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Governance Arrangement and Inter Governmental Fiscal Relations of Capital Cities with their National Governments: The Case Study of Addis Ababa City Administration

A Thesis Submitted to School of Graduate Studies, Addis Ababa University, in Partial Fulfillment of the Requirements for the Masters Degree in Public Administration

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Approval

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Abstract

Governance arrangement of capital cities and their inter-governmental fiscal relations with national governments, particularly in federal countries, has started becoming one of the research topics and agenda of discussion. It is in line with this direction that this paper focuses on describing the governance arrangement of Addis Ababa and its inter-governmental fiscal relations with the federal government, as the capital city of a federal government, seat of Oromia state and African Union as well as a local government to its residents. In order to be able to investigate the current status of the city in the national governance and finance structure, the role and position of Addis Ababa city during the Imperial and the Derg Regimes has been critically reviewed and analyzed. Moreover, the changes in the governance and inter-governmental fiscal relations of Addis Ababa due to the adoption of ethnic-based federal system have been addressed using the empirical experience of other federal capital cities. The position of regional governments and urban local governments in the country's governance structure is also described briefly to determine the ways Addis Ababa is being governed differently from other sub-national units. Furthermore, through qualitative and quantitative approaches, expenditure responsibilities, revenue powers and access to transfers have been analyzed.

A general conclusion emerging from this thesis study is that the governance arrangement of Addis Ababa is the most complicated and unique in the country mainly due to the challenge to reconcile local, regional and national interests over the city. Additionally, the strong historical attachment of the city with the nation-state formation process in Ethiopia, Addis Ababa has been the main center of the country's economic, political and business activities, and then has relatively higher revenue bases with huge expenditure responsibilities. Contrary to the expectation of the writer from other federal capital cities, Addis Ababa is found the only sub-national unit of the country to be deprived from federal government transfers. The study has also come up with important recommendations.

Basic Terms: Governance Arrangement, Intergovernmental Fiscal Relations, Ethnic Based Federalism, and Fiscal Support.

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Acronyms

AU	African Union
BOFED	Bureau of Finance and Economic Development
CBE	Commercial Bank of Ethiopia
CUD	Coalition for Unity and Democracy
ECA	Economic Commission for Africa
EPRDF	Ethiopian People's Democratic Revolutionary Front
ETC	Ethiopian Telecommunication Corporation
EU	European Union
FDRE	Federal Democratic Republic of Ethiopia
GDP	Gross Domestic Product
IGFRs	Intergovernmental Fiscal Relations
IGR	Inter Governmental Relation
IGFT	Intergovernmental Fiscal Transfer
IHDP	Integrated Housing Development Program
MOFED	Ministry of Finance and Economic Development
MOWUD	Ministry of Work and Urban Development
SNGs	Sub National Governments
SNNPR	Southern Nations, Nationalities and Peoples Region
UDAs	Urban Dwellers' Associations
UNESCO	United Nations Educational, Scientific and Cultural Organization
VAT	Value Added Tax

CHAPTER ONE
INTRODUCTION

1.1 Background

Over the years the concept of Inter Governmental Fiscal Relations (IGFRs) has been examined by various scholars and practitioners (Wolman et al, 2007). The design of taxing, spending and regulatory authorities and the structure of inter- governmental transfers are fundamentally important to efficient and equitable provision of public services in a given country (Shah, 1994). In line with this premise, the current trend in IGFRs indicates that most countries have involved various reforms to give Sub National Governments(SNGs) more fiscal powers, mainly through fiscal decentralization (Falleti, 2005). However, the way intergovernmental fiscal systems are organized varies from country to country. These differences partly reflect historical, geographical, constitutional, social, cultural and institutional characteristics of countries (Bird, 1990; Cameron, 2001). In this case, all nations of any size confront one of the fundamental problems of governance to resolve the competing claims of central and peripheral authorities. Constitutionally, the issue is commonly framed in legal terms: which jurisdiction has the authority to do what, with what degree of discretion or autonomy? (Wright, 1990; Cameron, 2001).

Capital cities particularly in federal countries, are governed and treated differently in the intergovernmental fiscal systems of a country. Slack (2008) states that in almost every country, the capital city afforded special status with separate inter-governmental system and more often than not is given more fiscal autonomy than other cities in the nation. Capital cities are an easily defined but poorly perceived class of cities, often marginalized in urban research as merely administrative centers (Campbell, 2001). Slack and Chattopadhyay (2010) further indicate that the finance and governance of a capital city is always complex as it must serve the residents as well as the nation. The local-national relationship in capital cities is thus a complex symbiotic relationship, which varies tremendously from nation to nation and from one era to the next. Governing any capital city is difficult because there is always a conflict of interest between the

national government and the people who live in the capital city. The government wishes to control and develop the capital in the interest of the nation as a whole, while the people who live in the city naturally wish to govern themselves to the greatest extent possible. The major challenge is therefore to achieve just and proper balance between these conflicting interests (Harris, 1989). This is particularly relevant in federations with multi-cultural and multi-lingual communities where the capital city has an additional role to reflect this diversity as well as serve as a symbol of national unity (Nwafor, 2005). Federal countries have experienced with a variety of governance arrangements reflecting the desire to treat the federal capital in a manner different from that used for governance of other cities within the country (Wettenhall, 2010). The relationship between the federal government and the capital city government becomes a hugely significant issue: while the interests of the local inhabitants are important, they need to be weighted against the interests of States and major cities in the federation, against the special symbolic value of the nation of its lead city, and against the need to ensure the smooth running of the federal government itself(Slack and Chattopadhyay, 2010).

The financial issue of capital cities has received more emphasis on recent studies (Wettenhall, 2010). Most of these studies have been conducted on federal capital cities. In unitary states, capitals are usually governed similar to other cities. The theme of studies on federal capitals focuses on issues around the governance arrangement, the fiscal responsibilities, financial support, fiscal autonomy, local government autonomy and federal government oversight over the capital (Wolman et al, 2007; Slack, 2008; Young, 2009). The findings of these studies indicate the existence of many similarities and many points of differences in their governance and Intergovernmental Fiscal Relations (IGFRs) reflecting the political, social, cultural, and constitutional arrangements of the respective countries. Within the aforementioned frameworks, this study addresses the governance and intergovernmental fiscal relations of Addis Ababa with the national government.

In line with the aforementioned conceptual and empirical frameworks, this study addresses issues concerning the governance arrangement and Inter Governmental Fiscal Relations(IGFRs)

of Addis Ababa City Administration with the federal government. The study incorporates "governance arrangement" and "IGFRs" due to the fact that the review of studies in federal capitals indicates the practical impacts of governance arrangement of a given capital on the structure of its IGFRs with the federal government. The way the capital city is governed as a "city state", "city within a state" or a "federal district" significantly determines the Intergovernmental Relations between the city and the national government. Addis Ababa has unique governance structure and intergovernmental relations. It is not only the capital city of the country; Addis Ababa is also the seat of the Oromia Regional Government, the African Union (AU) and the local government for its residents. Addis Ababa city is the only urban center of the country to have explicit constitutional recognition for "full measures of self-government", but it is also the Chartered city where the national government has substantial degree of control over the city government including the power to dissolve the elected city's council.

Thus, this study seeks to examine the natural tensions and challenges in governing and finance of federal capital cities in the context of Addis Ababa City Administration in terms of its multiple identity, and to identify the impacts of the unique governance arrangement of the city on its IGFRs with the national government. The study intends to contribute in filling the knowledge gap on the governance and IGFRs of Addis Ababa, and to reflect the natural tension existing between local, regional and national interests over the capital city in a multi-lingual and multi-cultural federal country.

1.2 Statement of the Problem

Addis Ababa city has been hosting the national governments as of its establishment. As it is the capital city of the ethnic-based federal state now, it was also the seat of the Imperial and the Derg Regimes. Moreover, the city hosts the Oromia Regional State and the African Union. It has also its own local government.

This multiple role and identity of the city has its own impact on the form of its governance arrangement and its IGFRs with the national government. Additionally, the constitutional interest

of Oromia state has not yet been secured by particular laws even after 15 years when the constitution provides recognition for the special interests of Oromia over the city. Furthermore, many Oromo's scholars and political parties have brought Addis Ababa in their political agenda. Currently, the City is an official seat of Oromia State, but with different name Finfinne. Article 49 of the 1995 FDRE Constitution witnesses the paradoxical approach of the system to govern the city by balancing the local interest for self government and the national interest to control the city as well as the regional interests of Oromia State. It has been challenging to govern Addis Ababa in such away that the residents of the city would have the right to govern themselves in accordance with provisions of the Constitution while the federal government retains the power to make the city an integral component part of its jurisdiction as well as keeping Oromia's interest over the city. Article 49(2) of the FDRE Constitution gives residents of the city to have full measures of self government, while the same Article Sub-Article 3 gives the Federal government the right to govern the city under its jurisdiction. A full measure of self government, the constitutional right of the residents, has been defined with the power of the Federal government to dissolve the city council according to the Revised Charter of the City in 2003. This is the manifestation of the common problem and complexity in governing federal capitals, particularly in countries with multi-lingual and multi-cultural communities like Ethiopia.

However, the studies neglect this multiple identity of the city and the challenge to reconcile the local, regional and national interests over the city. Furthermore, governance and IGFRs of the city is not often noted in federalism studies. Due to lack of comprehensive study, the natural tension and the complexities in governing a federal capital, particularly in multi-lingual and multi-cultural state, is overlooked in Ethiopian context.

1.3 Research Questions

The study has made efforts to answer the following questions.

i. How does the ethnic-based federalism affect the governance arrangement and IGFRs of Addis Ababa City?

ii. Is the nature of constitutional and legislative recognition different for Addis Ababa than Regions and other cities in the country?
iii. Is Addis Ababa a federal district mainly due to its role as a capital city?
iv. Do residents of Addis Ababa have equal representation in the national legislative organs with residents in Regions?
v. Has the current national framework provided the city with better autonomy for its local government?
vi. What are the functional responsibilities of the city as a local government as well as a capital city?
vii. How has Addis Ababa been treated differently in the national Intergovernmental Fiscal Transfer System than Regions?
viii. How do the city's actual expenditure and revenue differ from the regional governments?

1.4 Objectives of the Study

1.4.1 General Objective

The general objective of this study is to determine and describe the governance arrangement and Inter Governmental Fiscal Relations of Addis Ababa city with the Federal government.

1.4.2 Specific Objectives

Specific objectives of the study are to;

i. Explore the historical patterns of governance and IGFRs of Addis Ababa City during Imperial and Derg Regimes.
ii. Determine the current governance arrangement of the city and identify the factors that determine its current status.
iii. Explore the local, regional and national interests over the city and the challenge to balance these interests.
iv. Explore the autonomy of the city's local government to make its own decision about taxes and expenditures with out approval of the national government.

v. Identify the expenditure responsibilities of the city as a local government as well as a capital city, and its actual expenditure trends and compositions relative with Regions.
vi. Investigate the revenue sources and revenue collection trends of the city in comparison with Regions.
vii. Explore the existence of financial support from the federal government to compensate the extra costs of the city as a capital city.
viii. Identify the regulatory procedures for borrowing and explore the borrowing trends of the city.
ix. Forward recommendations.

1.5. Operational Definitions of Concepts/Terms

In the study of capital cities, some concepts may be found ambiguous. Thus, to reduce misunderstanding, the following concepts/terms are redefined according to the context of the study.

i. **Governance Arrangement of the City**: This is to determine the way Addis Ababa city is being governed different from other cities in the nation as a result of its status as a capital city, and its differences and similarities with other federal capital cities. It helps also to determine whether Addis Ababa is a "federal district", a "city within a State", or a "city-state" as well as to find out the political and socio-economic factors behind the existing arrangement.
ii. **Local Government Autonomy of the City**: This helps to examine how local council and chief administrative officers of the city are selected, with the definition of the powers of the council and the administration. It is used to determine whether Addis Ababa has local self government and how is that self-government limited, if at all, because of its function as a capital city; and how the national interests of the city is protected within the context of local self-government.

iii. **Local Fiscal Autonomy**: It includes the autonomy of the city government to make its own decisions about taxes and expenditures without approval of the national government or the possible threat of overrule by the national government.

iv. **National Enfranchisement**: This is to determine whether residents of the city have equal representation in the national political system with residents in other SNGs. Specifically, it identifies the degree of residents' representation in the upper and lower houses.

v. **Fiscal Support**: It deals with the extent that the national government compensates the city for serving in its function as the capital city of the federal government, Oromia State and the African Union.

1.6. Research Methodology

1.6.1. Study Design

At a literal level, the study of national capital is inherently the study of exceptions mainly due to the unique status of a capital city in a given country. In line with this vein, the study was conducted as a descriptive type of research involving qualitative and quantitative aspects. It is a case study based on comparative approach to provide historical trends in the development of Addis Ababa as a capital city and the changes in its IGFRs with national governments. Thus, the study was designed as a retrospective study focusing on present and past frameworks. The research design was employed in such a manner that facilitates the comparison of the city with SNGs in the national context as well as with other federal capitals. The governance and IGFRs of the city during the Imperial and the Derg regimes was reviewed and analyzed in order to determine the changes in its fiscal status at the current political sphere. The historical perspective is important due to the fact that the change in balance of power between the local, regional and national level often leads to changes in administrative structure of the capital city. Furthermore, the governance and IGFRs of cities in Ethiopia in general was explored so that it would be

possible how Addis Ababa is being governed and financed different from other cities in the country.

Addis Ababa is, however, different from any of the SNGs in the country as it is the only national capital city. Therefore, the comparative arrangement with SNGs in the country alone would not be sufficient to answer the research questions and fully understand the city's status as capital city. Hence, the experience of other capital cities was employed so as to understand how other federal capitals are governed and how their IGFRs is different from other cities in their respective countries. The experience of other capital cities is used to analyze governance arrangement, fiscal support and local government autonomy of Addis Ababa City Administration. The selection of capital cities considers the following factors. First, since Addis Ababa is a capital city of a federal state, more emphasis is given to federal capital cities. Second, federal capitals that are governed as a "federal district" are taken as a benchmark for the analysis of how Addis Ababa is being governed and to understand the form of their IGFRs. Federal districts are selected as the 1995 FDRE Constitution, Article 42, proclaims that Addis Ababa is an integral component part of the federal government as a federal district. Third, the availability of reliable and sufficient data in each aspect of capital cities makes it difficult to compare Addis Ababa with these capitals cities in each and every angle of the research question. Additionally, the national political, economic and institutional aspects of these countries may not be similar to Ethiopia. Therefore, almost all federal districts in the world are incorporated in the study according to availability of data and appropriateness of the comparison.

1.6.2. Data Sources and Collection Methods

Both primary and secondary sources were used to collect reliable, accurate and appropriate data. Secondary sources of date include the following. First, available legislations during the Imperial and Derg Regimes were, reviewed so as to formulate the historical trends in the city's governance and finance. Second, the proclamations and the constitution of the current government were also assessed so as to determine the current governance of the city as well as

the institutional arrangement of its IGFRs with the national government. Third, financial data on the revenue, expenditure, transfer and borrowing of Addis Ababa and Regions for 1998/99-2008/09 budget years was collected from Ministry of Finance and Economic Development (MoFED) and Bureau of Finance and Economic Development (BoFED). Moreover, literature and empirical studies on IGFRs in general and on capital cities in particular were reviewed utilizing books, journal articles and internet sources in order to frame the research efforts. Utmost effort was made to review and assess materials written on federal capital cities in general and governance and finance of capitals in particular. Finally, television programs during the 2010 Ethiopian National Election campaign as a document analysis were used to get data as supplementary form of inquiry. The 2010 national election provides substantial data about the views of opposition political parties, particularly, on the governance structure of the country. The writer of this paper was attentive to the election campaign of parties and it contributed much to have important data. The election campaign clearly provides the fact that the current system of federalism is still the hottest political agenda of the country. This is important to the purpose of this study since the current governance of the city is partly the result of the ethnic-based federalism of the country.

A primary source of data was also incorporated into the study. Interview was the data collection technique to obtain data from primary sources due to the desire of getting in-depth information required to answer the research questions adequately. Since the number of interviewees was only nine, it was not found difficult to manage the interview properly. Semi-structured questions were delivered to the interviewees in a face- to- face encounter. An interview schedule was used as data collection instrument. The interviewees were selected from three public institutions: the Ministry of Federal Affairs (MoFA), the Ministry of Finance and Economic Development (MoFED) and Bureau of Finance and Economic Development (BoFED) of Addis Ababa city. These institutions were selected since they are the potential data sources regarding the governance and IGFRs of the city. All interviewees were selected according to purposive non-probability sampling technique. The employment of purposive sampling was justified because of the assumption that these respondents were resourceful and reliable sources of data due to their

access to the required information. Specifically, the following procedures were followed to select the institutions and the interviewees there from.

Ministry of Federal Affairs (MoFA) is the responsible body for inter-governmental relations in the country. Moreover, the Revised Charter of the city in its Article 61(5) states that the MoFA is the representing body of the federal government to follow-up the activities of the city government and support capacity-building undertakings of the city. Thus, the MoFA was found one of the resourceful sources of primary data to get the overall IGRs of the city with the federal government. Accordingly, three interviewees were selected purposively from the ministry. First, to get general overview on the city's governance arrangement and its IGFRs with the federal government, the Director for IGRs Directorate was taken as one of the respondents of the study. Secondly, in order to obtain more detailed explanations on some issues, two Senior Officers in the Directorate were interviewed. Apart from the MoFA, the MoFED was another public institution to provide primary data on the implications and justifications of the financial figures of Addis Ababa and the regions regarding their revenues, expenditure, transfers and borrowing as well as to get the general overview of IGFRs system of the country. Accordingly, three interviewees were selected from MoFED as primary data sources. The Director for Government Accounts Directorate and one Senior Officer in the Directorate were used to obtain explanations on financial accounts. Additionally, a Senior Officer in the Treasury Directorate was another interviewee in the Ministry to obtain detail data on the fiscal support to the city and the overall system of IGFRs in the country and borrowing procedures. Finally, from Addis Ababa city Bureau of Finance and Economic Development, two interviewees- a Senior Officer of Revenue Collection and Assessment and a Senior Officer in the Budget Department- were selected to get primary data on particular elements in the financial status of the city.

