

## Assessment of the Performance of Bahir Dar Municipality in Revenue Generation and Utilization

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### **Abstract**

*This research attempted to assess the performance of Bahir Dar City Municipality in revenue generation and utilization under the new framework of decentralization put in place by the Regional Government. The revenue base of the city is sparse and concentrated on few bases. These have increased the city's vulnerability to policy changes. Poor commitment, poor capacity and enforcing power, poor tax paying habit, poor data management, poverty, and legal constraints have reduced the revenue of the city. A lot is left to be done both by the city government and higher level governments in further capacitating urban local governments financially, technically, and legally so that they can be vibrant organs which contribute to poverty reduction and local development.*

*Key words: urban, local, government, revenue, and expenditure*

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## **Introduction**

### **Background**

According to Tibebe (2003), the origin of urbanization in Ethiopia is traced back to the period of Aksumite Kingdom; but the country has remained to be among the least urbanized countries in the world, even by African standard. However, it is experiencing high rate of urbanization. The rate of urbanization has also been increasing rapidly from 11.8% in 1987 to 13.4% in 1995 and it is projected to be 18.9% in 2020 (CSA Analytical Report cited in Tibebe 2003).

Tegegn (2000) argues that the increasing rate of urbanization without any accompanying economic development and services in urban centres of most developing countries and particularly Ethiopia is exposing the urban dwellers to various kinds of deprivations such as lack of access to jobs, inadequate housing, education, health services, and so on.

The nature and pace of urbanization is directly or indirectly influenced by many factors of which the macro economic processes and legal environment are the ones influenced by the national government system. When we look at the case in Ethiopia, since the imperial regime, attention given to urban centres has been low (Van Dar Loop, 2002; Mihret, 1999).

The imperial regime was known for greater centralization of political power and authority that resulted in the dominance of central government and its undue interference in *Awrajas'* (Zones'), *Woredas'* and municipalities' affairs (UDSS-GTZ, 1999). In 1942, the government issued a proclamation that

regarded municipalities and other local institutions as part of the national system of governance. In the same year, the status and function of municipalities were defined (Van Dar Loop, 2002). In 1945, the imperial regime again issued a proclamation that recognized six towns: Addis Ababa, Jimma, Gondar, Harar, Dire Dawa and Dessie as municipalities and determined their revenue sources (Tibebu, 2003).

In the *Derg* regime, Central Urban Dwellers' Association, Higher Urban Dwellers Association (Keftegnas) and Urban Dwellers Association were first established as local organizations for the development of urban centres like farmers association in rural Ethiopia. However, these organizations later on were used as instrument to indoctrinate socialist ideology (Van Dar Loop, 2002; Shimelis, 2003). The centralized political system, the nationalization of private properties such as expropriation of extra houses in urban centres discouraged private investors from contributing to urban development. Because the government was highly obsessed with politics, no significant contribution was made with regard to establishing vibrant urban local government that can contribute much to growth and development.

In the current government as well, municipality management and governance did not get sufficient attention until recent time (Shimelis, 2003; Mihret, 1999). This has handicapped municipalities from delivering services to their residents (Van Dar Loop, 2002; UDSS-GTZ, 1999). While policies and strategies have been formulated for rural development, there was no official federal level urban development policy formulated until August 2006 (Ministry of Works and Urban Development, 2006). This indicates that much had been left from the

side of the federal government at least in providing a policy framework based on which regional governments can work. Individual regions, however, have started to enhance municipality management and local urban governments' capacity towards providing services and generate their own revenue. The Amhara National Regional State has taken the initiative of re-establishing, restructuring and empowering urban governments in 2000 (Van Dar Loop, 2002). The power, capacity and performance of the municipalities in the new institutional arrangement has not been well studied as it is a new beginning virtually in all regions of the country.

Revenue sources for urban centres were inflexible and most forgotten in urban affairs of Ethiopia (Van Dar Loop, 2002). The proclamation of 1945 identified municipal revenue sources as land rent and building taxes, licenses in trades and professions, market fees, and fees for municipal service such as sanitary, slaughtering houses, etc. (Van Dar Loop, 2002; UDSS-GTZ, 1999). In 1971, legislation was declared to clarify the revenue bases declared in 1945. The *Derg* government did not legislate openly on urban revenue sources although its act of nationalizing urban extra houses could have an impact on revenue bases. It was found that the same rate of fees, dues, and taxes were used by urban centres of Amhara Region until recent time (UDSS-GTZ, 1999).

This study, thus, was primarily aimed at investigating performances of urban centres in generating their own revenue and utilizing their budget following the new policy initiative of Amhara Region taking the case of Bahir Dar city.

## **Objective of the study**

General Objective: To assess capacity and performance of Bahir Dar city with respect to generating and utilizing revenue.

Specific Objectives:

- To investigate the major sources of revenue of the municipality,
- To investigate municipality's level of collecting and utilizing revenue, and
- To point out problems related to revenue generation and utilization.

## **Data and Method**

The research design is basically a combination of exploratory and descriptive with the intention of presenting the condition of the city financing its activities. The research objectives were addressed by collecting both primary and secondary data. Primary data from the city administration employees were collected using key informant in-depth interview. A total of four employees were chosen purposively from the revenue collection and budget departments, two from each. Secondary sources of data such as recently published materials on urban municipal finance, unpublished sources such as reports, plan documents, etc. that have relevance to the issue under study were also used.

