges for city administration?

- A. You know it is the right thing to do.
- B. You fear being penalized by the city administration.
- C. By paying your account you are helping the city administration to provide better services to the people.
- D. There is no opportunity to evade
- E. Others specify.....

2. If you fail to pay tax on time, it is because:

- A. The time limit given to tax payers to pay their taxes is not sufficient enough
- B. You have been levied incorrectly
- C. You do not see the need to pay since in your opinion the city administration should provide services free of charge
- D. Your payment is exaggerated and high
- E. Others, specify.....

3. The tax levied on you is based on the ability to pay principles

- A. Strongly agree
- B. Agree
- C. Strongly disagree
- D. Disagree
- E. No comment

4. Do you think tax levy is clear?
 - A. Agree
 - B. Disagree
5. In which way the tax is levied on you?
 - A. Based on the accounts and records you keep
 - B. Based on the assessment of you daily incomes
 - C. Based on presumptive taxes
 - D. Others, specify.....
6. The time limit given to tax payers to pay their taxes is sufficient enough
 - A. Strongly agree
 - B. Agree
 - C. Strongly disagree
 - D. Disagree
 - E. No comment
7. Did you record your income correctly and disclose for Revenue Authority?
 - A. Yes
 - B. No
8. If No why?

.....

.....
9. Taxpayers know where their money or why they pay tax and who benefits from it.
 - A. Agree
 - B. Disagree
 - C. Strongly Disagree
10. As a tax payer did you know for what purpose city administration spends the revenue?
 - A. Yes
 - B. No
11. Have you been informed (in training or in some other ways) about the purpose of taxation, your rights and obligations as a taxpayer...etc.?
 - A. Yes
 - B. No

12. If yes how did you find the program?

- A. Very good
- B. Good
- C. Adequate
- D. Poor
- E. Very poor

13. If no, how do you see the relevance of such awareness creation programs on Revenue generation?

- A. Very relevant
- B. Relevant
- C. Neutral
- D. Irrelevant
- E. Very irrelevant

14. Do you pay your tax obligations fully and timely?

- A. Yes
- B. No

15. Why?.....
.....

16. Do you believe your tax payment is used to run various government development programs?

- A. Yes
- B. No

Part Three: - Participation

17. Taxpaying time is convincing to the tax payers

- A. Strongly agree
- B. Agree
- C. strongly disagree
- D. Disagree
- E. No comment

18. The tax payers concern is considered in tax collection

- A. Very low
- B. Low

C. High

19. Did you think that the amount of tax you pay is fair in relation to the benefit that you received?

A. Highly fair

B. Moderately fair

C. Less fair

D. Highly unfair

20. Are you satisfied with the services the city government provides?

A. Yes

B. No

C. Others specify.....

21. There is tax payers involvement in tax assessment

A. Agree

B. Disagree

C. Strongly Disagree

22. Collection of taxes at woreda and Sub cities level in decentralized form is the best option for the tax payers.

A. Strongly agree

B. Agree

C. Strongly disagree

D. Disagree

E. No comment

Part Three: - Accountability

23. Do you believe that legal measure will be enforced if you default in paying tax?

A. Agree

B. Disagree

24. To what extent fear of legal measures initiates taxpayers to pay tax?

A. Very high

B. High

C. Moderate

25. The city government quickly responds to the dissatisfactions of tax payers.

A. Strongly agree

- B. Agree
- C. Strongly disagree
- D. Disagree
- E. No comment

26. Is there any disciplinary problem on the side of tax collectors?

- A. Always
- B. Sometimes
- C. Rarely
- D. Never

27. The city government quickly imposes legal measures on wrong doers of its employees in revenue generation process.

- A. Strongly agree
- B. Agree
- C. Strongly disagree
- D. Disagree
- E. No comment

28. There are many illegal traders who do not pay taxes to the tax authority. Do you want to continue this trend?

- A. Strongly agree
- B. Agree
- C. Strongly disagree
- D. Disagree
- E. No comment

29. If your answer for question 9 is C or D what should be done to them?

.....
.....
.....

30. Does the city administration give you enough protection (which is one of its duties) from these illegal traders' activities?

- A. Strongly agree
- B. Agree

- C. Strongly disagree
- D. Disagree
- E. No comment

31. Some people say that the Revenue generation system is exposed for corruption and misuse.

How far do you agree or disagree with this view?

- A. Strongly agree
- B. Agree
- C. Neutral
- D. Disagree
- E. Strongly disagree

32. Some people also say, corrupted officials, tax collectors and tax payers usually are not charged and punished for their conduct. How far do you agree or disagree with this view?

- A. Strongly agree
- B. Agree
- C. Neutral
- D. Disagree
- E. Strongly disagree

33. Evaluate the following administrative factors on Addis Ababa city Administration Revenue Authority

No	Issues	Excellent	Good	Fair	Poor
1	Periodic training about tax and related issues				
2	Convenience of manner of payment				
3	Convenience of time of payment				
4	Law enforcement				
5	Honest collectors				
6	Impartiality of assessment committees				
7	Timely response of grievance hearing Committees				
8	Treatment of taxpayers with due respect				

34. As a tax payer what problems do you observe in the entire system of revenue generation and utilization in the city administration?

1.
2.
3.
4.
5.

35. What do you recommend in order to improve the revenue generation and utilization system?

1.
2.
3.
4.
5.

36. Do you have additional opinion about business tax?

.....
.....
.....

Thank you in advance for your collaboration!