Furthermore, one day interview was made with Dr. Marrara Gudina about the overall status of Ethiopian federalism as well as the Oromo's stand on Addis Ababa. This was important as he is a political scientist, a politician and highly affiliated to Oromo's claim on the city.

1.6.3. Data Analysis Procedures

The data was analyzed in such a way that addresses the research questions as well as research objectives adequately. The experience of federal capital cities regarding their governance arrangement, local government autonomy, national enfranchisement, fiscal support from the national government for their extra costs, and their unique status in the national governance and finance system were reviewed and used it to analyze the case of Addis Ababa. The historical perspective of the city's governance arrangement and its IGFRs was also incorporated to analyze the data in the current framework. The status of the Regional governments in the national framework and their fiscal status was used as a benchmark to analyze the data on the city. Moreover, the accepted principles and general concepts from the review of works on IGFRs were also helpful to analyze the pillars of IGFRs of the city. Finally, tables and figures were employed to present data that would make the analysis easier and simplified.

1.7. Significance of the Study

This study is significant for the following reasons. The recent experiences demonstrate the increasing autonomy of federal capital cities across the globe. The period in which residents of federal capitals had been deprived of their democratic rights has come an end. Thus, this study would be a starting point to discuss about the real challenges and opportunities of Addis Ababa because of its functioning as a capital city. Initiating public debate about multiple roles of the city is one of the significance of the study. Furthermore, the study could bring attention in to policy makers about the risk of having a capital city with adequately undefined intergovernmental relations with the regional and national governments. The findings of the study can initiate further detailed studies on the area so that governance and IGFRs of Addis Ababa would be improved.

1.8. Scope of the Study

Scope of the study is limited to governance arrangement and IGFRs of Addis Ababa as a local government, the seat of Federal and Regional Governments. It is confined to the historical perspective of the City's governance and IGFRs, the current status of the city in terms of its local government autonomy, fiscal autonomy, fiscal support and regulatory frameworks of its borrowing.

1.9. Limitations of the Study

There is no comprehensive approach in the study of capital cities. Moreover, it was so difficult to obtain empirical studies on capital cities particularly in developing countries. Thus, the prime limitation of the study is inadequacy of theoretical frameworks in the study of capital city. This is the reason for the study of capital cities mainly under comparative approach in most of empirical studies. Additionally, some macro-level factors such as policy frameworks, institutional and political systems and mechanism may not be addressed adequately.

1.10. Organization of the Study

The paper is organized within four chapters. Chapter one deals with background part of the study. It includes introductory section, statement of the problem, objective and other related areas. In the second chapter, review of related literature was presented. Third, analysis, findings and interpretation are incorporated in chapter three. Finally, conclusions and recommendations are organized in chapter four.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Introduction

Literature in the area of capital cities is scarce. Furthermore, most of the empirical studies in the area mainly focused on capital cities in the western countries. Finance and governance issues in regards to capital cities lack empirical studies and theories. In this section, effort is made to present main theoretical and empirical studies in capital cities. The practical experience of some federal capital cities is also provided.

2.2. Status of Capital Cities in the National Governance System: Conflict of National and Local Interests

The position of a city in the national system of urban governance may be modified to take accounts of special problems, needs or national goals. In almost all countries the capital city is afforded special status, and more often than not is given more fiscal autonomy, than other cites in the nation. Several factors have led to this special treatment. First, the machinery of government, and therefore a disproportionate amount of tax exempt property is in the capital. Second, because both the service provided and the local administrations are highly visible so that local government finance is inevitably a national political issue. Third and perhaps most important, the capital city tends to be the primate city. As such, it usually offers a wider range of public service than other local governments in the country. Hence, this special status of a capital city creates a separate intergovernmental system (Esubalew et al, 2008; PP: 55).

All nations of any significant size confront one of the fundamental problems of governance. How should the competing claims of central and peripheral authority be resolved? The issue is more ancient than the kingly controversies among the twelve tribes of Israel (Wright, 1990; Cameron, 2001). This is particularly true for capital cities that have multiple roles with conflicting interests

of the local, regional and national actors. In this section, the tension in governing capital cities, their local government autonomy and governance arrangements are discussed.

2.2.1. The Natural Tension in Governing Capital Cities

In all countries, tension exists between the national government and the capital cities over issues related to the capital role. Every federal country faces a difficult task in trying to decide how its national capital should be governed. The problem of governing any capital is difficult because there is always a conflict of interest between the national government and the people who live in the capital city. The government wishes to control and develop the capital in the interest of the nation as a whole, while the people of the city naturally wish to govern themselves to the greatest extent possible (Walman et al, 2007). Young (2009) adds the fact that there is no way to solve these tensions because the preferences and priority of the local citizenry will clash with the national's ones. Democratic federations face further challenge in trying to balance the demands of democracy between the nation as a whole and the capital city (Harris cited in Walman et al, 2007; pp: 4).

The local-national tension and conflicts in capital cities is not new. Historically, it is the result of the growing separation of political and economic power. Even before the modern nation-state, cities and towns evolved into an increasingly powerful autonomous economic force that competed with the strength of other centers of podes. Particularly in developed states, as capital cities developed more autonomous economic bases generated by massive urbanization, industrialization and commercial trading accompanied by the rise of personal and property rights, the emerging capital and middle classes become an increasingly power base in capital cities. The result was that the national government no longer held a monopoly of influence over the city's development (Row at, 1969).

In some cases, this growing influence of commercial activities in the capital would eventually lead some countries, such as Brazil and Nigeria, to relocate the government to a new, less

threatening location. To be a capital was only a partial gain for its residents. In the conflict between local autonomy and royal power, the cities usually came up short. Although it may be possible to measure fiscal and economic impacts, it would be difficult to address the larger social and political impacts of hosting the national government. The result is that it is very hard to either measure or achieve "a just balance between the interests of the local residents and the interests of the nation as a whole. The local-national relationship in capital cities is thus a complex symbiotic relationship, which varies tremendously from nation to nation and from one era to the next. This relationship is both dependence and synergy, exploitation and opportunitism (Campbell, 2001).

The relationship between the federal government and the capital city government becomes a hugely significant issue: while the interests of states and major cities in the federation, against the special symbolic value to the nation of its head city, and against the need to ensure the smooth running of the federal government itself (Wettenhall, 2010). And, Slack and Chattopadhyay (2010) add that dealing with these relationships present delicate policy problems. The relationship between capital city and the national government can alternate between cooperation and conflict.

2.2.2. Local Government Autonomy of Capital cities

Perhaps the most important issue of all in establishing local autonomy is to do with how local council and chief administrative officers of the city are selected, with the definition of the powers of the council and the administration. For example, it may matter little that local government as have a broad range of fiscal powers if all local decisions about financing and governance rest in the hands of centrally appointed officials. Again, a broad range of practices is followed. At one extreme there are very centralized systems (such as those in Bangkok, Seoul, and Tunis) in which the head of the city governments is appointed by president. In some capital cities, some members of the council are elected while others are appointed by the government. There is also the provision, in most developing countries, for the central government to dissolve

the local council. Again, however, what these provisions mean for local autonomy depends on the degree to which the government exercises its powers. For example, Kingston's local council is elected but may be abolished by the central government if the latter finds evidence of an abuse of power (Esubalew et al, 2008).

In federal systems the degree of local government autonomy depends on constitutional, legal, historical governance and institutional factors. For example, capital cities having statehood status have strong constitutional mandate to exercise their power of self governments. On the other hand, very few countries having a federal district have provided the local residents with very much self government (Walman et al, 2007). These local governments typically operate in the shadow of their national government, with restricted power and resources than those enjoyed by other cities (Rowat, 1968). In other cases, the local self governments are subjected to provisions where by the national government can override local laws or refer to contentious issues to joint national government- local government committees to negotiate differences (young, 2009). In some capital cities such as Canberra any territorial law is un-operative to the extent that it is inconsistent with federal law. The federal congress has retained authority over local decisions of Mexico City. The Italian legislature may veto local decisions over Rome (Fauntroy, 2004). Constitutionally, the laws of the national government have precedence over the laws of Brussels (Walman et al, 2007).

Another important dimension of the local government autonomy of capital cities is representation of local interest at the national political system, equal to that of residents elsewhere in the country. This is what is commonly known as "National Enfranchisement". The political rights of national capital and their representation in their national legislatures speak to the fundamental of representative democracy. The central tendency of democracy is that the people have a say in the operation of their government. Experiences vary across capital cities in Federal countries. Naturally, residents of "City –states" have full representation in the national political system as to other states of their respective countries (slack, 2008). The District of Columbia has no representation in the upper chamber of congress, the senate (Fauntroy, 2004).

Hosting the nation's government presents opportunities and challenges to any capital city. The national government can bring economic opportunities, cultural amenities, and a sense of being at the center of importance to a local citizenry. At the same time, the presence of the national government often imposes great fiscal and security burdens on its capital as well as interfering with local governance and limiting the rights of its citizenry (Campbell, 2001).

Finally, the last two and three decades have witnessed the growing emphasis given to capital cities, particularly in those federal countries. It is after 1989, Brussels has had elected self government. Furthermore, including Washington D. C most of the Federal districts received "home rule" only within the past 20 years. It was in 1988 that Brasilia received elected local government. Prior to 1996 Mexico City's mayor was appointed by the president of Mexico. Residents of Canberra get full voting right as of 1974. Buenos Aires, Brasilia, Canberra, Islamabad, Mexico-city have full and legitimate representation in the national political system (Fauntroy, 2004).

There are differences in the role of the national government in the local decision making of capital cities. This role depends on political structure, constitution, level of decentralization and historical development of countries. In federal systems, regions/provinces have usually constitutional safeguard from federal interferences. But under the framework of capital cities in federal countries the trend may be different. Thus, we need to answer the questions: Does the capital cities have local self-government and how is that self government limited, if at all, because of its function as a capital city? How is the "national interest" of the capital city protected within the context of local self-government? These questions are important as federal capitals have dual identity: as a viable local government to reflect and secure constitutional rights of its residents and as a capital city to reflect and serve interests of the nation as a whole. It is therefore the usual trend to see the federal government to involve in local government. But, the degree of national government involvement varies across nations. The governor of Caracas is an appointed positional giving the national government indirect influence over the affairs of the city (Walman et al, 2007).

The national government has more control over its capital city governed as a federal district. In this case, although local self government elected by their residents, they are usually subjected to provisions whereby the national government can override local laws or refer continuous issues to joint national-local government committees to negotiate differences (Fauntroy, 2004). For instance, the local government structure, including its representation in parliament, of Canberra and Washington D.C. was created by statute; and could be changed or abolished. Although residents of Buenos Aires are given the right to elect their mayor, the national government could impeach the elected mayor as it did in 2006 (Walman, et al, 2007). In Brasilia, even though the residents elect their governor; the senate acts as the legislative branch of local government. In USA, the Congress retains ultimate right to review the local budget and taxes, overturn laws passed by the City Council, and terminate the home rule through a major vote. Brussels has the same powers as the other regions. Constitutionally, the laws of the national government have precedence over the laws of Brussels (unlike other regions). Thus, the federal government has theoretical ability to suspend or cancel any ordinance (Fauntroy, 2004).

2.2.3. Governance Models of Federal Capital Cities

Capital cities in federal countries are different and their governance is more challenging than in unitary countries. Most federal countries are large and usually diversified society where capital cities are required to reflect the diversity and to serve as symbols of national unity. Slack (2008) indicates that there is usually complexities and conflicts around location of capitals, governance arrangements, and national, local and state roles of capital cities in federal countries. Rowat (1968; pp: 345) reveals that the difficulties that federal governments experience in governing their capital cities arising from the nature of federalism is that of giving the federal government sufficient control over its own capital and preventing the capital from being dominated by one of the states.

In unitary system all local governments, including capital cities, are subservient to the national government. All governing powers a city exercise are granted- subject to removal- by the

national government. Accordingly, in almost all unitary nations in the empirical studies of young (2009), Walman et al (2007), Slack (2008), Mosha (2004) and Fauntroy (2004), the national government interfere with the capital's decisions. However, this power applies to all local governments in these nations, not just the capital cites. Walman et al (2007) argues that Stockholm and London, both in unitary nations, have substantially different governance system from other cities in their respective nations. However, these differences are clearly related to the dominant size and importance of these cities in the national system rather than to their status of capitals.

Since capital cities in unitary system are usually governed in relatively similar way as to other cities of the countries; and the focus of this study, Addis Ababa, is a capital city of a federal government, it would be important to discuss about the broad governance arrangements of the federal capital cities. There is considerable variation in governance arrangement of capital cities in federal countries, reflecting differences in national cultures, historical development, constitutions, political structures and ideologies. Broadly speaking, in federal countries capital cities can be governed within any of the following three arrangements.

Under a federal system, the powers, duties and responsibilities of state government are defined in the constitution, and local governments are creations of the state government. Therefore in a federal system, central -state relations normally are defined by the constitution whereas state-local relations are organized as in a unitary state. On the other hand, a unitary system links large local governments directly to the centre. Because local governments are statuary bodies thus they are subjected to direct control by the central government and may be abolished at its pleasure (Esubalew et al, 2008). In unitary systems all local governments (including all cities) are subservient to the national government. All governing powers a city exercises (taxation, regulation, etc) are granted (and subject to removal) by the national government.

Finally, it is important to mention the often under emphasized or even neglected dimension of actors and relation in the IGRS environmental that are becoming increasingly important in local

governance: non profit organizations, civil society organization, city to city relations etc (Shah, 1994). Although many of the political, cultural, and symbolic functions of capitals in federal countries are similar, there is a considerable variation in many of other characteristics of these cities (Slack, 2008). The finance and governance of capital city is always complex as it must serve the interests of residents of the city as well as the nation (Slack and Chttopadhyay, 2010).

Thus, the challenge is to achieve a just and proper balance between the interests of the local residents and the interests of the national government. Federal governments have experimented with a variety of governance structures all reflecting the desire to treat the federal capital in a manner different from that used for governance of other cities within the country (Wettenhall, 2010). Among federal capitals, there are many similarities and many points of differences. What determines which of these three models a nation will pursue? The internal political structure of the nation (including the levels of centralization) certainly plays a central role. But a capital city's territorial administrative arrangement, like the location of the capital city itself, is also the product of chance, historical legacies, the relative political and economic power of the capital city, and the balance of power between regional and national political force. Efforts to shift this balance of power between the local, regional and national levels often lead to changes in administrative structure of the capital city (Rowat, 1968). But no one arrangement is inherently better than the other two. The challenge in governing federal capitals reveals the paradox of a capital city reflecting the interests of the local and the national government.

I. Governing a Capital City as a "Federal District"

A capital territory or capital district is normally a specially designed administrative division where a country's seat of government is located. Federal district capital cities are seats of national government, not under the jurisdiction of any one state. These capital cities are governed by separate national legislation. The main motivation behind establishing the seat of government in federal territory is the desire of the government to develop and have adequate control of its capital. It is often argued that, as a matter of principle the capital of a federation should not be

governed by laws of any one state. There is a danger that the government of the state or the capital city may interfere with proper functioning of the organs of the national government. Furthermore, federal districts are particularly appropriate in decentralized federations, where the sharp division of power between the national government and regional governments would otherwise prevent the central government from having control of its own capital (Rowat, 1968).

Although federal districts reflect the national interest, experience with federal districts has shown that other basic problems of governing capitals are left unsolved. The national government may dominate the public affairs of the city at the expense of democratic principles (Walman, et al 2007). Within a federal district, the national government can have considerable control over the financial decisions of the capital city. However, the extent of federal control ranges from Abuja (tightly controlled by the federal government) to Canberra (largely an autonomous city state). Most often, these cites have limited fiscal autonomy while they have direct access to federal funds (Slack, 2008). According to the study of Harris (cited in Walman et al, 2007), none of the federal districts provide the "full amount" of self government to its local citizenry available to other citizens; and even in the most democratic systems- Canberra and Brasilia- the national governments have "exclusive jurisdiction" and ultimate power over their federal districts. Rowat (1968) concludes that if a federal district seems desirable there is much to be leant from Carcass and Delhi, where a desirable balance between national and local interests seems to have been worked.

The main motive of selecting or founding a neutral capital as a federal district is to provide the federal government sufficient control over its own capital and preventing it from being dominated by regional and/or political identity; and this meant having a capital that represents the nation as a whole and serves as a symbol of national unity (Nwafor, 2005). The failure of a federal capital, particularly in multi-lingual and multi-cultural states, to become a national symbol may threaten national unity. For instance, the inability of Ottawa, Canadian capital being governed within English-speaking states, to represent the whole country has been taken as one of

the factors for the problem of Quebec. However, federal districts as the locale for the capital city may over balance the scale in favor of the federal government (Harris, 1989; pp: 245).

Some countries relocated their capitals and governed as federal districts. Nigeria to placate its multi-ethnic and multi-confessional population moved its capital from Lagos to Abuja in part because Abuja was located between the largely Muslim North and the Christian South so it was not partial to either one. Hence, Abuja became a federal district neutral to any group and designed as a "symbol" of national unity. Brasilia was built to bring the capital, previously Rio de Janeiro, to Brazil's mid west and closer to the other regions and better integrate the entire nation. Hence, Brasilia, the only city in the world built in the twentieth century to be awarded by UNESCO a status of being a "world heritage site", has become a federal district. The Argentina government made Buenos Aires under its district by taking it away from the Buenos Aires province (Nwafor, 2005).

In the end, capital cities administered as federal districts do best: if there is strong national support for the capital, if the city has strong revenue generating local economy, if the capital can build a solid middle /upper- middle class base of highly skilled people, and if the city can tap into the resources of surrounding suburban hinterlands. The study of Young (2009) provides the lesson from Washington case when these conditions are not present, he argues that Washington, D.C suffers from federal neglect, American anti-urbanism and persistent urban-suburban racism: that is, from a fundamental lack of national commitment to the nation's capital.

Most federal countries govern their capital cities under "federal district" model. This is particularly true for large and/or multi-lingual and multi-cultural countries. Some of the countries under this category include (United States – Washington, DC, Mexico-Mexico City, Brazil-Brasilia, Argentina-Buenos Aires, Nigeria-Abuja, Australia-Canberra, Russia-Moscow, Pakistan, Indonesia, Malaysia, India-Delhi, and Venezuela-Caracas). Currently, a majority of federations have chosen the federal district type of arrangement ; mainly large, highly

decentralized and/or heterogeneous countries such as USA (Washington DC), India (Delhi), Russia (Moscow), Nigeria (Abuja), Mexico (Mexico City) (Walman et al, 2007).

II. Governing Federal Capital Cities under the Jurisdiction of a State

Federal capitals under the law of a state in a federation are governed in much the same way as other cities in that state. In this case, state government has more control than the federal government over the capital city. They are established local government units within one of the regular provinces of the federation (Uitermark, et al, 2005). Furthermore, the federal government has limited institutional interaction with capital city. Thus, there are usually informal mechanisms for federal-state-municipal coordination. However, federal government can influence through national capital commissions, federal spending powers and federal land ownerships (Slack, 2008; Rowat, 1968). Although the national government should have definite role in developing the capital in the interests of the nation as a whole, the constitutional power to do this may not exist. This is mainly because the powers in federal constitutions are usually divided in such a way that the national government can not preempt state or local jurisdictions in certain policy areas, such as municipal governance structure, transportation design and construction, registry issues, security, planning and zoning. For instance, the Canadian government does not have planning powers over Ottawa and can not even control the construction of its own buildings (Walman et al, 2007; pp: 9). Under this arrangement, there is usually complaints about lack of federal recognition and support. Furthermore, Rowat (1968) indicates that the laws, influence, and culture of the governing state dominate the capital city and make it unrepresentative of the nation as a whole. These cities face with problems of divided legal and financial jurisdiction.

Adhikari (2008) argues that the governance and maintenance of a national capital territory is too important to be left to the provincial government and politics, no matter how efficient these can be. He further states that a nation's reputation rests on its capital. However, federal Capitals governed by state have not experienced the same difficulties. For instance, capital cities in

relatively centralized federations usually have smooth relationships with their national governments than those in relatively decentralized federations, such as Ottawa of Canada and Bern of Switzerland. Where the state governing the capital city is relatively large and stable to dominate the federation, there is little likelihood of disagreement between the state and national government, and the centre manages to control its satisfaction. When a country has one political party, the possibility of disagreement between the federation and the capital city or its governing state is not very great. Bern (Switzerland), Ottawa (Canada) and Cap Town (South Africa) are some of the capital cites being governed within their respective states (Adhikari, 2008).

III. Governing Federal Capital Cities as a "State"

These capital cities have the power and responsibilities of both cities and states. City - states as, a result, tend to have more powers than other cities and generally more revenue raising capabilities (Slack, 2008). Because of the degree of autonomy acquired with full statehood, a federal capital which is also a state gives the state even more control over the federation's seat of government than does a capital which is governed by a state from outside (Rowat, 1968). Walman et al (2007) adds that while a city-state arrangement assures the residents of a capital city will enjoy democratic rights and privileges on par with other citizens of the country, it may give the central government even less control than when the capital is with in a state. In addition, city-states, because of their constitutional fixed boundaries and high densities, may quickly become over bounded, with population spilling over into adjacent states causing serious inter jurisdictional coordination problems. They may have also limited fiscal capacity due to small size; limited access to discretionary federal funding due to constitutional parity with other states. Finally, Rowat (1968) proposes that where the capital of a federation is very large, like Vienna, and has many industrial and other interests not directly related to its functions as the capital, the case for an autonomous city-state may be strong. Capital cities with a status of statehood include Vienna and Berlin.

2.3. Intergovernmental Fiscal Relations (IGFRs) in the Context of Capital Cities

The design of taxing, spending and regulatory authorities and the structure of intergovernmental transfers are fundamentally important to efficient and equitable provision of public services in a given country. Accordingly much theoretical and empirical work has been done on fiscal federalism- public finance of a state with more than one fiscal tier. Unlike other branches of economics, fiscal federalism offers specific guidance for nations attempting to reform or restructure their fiscal relations (Shah, 1994). World Bank (2000), however, argues that there is much disagreement about the proper way to organize the public sector to finance and deliver services. The debate centers on questions about which level of government should provide which service, how much managerial and fiscal autonomy the local governments should have, whether the revenue base given to local governments is commensurate with their expenditures responsibilities and how much fragmentation in the structure of local governments should be allowed.

The current trend in the Inter Governmental Fiscal Relations (IGFRs) indicates that most countries have involved various reforms to give Sub National Governments (SNGs) more fiscal powers, mainly through fiscal decentralization. Fiscal decentralization refers to the set of policies designed to increase the revenues or fiscal autonomy of sub national governments (Falleti, 2005; pp.329). Inter Governmental Fiscal Relations (IGFRs) consist of four important pillars; expenditure assignment; revenue assignment; intergovernmental fiscal transfer; and borrowing to sub national governments. Brief overview of these pillars is discussed as follow.

2.3.1 Assignment of Expenditure Responsibilities

The first fundamental step in the system of IGFRs should be the clear assignment of functional responsibilities among different levels government. The assignment of expenditure responsibilities is often considered the first pillar of fiscal decentralization reform (Mclure and Vazquez, 1998). Instability and controversy in the practice of decentralized systems has followed

when the law was silent or unclear about the competencies and expenditure obligations of different levels of government (Harris, 1989).Fiscal federalism literature provides broad guidance in delineating expenditure responsibilities among member units in a federation. The basic principles, however, enunciated by this literature are relevant even for unitary states where SNGs are simple extensions of higher level government (Shah, 1994; PP.16). These principles include:

I. Efficient provision of public service: Public services are provided most efficiently by "the jurisdictions having control over the minimum geographic areas that would internalize benefits and cost of such provision". Nevertheless, some degree of central control or compensatory grants may be warranted in the provision of services considering spatial externalities, economic of scale and administrative and compliance costs.

II. Fiscal efficiency: Decentralized decision making result in differential net fiscal benefits being realized by citizens depending on the fiscal capacities of their place of residence. It is argued that the national government should have a role in correcting such a "fiscal inefficiency"

III. Regional equity: Differential net fiscal benefits across various jurisdictions also lead to unequal treatment of citizens with identical private incomes depending on their place or residence. This calls of a role by the national government in dealing with these fiscal inequalities.

IV. Preservation of internal common market: Decentralization of government regulatory functions creates a potential for disharmonious economic relations among SNGs. Therefore, constitutional guarantees for the free domestic flow of goods and services may be the best alternative to assigning regulatory responsibility solely to the centre.

V. Economic Stabilization: It is customary to argue that federal government should be responsible for stabilization policies because such policies can not be carried out effectively by a local jurisdiction.

VI. Spending power: one way to induce lower level governments to follow priorities established by the higher level government is for the higher level government to use its powers of the purse, the so called "spending power". Both the national and state governments could legitimately pursue such policies.

2.3.2 The Assignment of Revenue to Sub National Governments

The decentralization of expenditure and public function is only "one side of the coin" of fiscal federalism. Just as well it has to be settled how this delegation is financed and how independent the local authorities are in their provision of public goods and services (Werner, J. and Nguyen-Thanh, D., 2007). If fiscal decentralization is to be a reality, SNGs must control over their "own" source of revenue. SNGs that lack independent sources of revenue can never truly enjoy fiscal autonomy; they may be under the financial thumb of the central government. The question is then which revenue sources can and should be assigned to SNGs and how these assignments are to be effected (McClure and Vazquez, 1998). The division of revenue source among federal and SNGs constitutes the tax assignment problems. Musgrave (1969) uses equity (consistence of revenue means with expenditures needs) and efficiency (minimizing resource cost) criteria to suggest the following broad principles of in tax assignment: 1) Progressive redistributive taxes, stabilization taxes, unequal tax bases between jurisdictions, tax on mobile factors, should be centralized. 2) Stable taxes, residence based taxes, immobile factors, should be levied locally.3) Benefit taxes and user charges can be levied appropriately by all levels. Shah (1994; pp.30) proposes an alternative frame work for tax assignment. Accordingly; customs, personal income taxes, corporate income taxes, wealth taxes, multistage sales tax are to be assigned by central government. On the other hand, resource rent taxes, motor vehicle tax, driving taxes and property

taxes and frontage charges are suitable for SNGs. And, user charges, sin taxes, single stage sales taxes are suitable for imposition by all levels of government.

According to McClure and Vazquez (1998), each level of government should be assigned taxes that are related to the benefits of its spending. Thus, the proper assignment of taxes that are related to benefits depends on the assignment of expenditure functions. The central government should be responsible for expenditure having benefits that extend sub national boundary or that are characterized by economies of scale not realized at sub national level. SNG comes in to its own in the provision of goods and services characterized by limited economies of scale and limited spillovers of benefits to other jurisdictions.

Cities are all about economies of scale. Successfully cities are centers of entrepreneurship and innovation that attracted talented and skilled workers and foster productivity and growth. In this case, capital cities usually tend to have greater potential revenues bases, some which may be shared with central governments (Ahmed, 2007). Mega cities and large capitals have significant potential of earning revenue from property taxation. For instance, Nairobi and Dare Salaam draw 60 and 56 percent of their (revenues from property taxes respectively). There is often some room for improvement in local property taxation to give the local authorities adequate own-source revenue at the margin. Bogotá's, for example, made significant advances in its collection of property tax revenue by using the modern principles of self-assessment, subject to greater reliance on market-based valuation techniques. Harsch (2004), on the other hand, collecting all property taxes that could be paid is not easy in African cities. Property valuations often are incomplete and out of date, and it is very difficult to value property in unplanned residential areas as legal ownership is poorly documented.

Among federal capitals, Brussels, Delhi, Buenos Aires, Berlin and Mexico City are the largest cities and major economic centers in their respective countries. Thus, these cities have huge revenue potential. Buenos Aires, for example, measured by Gross Geographic product amounts to nearly a quarter of Argentina's as a whole in 2006 Brasilia's GDP made its residents with the

largest per capita income of any city in Brazil. But, as the city was mainly designed to host the federal government, the public sector accounts for 40 percent of the city's jobs Mexico City alone generated 21 percent of Mexico's GDP (Wikipedia). The symbolic capital city often lacking a healthy industrial or commercial base, on the other hand, does not generate enough taxes to cover the substantial costs of operating the real city. Canberra, Bern, Ottawa and Washington, D.C is relatively small within their national context and recognized as administrative-oriented capitals. Thus, much of their economies depend on the presence of their national governments (Campbell, 2001).

Economically, capital cities have a double existence. They are unique creatures of the national government with a guaranteed public sector economic base, seemingly outside the normal economic networks of a nation's normal cities. Yet at the same time they are local economies subject to the vicissitudes of economic restructuring, global competition and fiscal constraints like all other cities (Gottmann and Robert, 1990).

2.3.3. Intergovernmental Fiscal Transfers (IGFTs)

Fiscal transfers between governments have for good or for ill, long been a dominant feature of IGFRs in many countries. Whether transfer results in good or ill depends on the incentives that transfer systems created for both central and local governments. What matters are the IGF transfer effects on such policy outcomes as allocative efficiency, distributional equity, and macroeconomic stability. Furthermore; since circumstance and objectives differ no simple, uniform pattern of transfers is universally appropriate (Bird and smart, 2001). IGFTs are the corner stone's of SNGs financing in most developing countries However, the general term "transfers" refers to a number of different kinds of public financing instruments: grants, shared taxes, subsidies, and (Bahl,2001).

Intergovernmental fiscal transfer has different objectives and implication. Transfers constitute the principle way in which countries achieve vertical fiscal balance, that is, ensure that the revenues and expenditure of each level of government are approximately equal. Transfer also serves an equalization instrument. Horizontal fiscal balance, or equalization, is controversial. Equalization the actual outlays of local governments in per capita terms can induce poor incentives for local governments to raise their revenues. To avoid such problems, most countries aim either to equalize the capacity of local government or to equalize the actual performance of local service. The correct way to deal with jurisdictional spillover is with some form of matching grant, which has advantage of allocative efficiency (Bahl, 2001).

There is enormous variation in the extent to which capital cities are treated differently than other cities in terms of fiscal-transfer s, payments for capital city functions, and compensation for property exempt from taxation (Walman, et al, 2007). Young (2009; pp: 2) argues that national governments should provide their capital cities with at least two categories of specific compensation. The first is compensation for the additional expenses caused by hosting the Nation's government in categories such as security transportation, sewage and water, and other infrastructure. The second is compensation to replace revenue lost due to restriction on capital city to tax, such as with exempt property. The empirical studies of Slack (2008), Walman, et al (2007), young (2009) indicate that although most NGs provide some support to their capitals, there is considerable variation in the nature and amount of the assistance. For example, most countries such as, Canada, Germany and Brazil reimburse their capitals for their lost incurred because of the federal presence through specific assistance.

Where capital cities levy property taxes, some national governments (such as, Canada and Belgium) pay those taxes, and others make no payments at all. Furthermore, in some capital cities, the federal government provides grants for specific services such as transportation and parks; in others, general purpose grants are provided; and in yet others little or no federal grants are provided but provincial /state grant are given to capital cities in the same way as they are given to other cities. Finally, in the matters of federal-capital city financial arrangements,

Brussels is fairly distinctive, with a "cooperative agreement" providing for federal funds to promote its international role (as a capital of European Union) and its performance of capital city functions (Wettenhall, 2010). The comparative study of Fauntroy (2004) on 11 capital cities provides the percent of the total cities budget from national and/or state governments. It is summarized as follow with the capital city and the percent of assistant from the city's total budget in bracket: London (83%), Brasilia (72%), Caracas (66%), Canberra (47%), Bern (41%), Mexico City (39%), Berlin (34%), Paris (15%), Ottawa (8%), and Washington, DC (10%). In African context, the Botswana government covers the entire capital projects of its capital city. In Brazil, a "constitutional fund for the federal district" was created in 2002 to provide Brasilia with fiscal assistances.

2.3.4. Sub-National Government Borrowing

Developing an adequate local access to investment capital is one of the important pillars of fiscal decentralization. Local borrowing is an important source for financing long-term development projects such as roads, bridges, and water works. Local borrowing for such projects is justified on the ground that the benefits of these projects often last decades; thus, future taxpayers should bear the costs of these projects (Landon, 2003). Sub-national governments in many developing countries get much of their capital budget from intergovernmental transfers, but some decentralized governments, typically states, provinces, and large cities, are able to borrow in some countries (Smoke, 2000).There is a growing appreciation of the benefits associated with sub-national governments' ability to raise their own capital funds through borrowing in the market place . Urban governments are under immense pressure to extend services to rapidly growing populations. The scale of finance immediately required for these services, especially those needing expensive new infrastructure. Grants from federal to regional and regional to local governments are not forthcoming in the volumes required and large surpluses from urban government's general sources are now a thing of the past(Van Duk ,M. and Fransen,J.,2008). Hicks (1946), however, warns that borrowing freely for current needs pay put local governments in danger of bankruptcy, a situation which never be allowed to arise.

According to Smoke (2000), the approach that a central government takes towards enhancing sub-national government access to loans depends on the fiscal context. In case where decentralized governments are relatively strong, efforts to develop direct access to capital markets make sense, but the central government must regulate municipal bond markets, develop and enforce credit limits, and stop bailing out sub-national governments that default on their debt. In more typical cases, where sub-national government investment responsibilities are smaller and they are fiscally weak, some type of municipal development fund will be generally the correct approach. Municipal credit institutions are initially regulated or managed and substantially capitalized by central governments. This approach gives central fiscal authorities considerable control over borrowing activities of sub-national governments.

2.4. Summary

The chapter discussed the reviewed materials on capital cities in the framework of their governance arrangement and their IGFRs. There is lack of empirical studies on capital cities. The natural tension and difficulties in governing capital cities tend to be neglected. But, capital cities are getting more attention in empirical studies.

CHAPTER THREE

DATA PRESENTATION, ANALYSIS, INTERPRETATION and FINDINGS

3.1 Introduction

In this chapter , data obtained from primary and secondary sources are presented and analyzed. It also covers the findings, interpretation and implications drawn through the analysis. The chapter is organized in such a way that would allow consistence according to the logical flow of meeting objectives and answering questions of the study. It includes the historical trends of the city's governance arrangement and its IGFRs with national governments of the country during the Imperial and the Derg Regimes; the current status of the city as a capital of a Federal State. The four pillars of IGFRs in the context of Addis Ababa city administration are also examined qualitatively and quantitatively.

3.2 Profile of Addis Ababa City as the First Permanent Capital of Ethiopia

Addis Ababa, merely a century old, is only the last in a long succession of capital cities dating back to the first century B.C. The capital has shifted every few centuries over the past two thousand years. The pre-Christian city of Axum was followed as capital by Lalibela, Gorgora, Gondar and Mekele, all of which are located in Northern Ethiopia (Bahru, 1991). These cities and towns being identified with the power struggle of the period, they rose and fell with the waxing and wanting of political power in different regions (MoWUD, 1999). Thus, the massive urbanization and primacy of Addis Ababa is a new phenomenon in Ethiopia. Addis Ababa was established in 1886 by Emperor Menelik II as the capital city of the emerging modern state of Ethiopia. After becoming the capital of Ethiopia, Addis Ababa grew by leaps and bounds and took on the character of a boon town (Pankhurst, 2001). Writers on the historical development of

Addis Ababa have forwarded factors allowed the city to escape the fate of its predecessors and become the permanent capital and city of about three million it is today.

Perhaps the most important event was Ethiopia's victory over Italy at Adowa in 1896. Finished their duties at war, the nobility settled in Addis Ababa, further concentrating the power of the Empire in the capital. As Menelik's fame and fortune grew, foreigners flocked to Addis Ababa to trade and conduct business in the capital of the "Champion of Adowa". Menelik II, Ethiopia and hence Addis Ababa, had gained credibility and the respect of the world. Thus, by investing heavily in Addis Ababa, these foreigners from Europe, Arabia, and India, played a direct role in preventing a relocation of the capital.

Furthermore, the completion of the railway connecting Addis Ababa to the French port of Djibouti provided access to trade and transport by sea and firmly established Addis Ababa as the political, commercial and cultural capital of Ethiopia. Finally, Eucalyptus trees, imported from Australia, saved Addis Ababa from loosing its status of hosting the central government, by settling shortage of wood for fuel and building materials (Bahru, 1991; Pankhurst, 2001). Thus, as of its establishment, Addis Ababa has always been in the centre stage of political and administrative power. Garretson (2000; pp:143) in his study on " A history of Addis Ababa from its foundation in 1886 to 1910" concluded by outlining Addis Ababa's evolution as a predominant economic hub of the newly created empire. Following the battle of Adowa, foreign countries opened legations in Addis Ababa, foreign businessmen flocked into the city to compete for concessions and trade, and small manufacturing and various construction firms were established. Addis Ababa, thus, became a permanent capital, ending the long tradition of Ethiopian roving capitals.

As it was noted earlier in chapter two of this study, history plays a role in the study of capital cities, that is the era in which the city was created as a capital city. In this sense, the period Addis Ababa was established as a permanent capital city of contemporary Ethiopia was the period of great expansion, unification and nation-state building. Although there is a disagreement among

historians and politicians on the age of Ethiopia as a country (for some it is more than 3 thousand years, for others it is little more than a century), the present structure and geographic demarcation of the country was the result of Emperor Menelik II expansion.

Historians like Bahru (1991) mentioned that the importance of the Addis Ababa site was its potential for expansion, and to gain control of Southern Ethiopia. The Emperor found it a useful base for military operations in the South of his realm (Pankhurst, 2001). Thus, it can be said that establishment of Addis Ababa had historical attachment with the formation of the modern state of Ethiopia. In short, the city was established as a capital city through the process that created nearly the current state of Ethiopia. Therefore, being the permanent capital of the country, Addis Ababa could be perceived as a symbol of centralized and unified country that declared the end of "regional lords" and the realization of Emperor Tewodros' dream. Due to this highly centralization policy of the Imperial regime, Addis Ababa has become a primate city with unevenly concentration of urban population, socio-economic infrastructure, and economic and political power of the country.

Addis Ababa is located almost in the center of Ethiopia and it is an altitude of about 2,400 meters above sea level. It had built up area of 290 squares Km in 2004 (UN-Habitat, 2009). Addis Ababa has now an estimated population of 3 million, hosting nearly 30 percent of the urban population of the country. Thus, it is an urban oasis in an overwhelmingly rural country, melting pots amid ethnically-based regions. Apart from its role as a local government for its residents, Addis Ababa hosts the Federal government, the Oromia regional state, the African Union (AU), the United Nations Economic Commission for Africa (UNECA), and various regional and international organizations. Thus, Addis Ababa could be defined as "supra-capital city". It is the primary center of the country's social, economic and political activities.

3.3 Historical Overview of Addis Ababa's Governance Arrangement, and its IGFRs with the Central Governments

As any capital city, governance arrangement of Addis Ababa city and its fiscal relations with the national government is the product of cultures, historical and political structures and ideologies of the country. Throughout its history of a century as a capital city, it has hosted a number of governments with different political systems and state structures. As the nature and form of the governments, which the city has been serving, change of its role as a capital city and its relations with them would be also changing. Broadly speaking, Addis Ababa has hosted national governments that could be categorized into three general forms: the pre-1974 Imperial Regime, the socialist Derg Regime between 1974 and 1991, and the current EPRDF-led government as of May, 1991. The first two regimes were well known with their strongly centralized structure within unitary form of state, while the current political system operates within ethnic-based federal state.

Although the primary focus of this study is on current governance arrangement of Addis Ababa city and its IGFRs with federal government, brief assessment of the past trends will provide better benchmark to critically assess and compare the present status of the city. Therefore, the following sub-sections are devoted to assess the governance arrangement, fiscal powers, and local government autonomy of Addis Ababa city during the Imperial Regime of Haile Sellassie I and the socialist-military Regime of the Derge. This would be important to capture clear understanding about the way Addis Ababa was treated as a capital city different from other cities during these periods.

3.3.1 Addis Ababa as Imperial City

Since its establishment as a capital city in 1886 to 1974, Addis Ababa was an Imperial City for Menelik II, Iyasu, Zewditu and Haile Sellassie I. Administratively, it was during the reign of Emperor Menelik II, the first Addis Ababa city municipality was established. In line with this,

the Emperor decreed the urban land law and appointed the city's first Mayor. In Empress Zewditu Regime, the municipality was assigned to undertake activities like regulating land ownership certificate and to collect taxes from land owners. During this period, however, there were no comprehensive legal and administrative frameworks for viable municipal administration (Abate, 2009, Master Plan Revision Office, 1979; MoWUD, 1999). Therefore, it would be helpful to focus on the Regime of Emperor Haile Sellassie I in detail.

The Haile Selassie's government followed a highly centralization policy in more systematic way. In order to control the ultimate power and legitimate his absolute power, the Emperor granted the first constitution in the country. The constitution was merely an instrument to consolidate the Emperor's power. Hess (cited in MoWUD, 1999) explained the Ethiopian setting of the time as: "…. Ethiopia was a land of diversity…. the task of any central government was thus to promote national unity at the expense of regionalism." Under this centralization set-up, municipalities constituted as an integral part of the government's administrative structure. Although the 1931 Constitution provided the legal basis of municipal legislations of the time, it did not contain any specific provision on municipalities. There was, thus, no constitutional basis of municipalities, including Addis Ababa (MoWUD, 1999). Additionally, the Revised Constitution of 1957 was also mute about municipalities.

Addis Ababa city was classified as a "City" and "Municipality" by the Administrative Regulations Decree No.1/1942 and the Municipalities Proclamation No. 74/1945 respectively. Except Gondar, all other urban settlements were categorized as "Towns/Townships". According to these legislations, Addis was governed by an appointed Mayor and City-Council. The Council composed of appointed and "elected" members. The "elected members" needs further analysis. First, there was no party-politics in the country. Second, the Decree required both the candidates and the voters to be either land owners or merchants, and hence excluded the large majority of the people. But later, the Proclamation required only the voters and not the candidates to be landowners. Regarding functions of the City Council, the Decree gave the council the power only to deliberate and advise implying no meaningful power of the council.

The 1945 Proclamation, on the other hand, allowed the city's Council to involve in decision making needing to be approved by the Ministry of the Interior before they could come into force. Thus, the Mayor being appointed by the Emperor and a Council being a proposer, the power in the management of the city rested in the hands of the Emperor. Furthermore, the Mayor of Addis Ababa received instructions from the Ministry of the Interior, and thus not accountable to the city-council. Regarding revenue power of Addis Ababa, the Decree provided that taxes paid into the municipality would be fully expended for the city's purpose. But the Decree did not either identify the taxes or indicate the other sources of revenue for the city. The1945 Proclamation identified principal sources of revenue into:

i. Local rates,
ii. Licenses,
iii. Market fees; and service fees and charges.

The Council would fix the tax rate while the Mayor would impose and collect the taxes. However, both the Decree and the Regulation did not provide the legal bases for central government grant to the city and did not recognize borrowing capacity of Addis Ababa. Under these legal frameworks, Addis Ababa was differently governed in only one dimension from other urban centers, that is, it was directly responsible to the central government through the Ministry of the Interior; not to provincial governors as to others. Thus, even in those periods, the City was governed as a capital territory.

It was in 1954 the unique status of Addis Ababa as a capital city, was addressed through General Notice No. 172 of 1954 – Charter of the City of Addis Ababa. The preamble of the Charter provided the rationales of the Emperor for granting and ordaining the charter on the basis of self administration as: to provide residents of the capital with the benefits and facilities provided by a modern administration; to cope- up with the advancing technical and economic evolution of the city; to address the unique status of the city as the cultural, economical and administrative center

of the empire. Accordingly, Article 1 of the Charter decreed the establishment of the "City of Addis Ababa" as a municipal body politic and corporate in perpetuity.

The incorporation of the city through the Charter brought significant change in governance, administrative and fiscal framework of Addis Ababa city. According to Article 2 of 1954 Charter, the city of Addis Ababa, on the basis of self-administration, had the authority to carryout all municipal functions with all the implied powers necessary to execute these functions. And, the City was made competent to attend all public affairs, which had not been defined by law to belong to the competency and powers of any other authority. This definition of the city's functional power is consistent with the principle of "general competency" that is thought to provide non-restrictive and sufficient authority to SNGs.

The city of Addis Ababa was entitled to prepare and adopt local laws, determine policies and adopt budgets and that this legislative power was vested in the elective council. The council, composed of 20 elected and 8 appointed members, had wide-ranging power. Unlike in the previous times, the decisions of the council did not have to be approved by any organ of the national government. The City was; therefore, free to make decisions in response to the needs of its residents. The Charter vested all executive power of the city in the appointed Mayor.

According to Article 9 of the Charter, the Mayor was the competent representative of the Imperial Ethiopian government in regard to the capital. He was also the president of the council, the chief executive officer and head of the municipal authority of the city. The organizational structure of the municipality was also left to the Mayor to be organized. One of the most interesting elements of the Charter was its recognition of the unique function of municipalities through providing a particular "Municipal Legal Regulation" to stipulate and fix the administrative affairs of the city. This provision would make the city out of the rigid bounds of Civil Service Regulation.

Regarding revenue of the city, the city council was given the power to levy taxes, rates and fees for any municipal or public purpose (Article 15 (a) of 1954 Charter); but the possible sources of revenues were not identified. For the first time in the history of urban areas of the country, Articles (43-55) of the Charter empowered Addis Ababa city to borrow money in order to finance any lawful projects through issuing negotiable bonds, and notes in anticipation of bonds. Unlike the current arrangement, borrowing decision of the city did not require any approval from the national government. In order to ensure the fiscal safety of the city and avoid improper borrowing by the city council, the Charter devoted 13 Articles of the 63 listing the detail procedures and guidelines to be followed in borrowing. For instance, any issuance of bonds or notes was required to be authorized by at least three-fifths of all members of the council. The Charter, however, did not mention of any grant to be made by the government to the city.

The freedom and authority given to the city had to be balanced with some degree of control by the government. Chapter six of the Charter stated that the Imperial government would supervise the good carrying on of the self-government of the city of Addis Ababa. The first mechanism of state-supervision was made through the power of the government to appoint 8 of the 28 councilors, the Mayor, the Deputy Mayor and the department Heads. Additionally, Article 59 provided for three forms of state-supervision through the Ministry of the Interior. First, the Ministry could control the lawfulness of the city-budget and legal projects as adopted by the council. Second, in the event where the city refused to execute a legal duty, the Ministry of the Interior may order in writing the Mayor to effect the discharge of the duty. And, finally, in the event where the council refused or neglected to accomplish its functions properly, the Ministry may instruct the Mayor to be commissioner and to govern the city without hearing the council according to the direction of the Imperial government provided that this arrangement may not last for more than three months. But, if these measures of supervision were applied, the city could appeal to the Emperor.

In summary, the 1954 Charter of the city recognized the crucial role of Addis Ababa as a capital city, and an important center of socio-economic activities on a national scale. The city enjoyed a

much higher degree of freedom than the rest of the municipalities. Addis Ababa was the only municipality of the country to: have borrowing power, be a chartered city in the principle of self-administration - a concept unknown in the structure of the country, have a Council with actual decision making authority, give its residents higher degree of freedom and have particular "Municipal Legal Regulation." Furthermore, the Mayor-nominated by the Emperor-was able to reign autonomously and relatively was independent from the strong hands of the Ministry of the Interior.

While critically reviewing the 1954 Charter of the city, granted for the city before 55 years now, the writer of this study was impressed by the detail of each provisions as well as the degree of autonomy the city had. The long history of centralization policy of the country and the time where municipalities were neglected in the country would make the degree of self-government of Addis Ababa a particular situation. In addition, during these periods even the advanced countries with a strong culture of federalism and self-government, such as United States of America, did not provide their capitals as such degree of self-government.

3.3.2. Addis Ababa during the Derg Regime (1974-1991).

After the political change in 1974 and the power shift towards the provisional military council called the "Derg", the city government lost all its influences and Addis Ababa eventually lost its autonomy (Kokeb, 2008; pp:1). The Derg era was an era of political revolution, guided by Marxism-Leninism. During the Derg era, three municipal legislations were issued: the Government Ownership of Urban Land and Extra Houses Proclamation No. 47/1975; Urban Dwellers' Associations Consolidation and Municipalities Proclamation No. 104/1976; and Urban Dwellers' Associations(UDAs) and Urban Administration Proclamation No. 206/1981. Accordingly, Addis Ababa city was reorganized within Kebele, Higher and Central Urban Dwellers' Associations(UDAs).

The primary goal of establishing UDAs was to equip the residents with Marxism-Leninism to struggle against feudalism, capitalism and imperialism (MoWUD, 1999). The Congress was the highest decision making body of the city. But, the scope of its power was so limited that most of its decisions required approval of the government. The UDAs and Urban Administration Proclamation No. 206/1981 decreed that with the approval of the Council of Ministers, Chartered urban centers (implied Addis Ababa as it was the only chartered city) could:

i. Levy and collect urban land rental and building taxes.
ii. Issue and enforce local laws; and
iii. Prepare and implement master plans.

Addis Ababa was able to collect charges, rents, fees and taxes due to municipalities under previous laws. But, the nationalization of urban land and rental houses in 1975 deprived the city lucrative property tax. As a result, the city's revenue bases suffered sever set back as rental houses were given to kebeles for administration, having cut rent (according to UN-habitat, 2009) by as much as 70 percent. The Proclamations failed to include legal provisions on government grant to the city; but, it still had the authority to borrow from a third person. Unlike in the previous regime, the Congress had the power to nominate three candidates for mayoralty and the government appointed one of the nominees. The problem was the requirements that all members of the UDAs organs be revolutionary-membership in the single political party. "Democratic Centralism" as a method of work, the growing politicization and hierarchisation of administrative structures created a culture of command and control. Emphasis rested on the political rather than on service and development aspects (Kokeb, 2008; MoWUD, 1999).

3.4 Addis Ababa under Ethnic-Based Federalism: Emerging Issues on its Governance Arrangement and IGFRs

The government change in 1991 brought far-reaching changes in the political structure and ideology of the state. Subsequent state-transformation measures were undertaken. The Constitution that came into effect in 1995 established a federation made-up of nine ethno-

linguistically divided regional states. Article 39 of the 1995 FDRE Constitution further grants self-government to all ethno-linguistic communities, including, if they so desire, the right to form a regional state or even to secede and form an independent country. The diversity of the country in terms of ethnicity, language, religion and culture has been still argued for adopting ethnic-based federalism. Unlike in the previous constitutions, the issue of self-rule and self-government has been addressed explicitly. The Constitution also defines the powers and responsibilities of the federal and regional governments. Thus, the Inter Governmental Fiscal Relations (IGFRs) between the federal and regional governments has been constitutionally defined. The constitution leaves the governance of local governments to be determined by their respective regions. Accordingly, since 2000, the regions have separated larger urban administrations from the woredas and generated a special status for these urban areas (Werner and Nguyen-Thanh, 2007).

Addis Ababa is still the capital city of the country of which the aforementioned changes. From the starting point of the study, it would be important to view the impacts of these changes on the governance and IGFRs of the city with the national government. Accordingly, in the following sections, contemporary issues resulted from the adoption of ethnic-based federal system would be discussed in relation to their impact on the governance arrangement and fiscal relations of Addis Ababa.

3.4.1 Governed as a Federal Territory: A Challenge to Balance Local, Regional and National Interests

As discussed earlier, during the previous regimes, Ethiopia was a unitary state where the powers and functional authorities emanated from the central governments. The 1991 government change brought the end of this trend, and a new emphasis on self-rule took the upper hand within the framework of ethnic-based federalism. Ethiopia introduced decentralization as the strategic tool for empowering citizens and devolving power to lower levels, following the 1995 Constitution. The government has divided the country into nine National Regional States. The Constitution

also declares Addis Ababa to be a capital city of the federation, but as the second tier of the federal government. Thus, as a federal state, Ethiopia for the first time in its history has faced a challenge of designing an appropriate governance arrangement for its capital city.

The 1995 FDRE Constitution was designed to settle the "long-aged" struggle of nations, nationalities and peoples of the country for self-identity and self-government through providing them constitutional right for optimum degree of self-government and self-determination. The challenge has been how to apply this constitutional right of the capital's residents to have equal degree of self-government with to residents of other regions. Moreover, Oromia regional state has constitutionally accepted claims on the city, and as the seat of African Union there appears also supra-national interests over Addis Ababa.

The inherent roots for the challenge is how to bring a just and proper balance between interests of the local residents to enjoy their constitutional rights of self-government, and interests of the national government to have sufficient control over the city and to prevent it from being dominated by one of the states. In order to balance these interests, the FDRE Constitution in Article 49 provides the general framework. Article 49, Sub- Article 2 decrees that the residents of Addis Ababa city have a "full measure of self-government," leaving particulars to be determined by law. Although the scope of "full- measures" is open to ambiguity and misinterpretation, it secures the right of the city to be governed in principles of self-rule. Generally, it would be logically correct to say Addis Ababa city administration has stronger protection for having better degree of autonomy than any of the urban local governments in the country.

Furthermore, the provision makes Addis Ababa the only urban center in the country in that its status emanates from the FDRE Constitution. The constitutional status of Addis Ababa has important implication in the country where the federal as well as regional constitutions fail to expressly guarantee the status of municipalities in the governance structure of the country. The regional constitutions recognition extends only to the regional, zonal, woreda, special zonal and

woreda, and kebele administrative hierarchies. As a result, all urban local governments in Ethiopia have become the extension of regions' legislations, lacking any constitutional protection. The only exceptional case goes to Dire Dawa. Though the Constitution is mute about the governance arrangement of Dire Dawa, it has become a federally-governed territory as per a particular legislation of the federal government. This is one indication of the negligence and rurally skewed and biased political ideology of the ruling party. It is under this status of urban centers in the country, therefore, the writer of this study says the constitutional guarantee of Addis Ababa's status is unique.

The federal government, on the other hand, needs some degree of control over its capital so that the city would be governed in such a way that reflects the national interest, serve as a symbol of national unity. In line with this national interest, Article 49(3) of the FDRE Constitution puts the administration of Addis Ababa under the responsibility of the federal government. Thus, Addis Ababa becomes a federal territory, not one of the federating states. Therefore, the Constitution tries to balance between the local interest-by guaranteeing a "full" measure of self-government and the national interests -by making the city under the control of the federal government. As it is discussed in the previous chapter of this study, the literature and experiences of other federal countries provide three broad arrangements to govern federal capitals: as a federal territory, as one of federating states or a city within one of the states. The benefit of each arrangement depends on the diversity of the community, political, institutional, history and the size of the country. But, about 17 from 24 federal countries across the globe govern their capitals as a federal territory.

Currently, only Germany, Austria and Belgium grant their capitals a status of "statehood" with equal degree of autonomy with other states. Governing capitals as "state" may work where the communities of the respective countries are mono-lingual and mono-cultural, such as Germany and Austria. In countries like Ethiopia with more than 85 ethnic communities with different languages, it would not be easy to grant Addis Ababa a status of "statehood". Moreover, the city would not be qualified to have "statehood" status due to the ethnic-based federal structure.

Countries such as Canada, Switzerland, and South Africa put their capitals within one of the states.

This arrangement has also a problem of less control of the federal government on its capital, and the city may fail to represent the nation as a whole as being dominated by the political culture of the hosting state. Since Switzerland has well-developed experience and institution of federalism, the presence of Bern in a state has not been a serious problem. South Africa, to make its capital representative, has three capital cities in different provinces. But, being Ottawa within a state has been a serious problem in Canada-a country with French speaking and English speaking society. Ottawa fails to serve as a symbol of national unity, being dominated by English speaking society that has resulted in the growing separation movement of Quebec. It should be noted that, however, there has been strong movement in some Oromo people demanding Addis Ababa to be incorporated within Oromia regional state. To this end, though the FDRE Constitution clearly makes the city a federal territory, Article 49 respects the special interests of Oromia state in respect to Addis Ababa. But, it has already become fifteen years without having clear laws as to the inter-governmental relations of the city with the Oromia state. The 1997 Charter of the city gave to Oromia state the right to use Addis Ababa as its capital city. As of the 2005 election, Addis Ababa has been hosting Oromia regional government though the 2003 Revised Charter of the city fails to indicate this mandate of the Oromia over the city.

The constitutionally recognized interest of Oromia state over Addis Ababa has practical complexity if particular law is to be issued to determine the formal relations between the region and the city. The Revised Charter indicates that the IGRs between Oromia and Addis Ababa needs to be undertaken according to the principle of cooperation. But, some Oromo-based political parties still claim Addis Ababa to be governed under the jurisdiction of Oromia State, while others demand the city to share some of its revenue to the region. Dr. Merrara Gudina opposes the unlawful expansion of the city's boundaries since the farmers have been forced to leave their land without proportional compensation. He added that the current governance of the city is required some inclusion of Oromos' interests, such as making Oromipha the second

official language of the city that would help to develop consensus. On the other hand, the interviewee from MoFA stated that the relationship between Oromia and Addis Ababa has been taking place based on mutual respects and cooperation. Nevertheless, he accepted the need to have formal and comprehensive law that would define the IGRs of Addis Ababa and Oromia.

Thus, the possibility of governing Addis Ababa within the control of one of the regions, definitely Oromia, may not be practical. Due to these and other limitations of the two arrangements, most federal countries put their capitals under federal territory. The main problem is this arrangement fails to provide sufficient degree of autonomy to the capitals due to strong hands of the national governments. But, the degree of local autonomy and national control varies from country to country.

3.4.2 Local Government Autonomy and Federal Government Oversight

Being a federal district alone is not detail enough to critically analyze how the current system treats Addis Ababa. This is mainly due to the facts that empirical evidence provide substantial differences in the degree of local government autonomy among federal districts as well as the scope of government supervision, mainly depends on national political, legal and, social and institutional frameworks of respective states. Therefore, it is imperative to analyze how the legislation, issued by the government provides sufficient detail on the governance and IGFRs of the city with the national government. As it is stated earlier, Addis Ababa is neither a state government nor a local government within a state. It is a federal capital district under close supervision of the federal government, but with constitutionally expressed right to have full measures of self-government. Under this direction, it is important to see the constitutional and legislative mechanisms employed to provide local government autonomy as per the sprit of the Constitution as well as the degree of mandate the government has over the city to control it in the interest of the nation as a whole. As Article 49(2) of the FDRE Constitution states that particular on governance and relations of the city to be determined by law, the government made Addis Ababa a Chartered City through the “Addis Ababa City Government Charter Proclamation No.

87/1997". According to Article 10 of the Charter, that empowers the Prime Minister dissolve the council, the Prime Minister dissolved the city council and the Mayor in 2002; and Revised the Charter with Proclamation No. 361/2003. Since then, this Revised Charter has been in practice.

From the very beginning, the preamble of the Revised Charter provides clues on the vested interests of the local residents and the nation, as a whole by stating that "…. as it (Addis Ababa) is a reflection of a large and growing residents of Nations, Nationalities and Peoples … and … the residents of Addis Ababa have full power of self-government …". This is an indication of the efforts made to balance the residents' constitutional right for self-government and the need of the federal government to govern the city in such a manner that enables it reflect the diversity of the nation. One more important rationale of the Revised Charter was the consideration of its status of "Supra-capital" ,that is as the seat of the African Union (AU) and of a variety of international organizations. In the coming paragraphs, the degree of self-government of the City and the degree of national control over the local affairs of the City will be analyzed.

The Revised Charter gives the city legal personality, as it was in 1954. Article 9 of the Revised Charter reveals that one objective of the city government is enlarge the role of the city as a capital city of the federal government. As of the 1954 Charter in Imperial Regime, Addis Ababa has a council, which is the highest law-making body of the city. But, there are some differences between the two councils. First, unlike the previous one, the current council consists of wholly elected members. Second, currently the electoral system and political movements are backed by the Constitution. Hence election for council is mostly based on party system. It should be noted that during those period multi-party system did not yet exist.

Therefore, with wholly-elected members and multi-party system, it could be argued that the current city-council would be more representative. But, for a big surprise, one of the founding member of the ruling party and the ex-minister of defense, Ato Siye Abraha strongly argued through the 2010 election campaign the fact that those elections during the Imperial Regime were more democratic and representative than the current one. From another dimension, Dr.

Negasso Gidada, the leading architect of the current Constitution and the former president of the country, express his great regret the way the Constitution defines the election laws of the country. However, the council has broad power to promulgate proclamations on city-based issues.

Regarding formation of the executive organ of the city, Article 14 of the Revised Charter declares that the political party occupying the majority of seats of the council or, where such does not exist, the coalition of political parties shall form the executive organ of the city. The Mayor becomes chief executive of the city. Thus, unlike the Imperial and the Derg regimes, the Mayor of the city is locally appointed. In addition, including the city-manager, the department's heads are appointed by the city council. Being locally appointed, the executive body is able to reflect the local needs and preferences of the residents. As it is discussed previously, the Mayor was centrally appointed during the earlier regimes. But, the nature of politics in a country has a profound impact as to whether locally-elected and appointed officials to be accountable to the local residents or to their mother party.

The Ethiopian Peoples Democratic Revolutionary Front (EPRDF), the ruling party, has been accused of its absence of internal democracy and its philosophy of "Democratic Centralism". In describing the degree of centralization within the ruling party, Mulugeta and Cloete (2006; pp: 154) indicated that personal choices made other wises of the party were considered serious action against the party, and were thus subject to admonitory measures. When interviewed about the status of Addis Ababa, Dr. Merera, a political scientist at Addis Ababa University, noted the importance of vertical and horizontal division of power so that these would be effective check and balance. He added that it was ruling party at the center that appointed and dismissed officials at the regional level that was totally unconstitutional.

Accordingly, even if local officials are elected/appointed locally, it is through party-ticket. "Democratic Centralization" has been also used during one-party regime of the Derg. From this perspective, the Mayor during Imperial regime, even if he was appointed, was performing his

duty independently. It is noted earlier that capital cities under federal territory are exposed to close control of the national government, though the degree differs across countries. The federal government has a constitutional mandate to govern Addis Ababa under its supervision. The Constitution left the details of the relations between the city and the federal government to be determined by law. And, the Revised Charter devoted Article 61 to explain the inter-governmental relationship between the city and the federal government. It makes clear that the relationship that the city maintains with the federal government takes cognizance of the responsibilities of the latter. And thus, the city government is a component part of the federal government. The city is also accountable to the federal government concerning security, diplomatic relations, policies, laws and standards thereof. To the extreme, the Revised Charter gives the federal government the power to dissolve the city government.

This is not unique to Addis Ababa, some federal countries, such as United States, India, Argentina and Brazil have legal provisions that empower the national government to dissolve the local government in the capital city. What matters most is the conditions that may cause the action. Article 61(3) of the Revised Charter identifies that the federal government has the power to dissolve the city government, as per the decision of the House of People's Representatives, where: an act endangering the Constitution is committed by the city government; and the city government fails to manage security matters and emergency situations.

The 1997 Charter gave the Prime Minister the power to dissolve. And, the federal government organizes a transitional government. These conditions are not detailed enough leading to different interpretation by different bodies. This gives the national government the opportunity to accuse the city government and dissolve it, for any inconveniency of the national government. The other mechanism of the national government to control the city government is that although the city-council is declared to be locally elected, the Revised Charter of the city makes it accountable to the Federal Government. Thus, the city council has double accountability: to the electorate as well as to the federal government. The Mayor is also accountable to both the council and the federal government.

An other important element in the local government autonomy of capital cities, national enfranchisement is an important aspect. This implies whether residents of the capital city have full representation in the national political system equal to that of other residents elsewhere in the country. In the case of this study, the constitution in its Article 49 grants residents of Addis Ababa to have representation in the House of Peoples' Representatives, the Lower House Legislative body of the country. Accordingly, residents have elected their representatives in the parliament during the past three national elections. Based on their number, the residents have 23 seats in the parliament. But, residents have no direct representation in the House of Federation, the Upper House. However, this may not be directly related to the capital role of the city. Rather, the House is composed of representatives of Nations, Nationalities and Peoples than representing the interests of SNGs. Since it is not ethnically identifiable with any single ethnic group, Addis Ababa could not have representative in the Upper House. It should be noted that the composition of House of Federation was one of the debating issues in the election campaign of 2010.

Regarding the institutionalization of the city's relations with the federal government, Article 61(5) of the Revised Charter makes the Ministry of Federal Affairs responsible to follow-up the activities of the city. However, following the 2005 election, the responsibilities of following-up the city was given to the office of the Prime Minister. When interviewed about the inter-governmental relations of the City with the federal government, the Director for IGRs Directorate in the MoFA stated the fact that there exists no formal procedures and mechanisms to deal with the City.

3.4.3 Ethnic-Based Federalism and Addis Ababa: Loss of Distinct Identity

The 2010 national election witnesses the different political outlooks of political parities towards the ethnic-based federal structure of the country. During the election campaign, we can observe that "federalism" has been accepted as a preferable system by all opposition parties. But, the country does not benefit from abroad-based consensus among the political class about the role and brand of federalism that is right for the country. Most opposition parties oppose the ethno-

linguistic federalist arrangement as it neglects other important elements that should have also been considered. Some argue that the right to self-administration is sufficient so that the right to "secession" has no importance, but endangers the lasting unity of the country.

The application of the structure also faces a problem. Comparing the Oromia with a population of more than 27 millions, Harar is also a state with about 130,000 populations. When the Harari ethnic-groups, who are less than 130,000 have their own regional state, Southern Nations, Nationalities and Peoples Regional(SNNPR) state comprises more than 54 ethnic-groups. But, the loss of distinct identity of cities in the state structure is the neglected issue. From the perspectives of this study, the current form of federalism has resulted substantial contribution to the present governance arrangement of Addis Ababa. This ethnic-based federalism makes Addis Ababa to belong with non-of the regional states. Members of almost all Ethiopia's ethno-linguistic communities live in Addis Ababa. For this reason it is answerable to federal government. Dire Dawa is the second largest city of the country. But it is not able to have "statehood" status, neither incorporated within a region. It is rather a federal district like Addis Ababa. The main reason would be the fact that Dire Dawa is a city its residents are representatives of many ethno-linguistic groups. Though Dire Dawa city is located within Oromia regional state, it was not incorporated in the local government system of the region. Thus, Addis Ababa's status of federal territory comes also from its diversity in its residents.

There is no one capital city in the world hosting two independent countries. But, the Ethiopia's structure fails to clearly define if Oromia decides to succeed to whom Addis Ababa would serve. This is because Addis Ababa is the capital city of not only the federal government, but it is also the Oromia's. What would be the fate of the city if Oromia becomes an independent country would it serve Ethiopia (if then exists), Oromia, or its residents being a state. This is not yet defined. The Brazilian Constitution clearly states that if the national government moves its capital to another area, Brasilia will be granted "statehood" status. This shows how far-looking politicians design their capitals in order to avoid future conflicts.

Under this direction, the important point is that what if Addis Ababa were not the capital city of Ethiopia? Would it have the opportunity to be one of the regional states? Or would it be one of the cities in Oromia region. This is important because it would be mistaken to conclude that Addis Ababa is a federal territory only because it is a capital city. The writer of this study argues that one of the bottlenecks of the current structure is its inabilities to address governance issues of cities.

The writer's experience of wolkite city is practical example. The city is surrounded by Kebena ethnic groups though they are minorities in the city; and the city is capital city of Gurage Zone, those are the majority in the city. The real problem is that politicians of kebenas and Gurages fight over the city claiming the ownership for the last 16 years. To balance these conflicting interests, the city is forced to host three administrative institutions kebena woreda, Abeshge woreda and Gurage zone apart from its role being a city administration to serve the residents. In the end, the city becomes the battle-field of conflicting interests of narrow minded local politicians. As it would be remembered Sidama people decided in their council demanding a 'statehood' status, departing from SNNPR state. This was the first crucial challenge faced by the federal government to address this constitutional and formal request to exercise their constitutional right. But, through political negotiation, the request was settled peacefully. The point is not to discuss this issue. It is rather to forward analytical issue regarding the informal and uncertain framework within which Ethiopian urban centers are operating. Hawassa has been hosting the regional state, Sidama Zone administration and its own city administration. More than 54 ethnic groups live in the region taking Hawassa the symbol of their regional unity. Furthermore, the city is well-known with its diversity. But, the problem would be the status of the city if Sidama was gain regional status. Nothing in the Regional constitution or in the legislation was mentioned about this issue. Probably, residents in the city would not have any saying as to their city would be governed.

3.5. Expenditure Responsibilities of Addis Ababa City Government

A unique feature of the expenditure assignments in Ethiopia is the distinction between the so called "state" and "municipal" functions (Werner and Nguyen-Thanh, 2007). Powers and functions of the city government are defined by the Revised Charter Proclamation No. 361/2003. Article 11(1) of the Proclamation states that the city has powers and functions over matters that have not specifically been included in the details of the powers and functions of the executive organs of the federal government. This provision of functions and powers is found similar to the way functions and powers have been given to the regional governments. The main difference is that Addis Ababa receives it from the government legislation while a regional governments share the powers and functions with the federal government in the Federal Constitution. Accordingly, Article 52 of the 1995 FDRE Constitution provides that what is not defined as federal powers and responsibilities or as concurrent to the federal government and the states are reserved to the states. Accordingly, the city has almost as wide expenditure responsibilities as regional governments, ignoring, the statutory and constitutional differences in mandates.

Within this general framework, Article 12(2) of the Revised Charter provides the specific areas of powers and functions of the city. Some of these include powers and functions of the city government to:

- Issue and implement polices and plans concerning the development of the city;
- Constitute the executive bodies and organize lower tiers;
- Identify, determine and organize municipal services to be delivered;
- Administer, according to the law, the land and the natural resources;
- Prepare, approve and administer the budget of the city;
- Issue the master plan of the city ; and so on .

Generally, the city has functional responsibilities to provide state and municipal services to its residents, and the power to incur expenditures to finance them. According to Article 14 of the Revised Charter, the City Council has the power to approve budget of the city government. Sub

National Governments (SNGs) with full budget making power naturally will have better spending autonomy as a budget reveals the type and amount of public goods and services to be provided to its residents. So, budget making power usually reflects the spending autonomy of the city. Budget of the city does not require an approval from the federal government. However, there are some guidelines required to be followed. For example, Article 59(1) of the Revised Charter indicates that the city's budgetary administration should follow the budgetary principles of the federal government. Furthermore, Article 61(6) of the Proclamation requires the city government to submit annual and periodic performance reports on its plans, budget and the overall state of affairs of the city. But, the law is mute about the corrective measures taken by the government if the budget reports were found problematic. In historical perspective, unlike other urban centers in the country, Addis Ababa has been enjoying better budgetary power even in those highly centralized Imperial and Dreg eras.

Comparative empirical studies take "budget making" power of capital cities as one of the comparative elements to examine IGFRs of capital cities with their national governments. As it is indicated earlier, this is prominent issue particularly in federal districts. Those of some federal districts' budget, such as Washington D, C. and Mexico- City, is expected to be approved by their national governments. And, in others the national government has the power to oversee the budget and revise if it finds necessary. Therefore, having budget making power, Addis Ababa can determine the services and functions to be provided.

In capital cities, there are usually joint responsibilities in provision of some services. Among these, police and security functional responsibilities are the prominent concerns. The analysis framework on local policing usually focuses on questions like how is local police organized? Who pays for them? Who does appoint them? In most cases local policing is either a state or a national function so it does not register on local budgets and the police chief officer is not appointed locally or subject to local authority. Canberra does not have a police force and contracts with the national government to perform policing duties; the Canada government police protect national buildings and Ottawa's local policing is a provincial government

function; and in Brussels, the federal government provides compensation to the local government for the additional costs incurred by the local police force.

In Ethiopian context, the Federal police and Addis Ababa police take joint responsibility for policing services. The city police commission is accountable primarily to the federal government and to the city government only by delegation. Accordingly, the city police commissioner and deputy commissioner are appointed by the federal government. However, the city government is expected to incur full costs of the city police force. The federal police is mainly responsible to protect the federal and international institutions. Before the 2005 election, the City police had been under the city administration on delegation. But, following the victory of the Coalition for Unity and Democracy (CUD), the main opposition party, Addis Ababa police was made under direct supervision of the Prime Minister.

The proclamations of Chartered cities by the federal government, that is Addis Ababa and Dire Dawa, provide these cities in general with strong authority in respect of executive power to establish municipal line departments and agencies. The Transport Authorities of these cities have recently been made subordinate to the federal Transport Authority, but funding for transport-related activities is also mostly the responsibilities of these cities. For instance, Anbassa City Bus Service, mostly serving Addis Ababa, is a public enterprise under the Privatization and Public Enterprises Supervisory Authority. The city government has been subsidizing 21 percent of the ticket cost of Anbessa city bus service enterprise and it has been losing 50 million Birr every year due to the ever increasing costs of transport. However, currently, the city government has also negotiating with Privatization and Public Enterprises Supervisory Agency in order to put Anbassa city bus enterprise under its administrative control.

3.5.1 Trend and Composition of Actual Expenditure of Addis Ababa City Administration

Capital cities usually experience higher expenditure due to their multiple functional responsibilities. Within the aforementioned functional responsibilities of Addis Ababa city administration, the actual expenditure performance of the city to discharge its responsibilities needs to be analyzed. Accordingly, the data obtained from Ministry of Finance and Economic Development (MoFED) for eleven budget years (1998/99-2008/09) is discussed in Table 3.1. below.

Table 3.1 expenditure of Addis Ababa (1998/99-2008/09) – Million Birr

Expenditure	Fiscal years									
	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/
Recurrent	355.9	401.88	450.8	518.3	524.35	714.11	749.00	899.4	1,146	128
Capital	394.5	371	481.1	453.6	365.5	730.31	1,198.56	1,526.4	1900.92	287
Total	750.4	772.88	931.9	971.9	889.85	1444.42	1947.56	2425.8	3,046.9	4,1
Growth rate	-	3.0	20.6	4.3	-8.4	62.3	34.8	24.55	25.6	36.

Source; Ministry of Finance of Finance and Economic Development

Table 3.1. provides the recurrent and capital expenditure of Addis Ababa for eleven budget years (1998/99-2008/09). Nearly 22.9 billion Birr was spent in capital and recurrent budgetary categories. The recurrent expenditure consumed nearly 37.42 percent of the total expenditure and the remaining 62.58 percent was allocated to capital expenditure. The higher share of the capital expenditure of the city manifested the priority given to the development oriented projects such as road construction, housing and other economic sectors. The data in Table 3.1. indicates that until 2003/04 budget year the city government had given more of its expenditure to the recurrent accounts. But as of then, the city spending behavior started shifting towards capital expenditures. From 2004/05 budget year onwards the capital expenditure took higher percent share of the total expenditure, and finally in 2008/09 budget year capital expenditure was able to absorb 75 percent of the total expenditure. This was extremely the reverse of the trend from 1998/99 where recurrent expenditure had 48 percent share.

The financial data of the city as well as the Senior Officers in the Budget Department of Bureau of Finance and Economic Development related the recent huge projects in socio-economic infrastructures such as road, housing and water supply with the substantial amount and composition of the city's capital expenditure. Furthermore, the establishment of new administration in 2003/04 had resulted a widespread change in the overall governance of the city. It is to be remembered the fact that the new administration, led by Mayor Arkebe, introduced new urban development projects particularly in housing and micro and small scale enterprise development areas that required huge financial outlays. The loan from Ethiopian Telecommunication Corporation (ETC) and Commercial Bank of Ethiopia (CBE) also increased the capital expenditure of the city for the last three budget years. The overall trend in the expenditure of the city has witnessed the increasing spending behavior of the city. For instance, the city spent 5.56 billion Birr in 2008/09 that is higher than that of 1998/99 by 765 percent. The city's actual expenditure had been increasing on average by 23.70 percent annually. This is much higher than the 3.4 percent annual population growth of the city. The 2008/09 budget year expenditure of the city made the city's per capita expenditure of 1254 that is higher than the national per capita expenditure.

Table 3.1. gives also further special position of Addis Ababa in terms of expenditure components. Addis Ababa city is the only sub-national government that devoted higher proportion of its expenditures to capital expenditure. The capital of expenditure of the city amounted 0.29 billion Birr, constituting 59.39 percent of its total expenditure. The capital-oriented expenditure of the city differs from recurrent-oriented expenditure at sub-national, federal and national levels. For instance, during the study period 78.07 percent of the expenditure of regions and Dire Dawa was allotted to recurrent accounts while capital expenditure had 21.93 percent share. The recurrent expenditure also dominated at federal and national level having 55.46 and 61.08 percent share of their total expenditure respectively. Addis Ababa city has therefore relatively an expenditure responsibility that is the highest among regions, except Oromia. The city consists of less than 4 percent of the total population of the country. But, it incurred 7.15 and 19.48 percent expenditure of the total national and all SNGs expenditures respectively. Further data is required to know whether this implies positive impact and this has any relations with its role as a capital city of the country. The expenditure share of Addis Ababa was substantial during the study budget years. Furthermore, its per capita expenditure was the highest of the national amount. This indicates that the higher trend of the city in provision of public goods and services. But, it is important to know the factors that made the city to experience higher spending than other regions, and its impacts on the financial position of the city.

The Senior Officer in the Budget Department as well as the Senior Officer in MoFED associated this higher spending responsibility of the city with its roles as a capital city. This is inline with other capital cities. As a capital city, Addis Ababa is expected to provide public goods and services with standard qualities. Furthermore, as a seat of African Union, the city should cope up with modern and global standards in its socio-economic infrastructures and services. For instance, unlike the experience of any of the regional governments, Addis Ababa devoted higher portion of its budget into capital accounts. The city financed projects for huge infrastructures such as the ring-roads and public housing construction. At first glance, the emphasis towards capital-oriented projects can be taken as a positive indicator of financial management due to its

direct impact on wealth creation. But, who should be responsible to finance those projects with national benefits? Those projects being promoted to build image of the nation? This should be framed within the main principle of inter-governmental fiscal relations, that is, spending responsibilities of SNGs should be matched with the respective benefit area. Thus, the federal government should, at least, share the costs of projects with national economic, social, political and/or diplomatic benefits. If this is not the case the city's residents would be at worse off position.

The study of IGFRs of a capital city with its national government is usually expressed as a "study of exception." This is because of the fact that a study strives for finding how the capital city is treated differently than other SNGs within a country and for ensuring whether this different treatment comes due to its position as a capital city or due to other national and local political and policy factors. As this study aims at describing how Addis Ababa is governed and fiscally treated in different ways than regional states, the expenditure of the city from 1998/99 to 2007/08 budget years would be analyzed, compared and interpreted. In this case it would be helpful to make the analysis within the comparative context of the nine regional governments and Dire Dawa, the federal government and the total national expenditure performance, trends and implications. Accordingly, Table 3.2. summarizes the expenditure amount of Addis Ababa, regional governments as well as Dire Dawa, the federal government and the national total for 10 budget years as follows.

Table 3.2: Expenditure Performance of Addis Ababa, Regions and Dire Dawa, and Federal Government for 1998/99-2007/08 budget years (in millions Birr)

Expenditure	Addis Ababa			Regions and Dire Dawa		Total SN Expenditure		Federal Government		Total National Expenditure(NE)
	Amount	% share out of SNE	% share out of NE	Amount	%share out of NE	Amount	%share out of NE	Amount	% of share out of SNE	
Recurrent	7,039.89	11.18	4.76	55.914.37	37.78	62,954.26	42.53	85,060.77	57.47	148,015.30
Capital	10,293.23	39.68	10.81	15,709.25	16.66	26,002.48	27.67	68301.60	72.33	94,304.06
Total	17,331.12	19.48	7.15	71,625.58	29.56	88,956.70	36.91	153362.37	63.09	242,319.36

Source: Own illustration based on various data from MoFED

NE=Total National Expenditure

SNE= Total Sub National Expenditure (including Addis Ababa city administration) .

In the previous page, Table 3.2. indicates that the overall national expenditure during 1998/99- 2007/08 budget years was about 242.32 billion Birr. This figure includes the total expenditure incurred at all SNGs including Addis Ababa and federal government. The Federal government alone spent 153.36 billion Birr, having about 63.3 Percent share from the total national expenditure of all SNGs in the country. The expenditure of the Regions constituted less than 37 percent. The federal government's dominance in the national expenditure has also failed to decline during the period. For instance, in 1998/99 budget year the expenditure responsibility of the federal government was about 68 percent while it becomes 65 percent after 10 years. As Table 3.2. shows Addis Ababa city administration incurred total expenditure of 17.33 billion Birr during 1998/99 - 2007/08 budget years. The total expenditure of the city has 19.48 percent share of the total expenditure of all SNGs in the country including the city. Its expenditure also covered 7.15 percent share of the total national expenditure. This expenditure of the city would give better meaning if we put it within relatively small expenditure share of Regions and Dire Dawa. These SNGs had less than 30 percent share of the total national expenditure and the federal government had more than 63 percent share. Furthermore next to Oromia, Addis Ababa incurred the highest, which spent 23.57 billion Birr, amount of expenditure among other SNGs and the total expenditure of six regions (Afar , Somalia, Benishangule- Gumus, Gambella, SNNPR, Harari and Dire Dawa) is much less than the expenditure of the city. The six regions collectively incurred total expenditure of 12.86 billion Birr. This indicates the substantial expenditure responsibilities of the city.

Comparison of capital expenditure share also further manifests the substantial responsibilities of the federal government for important development oriented expenditures. All sub-national governments have spent only 26 billion Birr for capital expenditure implying less than 28 percent of the total capital expenditure of the country. Hence, this needs particular analysis as it is the main study area of this paper. This 72 percent of the national capital expenditure was spent by the federal government. Under this national framework, the position of Addis Ababa helps to know whether the trend

and composition of the city's expenditure in the study period show different pattern than other SNGs in the country.

In time series comparison, the city's expenditure of 2007/08 budget year was 5.5 times higher than that of 1998/99 budget year that is much higher than 2.5 and 2.3 of the SNGs and the national level respectively. This shows that not only the city's expenditure was high but it increased from year to year at higher rate than that of the SNGs as well as the national expenditure. Table 3.2. also indicates the special position of Addis Ababa in terms of components of expenditure. Addis Ababa city is the only sub-national government that devoted higher proportion of its expenditure to the capital expenditure. The capital expenditure of the city amounted 10.29 billion Birr having of 59.39 percent of its total expenditure. The capital oriented expenditure of the city differs from recurrent oriented expenditure of the regions.

3.6. Revenue Sources and Collection Performance of Addis Ababa City Administration

The ability of sub-national authorities to act independently of the central government depends on whether they have access to independent tax bases. In Ethiopian case, the 1995 FDRE Constitution defines the revenue power and sources of regional governments and the federal government. Even though the regional tax revenues which are mentioned in the Constitution appear to be comprehensive, the main tax yield of around 75 percent of the total tax revenues belongs to the federal government. The economic base of early 20 century Addis Ababa was typical of a consumer city where taxes, tributes and tithes were the principal source of income. But, Addis Ababa today has a diversified economy, being the main centre of public administration, commerce, manufacturing, finance, real estate and insurance. This diversified economy has provided a fairly broad and dynamic tax base to Addis Ababa city government (Tolon, 2008; pp: 16). Currently, it is the Revised Charter of the City Government Proclamation No.361/2003 that defines the

revenue powers and sources of Addis Ababa. According to Article 52 of the Revised Charter, Addis Ababa has the following revenue powers and sources, to:

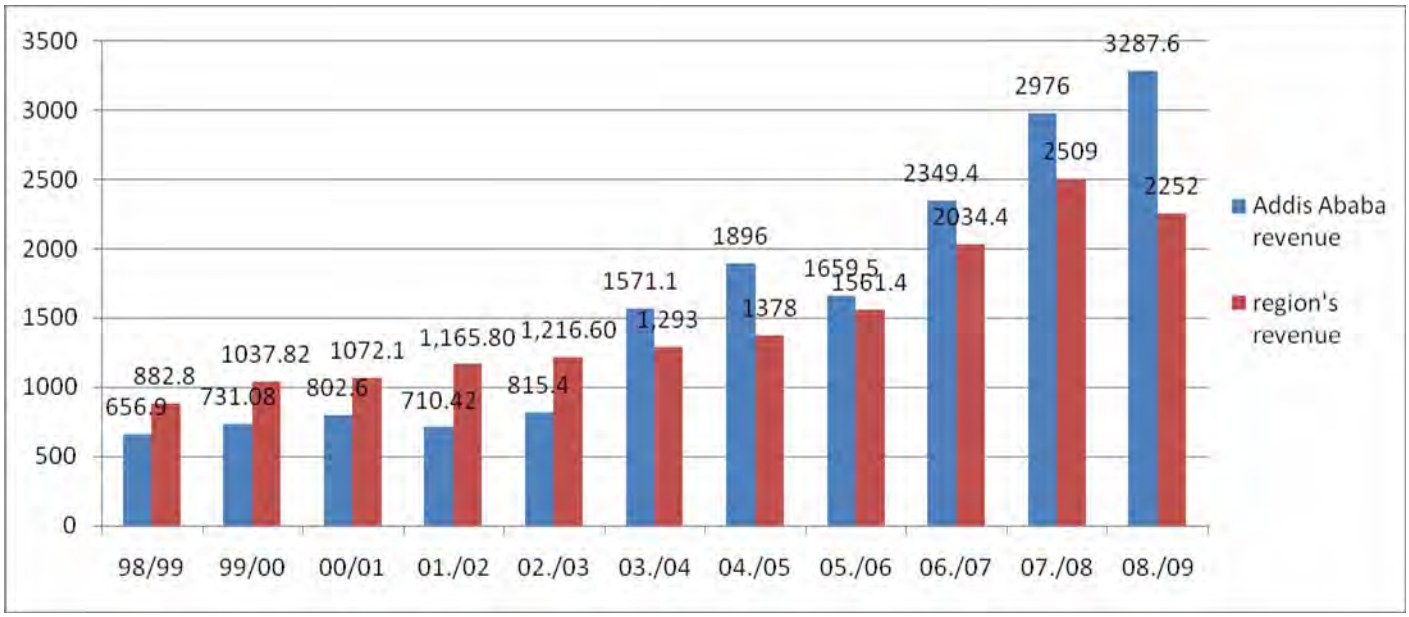
- Assess and collect tax on income from employees with in the city, excluding employees of Oromia region, of the federal government and of federal public enterprises;
- Fix and collect land use fee with in the city;
- Tax on income from agricultural activities within the city;
- Assess and collect profit, excise and turnover taxes from individual business men trading in the city;
- Receive Value Added Tax (VAT) collected by the federal government from individual business men trading in the city, and public enterprises owned by the city;
- Fix and collect urban land rent and level urban house tax in the city;
- Assess and collect on income from rented houses and to her properties in the city;
- Levy municipal taxes and duties as well as fix and collect service charger thereof;
- Assess and collect capital gains tax on property situate in the city;
- Fix and collect fees on license issued, and services delivered, by itself; and
- Assess and collect profit, excise and turnover taxes from its public enterprises.

The aforementioned revenue sources of the city go with the regional governments. The striking difference comes with taxes on the profits of companies and on dividends on shareholders. These taxes are jointly owned by the federal government and regional governments (Article 98, FDRE Constitution). But, Addis Ababa where quite large majority of companies reside at has not been given the access to share profits and dividends taxes. The city government has also the legal base, according to Article 53 of the Revised Charter, to obtain revenue from juridical bodies under its charges, income generating activities, joint investment, fund investment, rentals and from donations; and can undertake diverse activities for gain.

In the earlier discussion, it is stated that Addis Ababa city has broad expenditure responsibilities and its actual expenditure is also high. In line with these responsibilities,

it is crucial to see the actual revenue of the city and its trends in comparative perspective. Thus, Figure 3.1. below indicates the revenue collected by Addis Ababa city administration and, the regions.

Figure 3.1: Revenue Trends of Addis Ababa and Regions in the budget years of 1998/99-2008/09 (in million Birr)



Source: Own illustration based on various data from Ministry of Finance and Economic Development (MoFED)

It is discussed the fact that the revenue collected by Addis Ababa was much higher than those of regional governments as well as Dire Dawa. To put the analysis under time-based trends of the revenue collection performance of Addis Ababa, revenue collected by the city is presented in Figure 3.1. including the regions. The figure clearly indicates that throughout the whole budget years, during 1998/99 to 2008/09, Addis Ababa's revenue had been more than half of the total revenue collected by all regions. But till 2002/03 budget year regional governments were collectively able to earn more than the revenue collected by the city. This trend, however, changed as of 2003/04 budget year when Addis Ababa has started collecting revenue that was higher than the sum of all regions'

revenue. Accordingly, for the six recent budget years the figure clearly shows the capital city outperforms in its revenue collection. By comparing the revenue share of Addis Ababa in 1998/99 budget year with the recent budget year in 2008/09, the revenue ratio of Addis Ababa to the sum of revenue collected by regions, and Dire Dawa as well as the city itself, it increased from 42.66 to 59.34 percent respectively. Furthermore, regions were able to increase revenue only by about 155 percent from 1998/99 to 2008/09 budget years, while Addis Ababa's revenue was increased by more than 400 percent during the same budget years.

Addis Ababa city has, therefore, better revenue collection performance than any of sub-national units in the country. But, this may not lead to conclude that the city has special privilege in terms of revenue assignment and revenue autonomy than the regional governments. In the earlier revenue sources that are almost discussed, it is said that the Revised Charter of city assigns the city with similar to the provisions of the Constitution that assign regional sources of revenue; if not regions have more constitutional power to adopt their own policies that would help them to enhance their revenue generation capacity than Addis Ababa city administration. More revenue autonomy is closely associated with the power of SNGs to decide on the rate of their taxes on which regions have better mandate to do so. Addis Ababa has the mandate to fix the rates of limited revenue sources that include municipal revenues, fees and charges. For almost all taxes of the city, the federal legislations and regulations are used to fix the rates, assess, collect and administer the city's revenues. Thus, the higher revenue collection performance of the city is more related to other factors than revenue of autonomy of the city.

In most cases, capital cities have better revenue potential than other cities in their respective countries. This is particularly true where the capital is a primate city in which large concentration of capital, skilled labor, infrastructure and communication and information services are available in relatively better quality than other cities in the country. Addis Ababa is also a primate city, hosting about 30 percent of the urban population reside. The data obtained from the city's Trade and Industry Bureau indicated

that about 119,197 people in city were engaged in trade and commerce. Furthermore, there were about 119,379 licensed businesses with a registered capital of 19.47 billion Birr in 2007/08, being dominated by the service and retail sectors. There were also 4,886 licensed investment projects having a registered capital of about 54.3 billion Birr.

The recent year's improvement in revenue collection of the city has some reasons as listed by the Senior Officer in the Revenue Assessment and Collection from Bureau of Finance and Economic Development (BoFED). First, the restructuring of the city within sub-cities and kebeles has resulted to bring close revenue assessment, collection and related activities into the where taxpayers are located. Accordingly, during the recent budget years from 80 to 90 percent of the city revenue was collected at sub-cities and kebeles. Secondly, the establishment new mechanisms that facilitate revenue collection and assessment such as taxpayers' identification number, Value Added Tax (VAT) and computerized tax administration system help a lot.

In order to have clear information about the revenue composition of Addis Ababa city administration, the city revenue can be broadly classified into four accounts: taxes, non taxes, capital revenues and municipal revenues. These revenue source categories of the city are presented in Table 3.3. below.

Table 3.3: Revenue Sources of Addis Ababa in the budget years of 1998/99-2007/08 (in million Birr)

Revenues sources	**Amount**	**% share of the total revenue**
1.Direct Taxes	**6,880.21**	**48.54**
1.1 Personal income taxes	2895.64	20.43
1.2 Rental Taxes	265.43	1.87
1.3 Profit taxes	1509.6	10.65
1.4 Land use fees	1563.01	11.02
1.5 Capital gain taxes	279.76	1.97
1.6 Others	366.77	2.59
2. Indirect taxes	**2322.13**	**16.38**
2.1 Excise Tax	31.82	0.22
2.2 Turn over tax	902.23	6.37
2.3 Value added tax	662.67	4.67
2.4 stamp sales and duty tax	725.41	5.11
Total tax revenue	**9202.34**	**64.92**
3. Non taxes	2089.14	14.73
3.1 Charge if fees	812.57	5.93
3.2 sales if goods and services	546.52	3.85
3.3 Government sales tax	558.04	3.93
3.4 others	172.01	1.2
4. Municipal revenue	**2342.35**	**16.52**
5. Capital revenue	**538.61**	**3.80**
Total Revenue	**14,174,40**	**100**

Source: Own illustration based on various data from Ministry of Finance and Economic Development (MoFED)

Tax revenue is one of the major sources of revenue. As it is shown in Table 3.3. taxes were substantially the largest revenue source for Addis Ababa city government. In the ten

budget years, taxes, both direct and indirect generated 64.92 percent of the total revenue of the city administration. Specifically, direct taxes are the most productive revenue source to the city. During 1998/99 and 2007/08 budget years, direct taxes alone contributed 48.54 and 74.76 percent to the city's total revenue and tax revenue respectively. Taxes from employment income are collected from employees that are found within the city excluding federal, Oromia and international organization employees. The city earned its highest revenue from this employment tax, 2.89 billion Birr. Revenue from this source had 20.43 percent contribution to the city's total revenue. This is usually one of the major economic advantages of being a capital city to have large employees paying tax to the city. This is particularly true for capital cites that are also primate city. The un- proportional concentration of relatively better infrastructures, services and facilities at Addis Ababa has made the city center for economic activities and business.

The city also generated tax revenue from rental income having 1.87 percent share of the total revenue. It collected about 10.65 percent of its revenues from individual profits who are engaged in business activities in the city. Other important revenue source of the city was land use fees. This is especially true for recent years due to the improvements of the rate. About 1.56 billion Birr was earned from this source that is about 11 percent of the city's revenue. Indirect taxes were also important revenue source of the city administration collectively; these revenue sources generated about 2.32 billion Birr to the city administration that contributed about 16.38 percent of the city's total revenue. Value Added Tax (VAT) is becoming significant revenue source from indirect taxes recently. After its introduction, the city collected about 663 million Birr from VAT. The city also collected turnover tax from individuals who supply goods and provide services. During the study period, 902 billion Birr was collected from turnover tax, which is the highest among indirect taxes. Finally, indirect tax was also earned from stamp sales and duty amounted 725, 41 million Birr. Addis Ababa has also non-tax revenue sources that generated total revenue of 2.09 billion Birr- nearly 14.73 percent of the city's total revenue. Among these non- tax revenues, administration fees and charges contributed the highest income to the city administration by generating 812.57 million Birr. The city also

generated income from sales for public goods and services. As it can be observed in Table 3.3., the city received 3.85 percent of its total revenue from this revenue source. Addis Ababa has more than a century experience of providing municipal services. Thus, it earned municipal revenue from provision, rent and sale of municipal goods and services. Municipal tax, rental income and service charges are dominant sources. Collectively, these municipal revenues generated about 2.34 billion Birr to the city administration. Finally, the city also received capital revenue from the sale of movable and non-movable properties of its own, 538.61 million Birr was generated by the city from this source. Generally, from all its own sources, Addis Ababa collected about 14.17 billion Birr during 1998/99-2007/08 budget years.

Table 3.4: Addis Ababa's Revenue under Comparative Frameworks in the budget years of 1998/99-2007/080 (in million Birr)

Source	**Addis Ababa**				**Sub National Revenue**	**Federal Government**		**Total National Revenue**
	Amount	**% out of SNR**	**% out national revenue**	**Amount**	**% out national revenue**	**Amount**	**% out national revenue**	
Taxes	9202.34	44.39	8.2	20,727.97	18.49	91,482.64	81.51	112,124.76
Non Taxes	4,970.10	66.85	12.73	7,422.64	19.01	31,420.01	80.99	39,042.43
Total	14,174.40	50.03	9.37	28,328.96	18.93	122,981.95	81.07	151,231.63

Source: Own illustration based on various data from Ministry of Finance and Economic Development (MoFED)

As Table 3.4. depicts above, during 1998/99 and 2007/08 budget years, all Regions and the Federal government collected a total revenue of 151.23 billion Birr, this is the national total revenue of the country. From the national total revenue, Addis Ababa, Dire Dawa and the nine Regional Governments collected only about 28.33 billion Birr that is less than 18.73 percent of the total revenue collected at all levels. On the other hand, the federal government was able to collect about 122.9 billion Birr that is slightly above 81 percent of the national total revenue. This shows the substantial control of the federal government over the major revenue source of the country. Addis Ababa was also able to collect about 4.97 billion Birr from non tax revenues constituting 66.85 and 12.73 percents of non tax revenues collected by regions and national total respectively. This better revenue collection capacity is particularly important due to the fact that regions have very weak revenue capacity resulting in high dependency of regions on federal government's fiscal transfer. When we deduct the share of Addis Ababa, regions were able to collect less than 10 and 11 percents of the national total revenue and tax revenues respectively.

3.7. Borrowing Capacity of Addis Ababa and the Regulatory Framework

As one of the basic elements of Inter Governmental Fiscal Relations (IGFRs), borrowing power of Addis Ababa needs to be analyzed in the context of the required conditions by the federal government. As it is stated earlier, uncontrolled and non- regulated sub-national government borrowing may produce serious damages on both national and local fiscal conditions. But, the national government should establish transparent and comprehensive legal, administrative and institutional regulatory mechanisms so that the degree of politicized and informal barriers would be at least minimized. Addis Ababa with rapidly growing population, is under immense pressure to extend urban infrastructures and services. Under such circumstance, there is a growing appreciation of

the benefits associated with its ability to raise its own capital funds through borrowing, especially for those needing expensive new infrastructures.

In our case, although the Revised Charter of the city allows the city to borrow money, the necessary conditions and procedures are not listed explicitly. It simply puts the general principles that accounts should be taken of the non-endangerment of the country's macro-economic stability as well as of the city's financial capability to discharge its functions and obligations both intermittently and perpetually. And, in fact any loan is expected to be authorized by the federal government. But, the law fails to make clear what actions and conditions the city is required to meet so that it can get the loan objectively without the aforementioned threats. Hence, the law gives the federal government full power of allowing and rejecting loan requests by the city that might be determined on subjective, politicized and arbitrary bases. The surprising thing is that the 1954 Charter of the city devoted about 15 of 62 Articles on dealing with the procedures of borrowing to Addis Ababa. The city council had a final saying on borrowing of the city, and any borrowing was required to be supported by at least $3/5^{th}$ of the members. Once approved by the council, the Charter of the city in the imperial era, issued before 56 years now, did not empower the central government to approve or reject it. The provisions were so detailed that problem of subjectivity and politicization would be minimal.

Addis Ababa city has a long history of legal power to borrow money from domestic sources as of the 1954 Charter of the city. The current legal framework also allows the city to borrow. The city government has a legal personality, which is one of the most important conditions to secure borrowing power of SNGs. More explicitly, the Revised Charter reaffirms the power of the city government to domestic borrowing under administrative control of the federal government. Unlike previous legislations and the current regional governments borrowing power, Article 54(3) of the Revised Charter empowers to the city to identify international credit sources and solicit the federal government to take a loan there from on its behalf. Dire Dawa is also legally empowered to have the mandate of borrowing from foreign sources through the federal government

(Dire Dawa Charter Proclamation No.416/2004). Borrowing from domestic sources can be made directly or by way of selling bonds, on short and long repayment terms. It is the city council that approve the loan agreements made as per the authorization of the federal government (Article 14(2Q) of the Revised Charter). Furthermore, the city is allowed to establish a Saving and Development Banks in partnership with governmental and non-governmental organizations as well as with sub-cities and kebeles.

Conditions and hard budget constraints are usually imposed on sub-national governments borrowing powers. This is done to protect the national macro- economic stability and the overall fiscal position of SNGs. In our case, Article 54 (2) states that in case of any loan by the city accounts should be taken of the endangerment of the country's macro-economic stability as well as of the city government's financial capability to discharge its functions and obligations both intermittently and perpetually. Even the national legal framework is not conducive to borrowing by SNGs. Though the 1995 FDRE Constitution empowers regional governments borrowing only with the authorization of the federal government it is unclear on who the lender is and what instruments of debt are open to the states. Furthermore, the National Bank only issues loans to the federal government and financial institutions.

According to the Director for Government Accounts Directorate and a Senior Officer in the Directorate, a key obstacle to the access of financial markets in Ethiopia is the absence of a federal law specifying the terms and conditions for borrowing. In the case of other urban local governments, other than Addis Ababa and Dire Dawa, all borrowing requires the authorization of their respective regions and in turn requires the approval of MoFED. The only existing legislation that somehow lists the procedures of borrowing is the Proclamation No. 7/1992. The evaluation criteria for regional borrowing include debt servicing capacity and its impacts on regional budget deficit. Addis Ababa's statutory power of borrowing needs to be seen with the actual borrowing practice of the city. In this case, utmost effort was made to get reliable and tangible data on the size and patterns of the city's borrowing for previous budget years.

But, it was hardly difficult to get it. It was possible to get the borrowing data for the last three budget years. Accordingly, Addis Ababa borrowed about 4 billion Birr from Ethiopia Telecommunication Corporation (ETC) and Commercial Bank Ethiopia (CBE). ETC lent it for the construction of road, while the CBE was for the construction of Condominium houses. According to the Senior Officer in Budget Department in BoFED, Addis Ababa city government has developed a number of condominium houses that will be sold to private individuals. CBE provides housing finance to individuals that purchase such houses. The financial institution will pay over the proceeds of the sale to Addis Ababa city government and recover the proceeds and interest from the purchaser in terms of a financing agreement. The house financed by the CBE will be the collateral for the loan. Whilst this financing arrangement is an appropriate use of borrowing from a financial institution, it should be noted that this arrangement does not constitute the provision of credit to the city government but rather to the purchasers who are effectively borrowing from the financial institution.

The data obtained from Bureau of Finance and Economic Development (BoFED) revealed that the city was able to get 78 million Birr from foreign borrowing. Table 3.5. below summarizes the creditors and the amount of foreign borrowing of Addis Ababa from 2004/05-2009/10 budget years.

Table 3.5: The Creditors and the Amount of Foreign Borrowing of Addis Ababa for 2004/05-2009/10 budget years (In million Birr)

Creditor	**Budget year**						**Total**
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	
African development Bank	0.96	-	-	-	-	-	0.96
African development fund	2.32	-	-	-	-	-	2.32
World food program	-	0.90	0.90	-	-	-	1.8
China	-	-	-	-	-	73	73
Total	3.28	0.90	0.90	-	-	73	78.08

Source: Own illustration based on various data from Bureau of Finance and Economic Development (BoFED)

Table 3.5. shows that Addis Ababa was able to borrow 78.08 million Birr from two multi- lateral institutions and China through the federal government. China alone lent about 73 million Birr constituting 90 percent of the loan for the period. This is in line with the influential status of China over the foreign investment in the country. The recent data of MoFED shows that China became the leading country to lend Ethiopia the highest amount of money for 2009/10 budget year of any single country. But, there could not get information in the types of loan and financing mechanism. Furthermore, both the Senior Officers in the Government Accounts Directorate in MoFED and in the Budget Department in BoFED were found frustrated to provide data on borrowing of the city. This indicates that how the system lacks transparency.

3.8. Transfers and Fiscal Support to Addis Ababa

Addis Ababa has significant roles in local, regional, national and international settings on economic, social, political and administrative perspectives. In order to provide adequate services to residents and improve the city's image across the world, it would not be wrong to say that a lot is expected from the government. These multiple roles have produced additional costs to the city government, and sometimes cause the city to lose its revenues. In almost all reviewed capitals, federal governments or/and state governments provide supplemental fiscal support for the additional costs associated with hosting the national government. For Addis Ababa, fiscal transfers need to be viewed within its multiple roles along with the additional costs of these roles. Unfortunately, Addis Ababa city not only deprived of compensation for its role as a capital, but the city has been also excluded from the regular transfer scheme of the country. The reviewed legislations of the Imperial and the Derg regimes were also mute about right of the city to receive transfers from the respective governments. The current legal framework is not yet mute as Article 55 of the Revised Charter stipulates the city may be granted with emergency, rehabilitation and development aid by the federal government, if it is found necessary to properly discharge its responsibilities.

Inter Governmental Fiscal Transfers (IGFTs) in the context of national capital cities have multiple dimensions. First, like any citizen of the nation, residents in capital city deserve to get some portion of the allotted transfers from their national government. Second, apart from its role of local government, capital cities host national government's institutions, causing the city to incur additional costs. Thus, most federal countries compensate their capital city for the costs associated with its national roles. Third, capital cities usually lost huge amount of their income from their land and properties owned by the national government. In this case, some countries pay the tax directly and still others compensate the levy-tax. It is thus in this framework the federal government transfers and/or supports to Addis Ababa is resulted to be analyzed. Under this sub-section, the way Addis Ababa has been treated in the regular fiscal transfer system of the country is presented. The data obtained from the MoFED and Bureau of Finance and Economic Development (BoFED) clearly revealed the extremely insignificant size of the fiscal transfers of the city from the national government. Table 3.6 below indicates the unique status of Addis Ababa in terms of its small share from the national block grant.

Table 3.6: Comparative Perspective of the Addis Ababa City's Block Grant-from the treasury source, for 1998/99 -2005/2006 budget years.

Regional states	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Tigray	242.4	188.8	297.3	265.4	377.5	377.7	407.9	517.1
Afar	219.6	170.9	205.5	206.1	246.1	178.4	204.2	298.1
Amhara	642.2	532.4	769.5	805.0	954.1	1088.6	1224.2	1451.0
Oromia	848.4	613.4	1047.6	1201.2	1274.3	1662.9	1780.7	2411.5
Somali	198.9	218.1	295.1	309.8	369.4	295.5	351.2	458.3
Benishangul - Gumuz	150.50	112.0	148.0	161.9	187.5	151.0	152.8	203.6
SNNPR	582.7	430.0	577.1	616.1	818.9	1003.6	1102.6	1381.2
Gambella	134.7	97.6	121.8	134.6	136.3	112.9	108.5	139.2
Harari	53.5	58.6	51.8	67.3	69.3	72.3	77.2	98.4
Addis Ababa	1.4	-	0.1	-	-	0.2	0.0	0.0
Dire Dawa	33.6	16.7	33.9	80.3	89.2	78.3	88.0	113.0
Total	3108.041	2438.53	3547.68	3847.63	4522.5	5021.42	5497.26	7071.473

Source: Own illustration based on various data from MoFED

Table 3.6. summarizes the regional block grant transfer from the federal government to the nine regional governments as well as Addis Ababa and Dire Dawa city administrations in 1998/99-2008/09 budget years. The unconditional block grant was so significant that it had 60 percent of region's expenditure within the same budget years. Throughout the period Addis Ababa received the least amount of the block grant transfer from the federal government than any of the regions. It received only 1.7 million Birr that constituted less than 3 percent its total expenditure of the period. Furthermore, the city did not receive any block grant transfer as of 2004/05 budget year. For instance, from the 16.35 billion Birr of the block grant transfer from the federal government to regions, in 2008/09 budget year, it is amazing to see nothing went to the city's account. In 2008/09 budget year when Oromia and Amhara regional states got 5.4 and 4.1 billion Birr from the transfer respectively, while still Addis received noting. Surprisingly, there is no formal legislation or policy that proclaims the incompetence of Addis Ababa for block grant transfer to the opposite, while the Imperial and the Derg Regimes legislations were mute about the right of the city to receive transfers from the national governments. The Revised Charter in Article 55 stipulates that the city may be granted with emergency, rehabilitation and development aid by the federal government, if it is found necessary to properly discharge its responsibilities.

Questions were forwarded to the senior officers in Budget Department in BoFED and the Directorate of Treasure in MoFED so as to understand the justifications for excluding the city from the transfer system of the nation. There is nothing formal and explicitly stated rationale. The "huge" revenue potential of the city has been mentioned as a reason. It is true that Addis Ababa has collected the largest revenue in the country than any of SNGs. But, punishing the city in order to reduce the horizontal fiscal balance would not be correct action. The senior officers in MoFED, however, provided another dimension of the case. The grant has been distributed to regions according to a grant formula constituting aspects. Thus, the variables used in the formula and their respective weights would be against the benefit of Addis Ababa. The measurements in expenditure needs and differences in relative revenue raising capacity would make the city's size of transfer insignificant. But, the main problem is the emphasis given to narrowing regional income

disparities (as stated in proclamation No. 33/1992) without considering the differences in expenditure needs. Expenditure needs of the city should have been assessed by incorporation the additional costs of the city in hosting the national government as well as the city's role as a capital city of Africa. It is to be noted that the mandate to prepare and adopt the subsidy formula is over the hands of House of Federation, Addis Ababa has not representative therein.

Further efforts were made to get information on whether cities in Ethiopia at all do not get transfers from their respective regions. If the cities were already excluded nationally, then the case of Addis Ababa could have been framed in that way. And, the survey study of Germany Technical Cooperation (2005) on seventeenth municipalities indicated that these municipalities received block grant transfers from their respective states that constituted about 55.3 percent of their budget on average. The grant was devoted mainly to state functions. Thus, Addis Ababa performs both state and municipal functions without entitling the formal grant transfer.

One of the important fiscal advantages of capital cities being governed as "a federal district" is the access to discretionary financial support of the federal government from its own account. Thus, one may expect that the federal government of Ethiopia would give supplemental budget to its capital and hence the absence of grant transfer could not have produced serious problems. But, the fact is far from this expectation. This fiscal support of the government to its capital is minimal and quite below the city's role as a seat of four different governments. All the interviewees from MoFED and BoFED replied that the city received no formal budgetary support from the national government. The figurers on the financial data of the city as "subsidy" did not derive from the government's accounts. The only form of "subsidy" given to the city consistently was the "road fund". Table 3.7. below summarizes the city's road fund amount for 2003/04 - 2010/11 budget years.

Table 3.7: Road fund to Addis Ababa for 2003/04-2010/11 budget years (In million Birr)

2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Total
17.5	14.2	24.8	42.8	57.9	63.5	130.5	45.0	396.2

Source: Own illustration based on various data from FEDB

Table 3.7. above presents size and trend of the road fund to Addis Ababa. The city got about 396.2 million Birr for road development sector during 2003/2004-2010/11 budget years. Though it declined in 2010/11 budget year, the size of the fund had been increasing from year to year and it became 130.5 million Birr in 2009/10 budget year. Since road development has been one of the key priority area of the city administration, this fund would help to finance some portion of the projects cost. Nevertheless, road fund should not be included into either federal block grant or discretionary government support to the city. The Senior Officer and the Director for Government Accounts Directorate in MoFED indicated that the money came from the "separately established fund" for the purpose of road development. Its accounts are different from the federal government, and it is administered by separate body. Its regular budget derives from fuels and related items.

Addis Ababa, thus, lost attention of the federal government in its socio-economic development. Much of its expenditure had been allocated to capital projects such as road, housing and water. But, the benefits of these projects too far from its residents. The beautiful ring roads intend to manifest how the country is "progressing" and more relevant to the political campaign of "national-image building" than to the residents meet their basic services. The public housing project also benefits the nation as a whole. Thus, the city spent much of its expenditure on capital projects that have spill over effects to the nation as a whole. Since the benefit is some how national, its costs also should be shared with the national government. Some federal countries like Brazil establish a "constitutional fund for the development of the capital city" believing in the constructive role of a capital city in the overall development of a nation.

The regional governments do not have any better legal and constitutional bases that enable them to get nearly 60 percent of their expenditures from the federal block grant transfer. The constitutional provision on transfers to regions is not stronger than the statutory provision on transfers to Addis Ababa. This is to mean that there is no any constitutional, statutory and/or policy provision that prohibit Addis Ababa from receiving at least regular transfers as to regional governments. This is mainly due to the deficient of understanding and perception of the government towards urban and urban citizens-the unevenly rurally-skewed policy of the government.

As a capital city, Addis Ababa has lost huge amount of its lands given to Embassies, Federal and Oromia region government offices that would reduce its potential land use fees and property taxes. Furthermore, although employees of these agencies reside at the city as well as receive the public services provided by the city, it is the federal government that receives the tax from their income. In addition, Addis Ababa is also the seat of African Union the city gets nothing for its functions. But Brussels is the seat of European Union so that it receives particular fiscal support for compensating it for this additional function. Some argue that Addis Ababa gets no transfers as it has better socio-economic infrastructure and services than any of SNGs in the country. But, actual poverty, unemployment, and lack of housing are still prevalent in Addis. Even though Addis Ababa is currently experiencing one of the lowest population growths its history (6.37 in 1976, 3.95 in 1994,2.92 in2004),the capital city continues to attract 90,000 to 120,000 new residents every year, mainly due to net immigration (UN-Habitat ,2009).

Most residents are still very poor or on moderate income. A 2002 study by the Association of Ethiopian Microfinance Institutions shows that the informal sector employs about 51 percent of the economically active labor force. As the 1994 census of the Central Statistics Agency (CSA) affirms, unemployment is a big problem in the city (34.7 percent) and it is even worse than in other urban areas of the country (22 percent).And overall, the poverty in Addis Ababa is still one of the major problems and it seems to have been increasing in the last years .Some authors claim that today ,about 70

to 80 percent of the population are living at or below subsistence level. As a continental capital, Addis Ababa was faced a serious problem of relocation of the seat of African union mainly due to the sub-standard quality of the city. The beautiful buildings and ring roads are not strong enough to hide the serious poverty and deprivation of its residents. I further argue that most of the capital intensive expenditures of the city are more related to the role of the city as a capital city than as a local government. This neglect of the government is even against one of the objectives listed in the charter: "….enlarge the role of the city as a capital city of the federal government and as a seat of the African union and different international and regional organizations…" But practice of government support to the city is not found practical.

CHAPTER FOUR

CONCLUSIONS AND RECOMMENDATIONS

After reviewing and analyzing primary and secondary sources of data on governance arrangement and intergovernmental fiscal relations of Addis Ababa City Administration with the Federal Government as well as based on the findings, the study has come up with the following conclusions and recommendations.

4.1 Conclusions

i. Regarding historical perspective of governance and IGFRs of Addis Ababa, development of Addis Ababa City as a capital city of Ethiopia indicates its special status in the emerging modern state in the beginning of 20th Century. Thus, establishment of Addis Ababa could be taken as part and parcel of the great expansion of Menelike II and of the process of nation-state formation. During the Imperial Regime, Addis Ababa had special and better status in the governance structure of the country. As an Imperial city, Addis Ababa was the first urban center to have special municipal structure with Mayoral leadership as well as a "Chartered City" with elected council as per the principles of self-administration. This was quite impressive and exceptional phenomenon due to the highly centralized and undemocratic nature of the system. Moreover, even developed and democratic federations of the time did not secure their capital cities with such broad degree of local government. The city's functions and powers, revenue sources and governance arrangement were clearly defined. Unlike any of urban centers, city government of Addis Ababa was empowered to domestic borrowing and was relatively free from the strong hands of Ministry of the Interior. Generally, the city did not belong to any of provinces in the country; rather it was with the central government its structure was attached. Addis Ababa, during the Derg Regime, lost almost all of its prior autonomy.

ii. Concerning the current status of the city, the changes in the early 1990's in the political atmosphere of the country have resulted significant change on governance arrangement of the city as well as its IGFRs with the national government. Unlike the previous history of centralization and unitary form of government, the 1995 FDRE Constitution makes Ethiopia a Federal State with principles of self-rule and ethnic-based arrangement. Thus, Addis Ababa was not qualified be one of the federating states of the Federation. Addis Ababa, thus, becomes a "federal district" as an integral component part of the Federal government. This arrangement is found reasonably appropriate decision due to the multi-lingual and multi-cultural community of the country. Addis Ababa has now designed as a symbol of national unity through reflecting the diversity of the country. Moreover, the ethnic-based federal structure of the country further makes the city to belong to none of the regional governments. Representatives of almost all of the ethnic community live in the city so that the city could not belong to any of them; rather it belongs to all of them. Thus, even if Addis Ababa had not been the capital city, the city would not have been given "statehood" status due to the over emphasis given to "ethnic-based" structure of the country. This is the reason for Dire Dawa as it is a federal territory having no statehood status or belongs to non-of the Regional governments. The possibility of governing Addis Ababa under the jurisdiction of Oromia State was also blocked by the Constitution. This is found logical as Addis Ababa is the capital of the country with more than 80 ethnic groups.

iii. The overall constitutional and statutory frameworks designed to govern Addis Ababa as the capital city of Federal government, Oromia Regional State, African Union and local government for its residents reflect the multiple identity of the city and challenge to balance local, regional and national interests over the city. Constitutionally, residents of the city have full measures of self-government (this intends to respect local interests); Oromia State has special interest to be secured by particular laws (this is to balance regional interest); and the Federal government governs the city under its jurisdiction as its component part with the

mandate to dissolve the local government (this is to provide the Federal government the mandate to govern the city in the interest of the nation as a whole). But, though the city hosts Oromia state, the law expected to define the relationship of Oromia to the city has not yet been issued so that the certainty in the city's governance prevails. The Constitution and the Revised Charter further fail to prescribe the future fate of the city if Oromia exercises its constitutional right to secede or the seat of government transfers to other areas.

iv. Regarding expenditure responsibilities, Addis Ababa City Government is responsible to provide state and municipal services. Defined in the framework of general competence, the city's functional responsibilities are broad and general. These functional responsibilities of the city are found almost similar to the responsibilities of the states. But, per capita expenditure of the city is found the highest in the country. Huge infrastructural developments in the city increased actual expenditure of the city. The city has limited control over its police and transportation services.

v. As a primate city of the country along with the center of socio-economic activities, Addis Ababa has an experience of collecting the highest revenue in the country, next to the Federal government. It is entitled to generate revenues from tax, non-tax and municipal sources which fall under its jurisdiction. The only major differences in the revenue power of the City and the Regions is that Addis Ababa does not have revenue-sharing mechanisms for corporate taxes. Generally, as most capital cities, particularly in developing countries, Addis Ababa has relatively well-diversified economy that provide wide ranges of revenue sources.

vi. Regardless of its multiple functions and roles, Addis Ababa is not able to receive regular transfers from the Federal government. The narrowly articulated comparison of the relative revenue potential of the city with other Regions has been taken as the reason for the absence of transfers to the city. This argument is found weak and short sighted since it neglected the additional costs the city incurred by hosting local, regional, national and continental governments and the

serious socio-economic problems of the residents. For instance, Addis Ababa has highest unemployed people, that is about 34 percent of its adults are unemployed; one-third of its residents live below the national level of poverty; and while rural poverty tends to decline, poverty in urban areas still tends to increase. Moreover, the city spend substantial portion of its expenditure in the development of extensive capital infrastructure such as ring roads. These infrastructures also serve the national government as well as Oromia State. But, the city incurred the entire costs. For that matter employees of the Federal government and Oromia State do not pay income taxes to the city government. Additionally, the city hosts African Union and this promotes the good image of the nation as a whole. But, the city gets no transfers or other supports for compensating these extra functions of the city. Surprisingly, Brussels receives extra support to compensate the costs associated with hosting European Union. All urban centers in the country also receive block grants from their respective states mainly to finance the state functions. But, Addis Ababa too performs state functions equal to Regions; it is, however, deprived of the block grant.

vii. Finally, though the city is empowered to borrow from domestic as well as foreign sources as per the authorization of MoFED, there is no explicitly stated regulatory procedures to exercise its mandates. It is administrative-oriented controlling system that prevails in the country. Thus, borrowing practice of the city can be well described as more of informal, un-institutional and subjective system.

4.2 Recommendations

I. The inter-governmental relations between the city and the Federal government need to be more formal and institutional. For example, the Revised Charter delegates Ministry of Federal Affairs to supervise the city government on behalf of the Federal government. But, without formal amendment of the charter, office of the Prime Minister took over the responsibility following the 2005 election. The same is true for police and transportation services of the city government.

This informality and non-institutionalized relations would be problematic in the multi-party system as different parties may take control of the Federal government and the city government.

II. More clarity is required regarding the degree of control the Federal government has over the city government. For instance, the Federal government has the power to dissolve the city's council and this is not unique to Addis Ababa since most Federal governments have the same power over their capital districts. Rather the problem is that the conditions described in the Proclamation are not detail enough to avoid confusion and politicized decisions by the Federal government. Even the 1954 Charter was more explicit than the current Charter of the city as to the conditions to cause dissolution of the city government. Moreover, definite period should be determined by law within which another election would be conducted after the dissolution of the city government. The 1997 Charter of the city determined it as maximum period of one year. Since the current Charter fails to fix the period during which, residents will be governed by "un-elected" body for indefinite period. Furthermore, the body to govern the city during this time should be determined clearly. "Care taker" administration was proposed to govern the city after dissolution of the council by the 1997 Charter; but the current Charter is mute about this issue.

III. The constitutional mandate of Oromia state to have special interest over the city should be determined by particular laws so that long-standing, cooperative and formal relationships will be established between the Oromia State and the City. This will, in turn, free the city from un-necessary political dialogue.

IV. The city government should primarily focus on providing basic services to its residents; reduce unemployment and other related socio-economic services, rather than financing huge projects that have more of national benefits than benefiting its residents.

V. The city administration should properly exploit the opportunities of being a capital city to broaden its revenue bases so that it could reduce the fiscal burden of providing services to its residents.

VI. The Federal Government should review the experience of other Federal countries how they fiscally support their capital cities. Leaving the national transfers system, Addis Ababa deserves discretionary fiscal support of the Federal government. At the expense of their autonomy, the main benefit of federal district is the opportunity of having supplemental fiscal support from the national government. The Federal government of Ethiopia should recognize how capital expenditure of the city plays an important role in the current "campaign of image building".

VII. Due to the limited scope of the study, the following related issues have not been touched adequately. Thus, they would be at least "brain storming" for further studies.

- The change in economic and population growth of the city due to the adoption of Federalism.
- Whether the expenditure size of the city and local service provision are directly related. High per capita expenditure and revenue of the city may not reflect better service provision of the city than Regions.

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ANNEXES

ANNEX I

Interview Guide: Prepared to interview officials who are working in Addis Ababa City Government (BoFED)

1. Is there any joint responsibility between the city government and the federal government in the provision of service? If so, how these services are founded?
2. Does federal government compensate the city for federal activities like security costs associated with protocol visits and demonstrations etc?
3. Can you tell me about the federal government financial support to the city for its capital functions?
4. Does the city receive special treatment from federal government because of being a capital and the seat of international organizations?
5. Is there any mechanism to compensate the revenue that the city lost from the non-payment of property taxes on the federal government and other international diplomatic organizations properties?
6. Can the city government make its own decisions about taxes and expenditures without the approval of the federal government?
7. Would you explain about the reasons for low borrowing capacity of the city?
8. What about the share of the city from the national borrowed or donated funds?
9. Can you explain the justification behind the lack of representation of the city in the house of the Federal (the upper houses)?
10. Does federal government compensate the city for federal activities like security costs associated with protocol visits and demonstrations etc?
11. Can you tell me about the federal government financial support to the city for its capital functions?

12. Can you tell me about the reasons for the substantial amount and composition of the city's capital expenditure?

13. What are the contributing factors for higher spending responsibilities of the City?

14. Would you tell me the reasons for the recent year's improvements in revenue collection of the City?

15. How do you explain the extremely insignificant size the fiscal transfers of the city?

ANNEX II

Interview guide to interview officials who are working in Ministry of Financial and Economic Development (MoFED)

1. Can you explain the justifications behind transfer provision at the national level?

2. Could you explain the justifications for excluding the city from the transfers system of the nation?

3. Could you tell me the role of the government in the overall development of Addis Ababa as the national capital?

4. Would you explain about the implication of the poverty index and unemployment rate of the city in regard with other sub national governments?

5. Would you explain about the procedures for borrowing in the national levels?

6. How does Addis Ababa city obtain from the country borrowing or donated funds?

7. Could you explain the Federal Government Policy direction as per the governance of Addis Ababa, if any?

8. How do you relate the increasing expenditure of Addis Ababa?

9. What are the major obstacles to access financial markets in Ethiopia?

ANNEX III

Interview guide to interview officials in the Ministry of Federal Affairs (MoFA)

1. How does your Ministry treat IGRs of Addis Ababa differently from other Regions?
2. Is there well-structured institutional arrangement to govern the IGRs of Addis Ababa with the Federal Government?
3. What are the existing mechanisms used to supervise the performance of the city government?
4. Is there any formal arrangement to support Addis Ababa in order to develop its role of national capital city?
5. What measures have been taken to settle the constitutional interest of Oromia State on Addis Ababa?
6. If you have anything to add, please forward it?

ANNEX IV

Interview Guide to interview Dr. Merrera Gudina

1. How could you explain the current system of IGFRs and Federalism in Ethiopia?
2. What are the problems of the current Ethnic- Based Federalism?
3. How do you express the governance of Addis Ababa City in relation to the Federal Government and Oromia State?
4. Do you think the current governance arrangement of Addis Ababa satisfy the Oromos' claim on the City?
5. What measures should be taken to improve the governance arrangement of the city?

Declarations

I, the undersigned, do hereby declare that this Thesis is my original work and it has not been submitted partially or in full by any other person for an award of a degree in any other university/institution and that all sources of materials used for the Thesis duly acknowledged.

Declared by:

Name: _____

Signature: _____

Date: _____

Confirmed by Advisor:

Name: _____

Signature: _____

Date: _____

Place and date of submission: _____