The data collected were presented in tables. Some simple statistics such as percentages and ratios were used to analyze and interpret the data. Other qualitative data were put in narration.

## **Scope of the study**

The study tried to examine the legal status and performance of the municipality with respect to revenue generation and utilization.

## **Significance of the study**

The recognition of municipalities as separate government organs is a new beginning and the finding is informative as to how municipalities, especially of Bahir Dar city is financing its activities. Moreover, it indicates the problems of revenue collection and utilization encountered thereof. Studies of this sort also enhance exchange of experience for municipalities of the country in financing their activity in pursuit of being a vibrant local government.

## **Theoretical Framework**

### **Financing City Administration (Local Government)**

Public finance (public sector economics) focuses on the taxing and spending activities of the government and their influence on the allocation of resources and distribution of income (Rosen, 1995; Bhatia, 2003). In fact the type of activities pursued and extent of government intervention is debatable. Rosen (1995) suggests that the most frequently used framework for public finance is welfare economics which is concerned with the social desirability of alternative economic states. Theory of welfare economics explains that spontaneous order or invisible hand makes a free market economy to efficiently allocate resources. However, free market has a problem to be left free and operate by itself.

Three of the main reasons are the following:

1. When the underlying assumptions for the functioning of free market are absent, market fails to foster efficient allocation of resources.
2. There are products that a society demands but which are not provided by market.
3. Even when there is *pareto* efficiency “society may prefer an inefficient allocation on the basis of equity, justice, or some other criterion” (Roscn, 1995).

These arguments provide convincing ground for government intervention in the economy. While these arguments initiate the relevance of government intervention, they do not say anything about the various levels of government and their interaction. Different government levels (federal, state, and local) are involved in the economy; but the power and degree of involvement each of them has in local, state, and national affairs do vary depending on the extent of centralization followed and exercised by them. Van Dar Loop (2002) explains that in decentralized government system, where there is fiscal decentralization, each government level shares responsibility and power to generate its own revenue and provide necessary services to the constituents. It is the empowerment of the communities and citizens by fiscally empowering the local government.

A city administration like any other local government needs to have sufficient revenue base to function properly and provide the necessary service to its

constituents. According to Bowman and Kearny (2002), the basic principles that govern the state and local financial system as they have involved are interdependence and diversity. The state and local financial systems are closely interlinked and heavily influenced by national financial systems. The major sources of revenue for local governments are own sources, intergovernmental transfer and counter cyclical aid. The interdependence of government financial system can be revealed on the following grounds. Revenue collected by different governments – local, state or federal – is collected from the citizens under different titles and names. For instance federal government may collect income tax, state government sales tax and local government property tax; all of them are collected from the constituents. Second, common to both developed and most developing countries, governments are not able to be financially self sufficient. Hence for state and local governments, there is an intergovernmental transfer of money from federal government (Bowman and Kearny, 2002). In addition to these two fiscal interdependencies, federal government transfer money to the state and localities to counteract ravages encountered during economic recession. Governmental financial system is explained by diversity of revenue source. Revenue diversification reduces revenue volatility, impact of unstable fiscal environment and reduces dependency of municipalities on state and federal government (Bhatia, 2003), but diversification should not exceed a certain level at which the cost of administration exceeds the additional revenue base collection.



## **Own Source Revenue**

Own source of revenue are collected from taxes, charges, fees applied to people, service and products within the jurisdiction of the local government. The revenue base and the amount generated by the localities vary on capacity and effort to generate revenue. The kinds of fees, charges and taxes collected can be levied by the local or state government specified by the constitution or legislations. The legal constraints particularly on local governments like cities and municipalities make governmental relationships uneasy.

*Cities, counties and other local governments will always live within the constitutional house of their parents, the state. They enjoy their own source of revenue – property tax, users' fee, and business license fee – but depend on the state for the bulk of their income (Gargan, 1997: 520).*

On the contrary, however, local governments want more money and wider discretionary power to raise additional revenue.

Major sources of local government revenue include property tax, sales tax, income tax, miscellaneous taxes; charges and fees on goods and services provided by the state and local government such as garbage collection, college tuition, water and sewage charge, toll roads and bridges, fees for public transit parking, recreation and libraries, lotteries and casinos (Bowman and Kearney, 2002; Gianakis and McCue, 1999). The revenue potential of governments depends upon high level of urbanization, per capita income, industrial development and natural resource endowment. This capacity can be fully

utilized when there is a high effort in the jurisdiction to exploit its taxable resources.

## **Intergovernmental Transfer and Aid**

Because local governments are the lowest government structures, their revenue base is also narrow. Lumbuva (2003) argues that this usually makes them depend highly on intergovernmental transfer and aid. Local Governments, however, have no control over the level or timing of disbursement. The narrow discretionary power, low level of urbanization with low per capita income further increase the dependence of the local government on intergovernmental transfer. Any financial constraint that is periodically faced by the higher governments is translated into unpredictable grant to the local government and subsequent unpredictable performance. In most cases both government transfers and aids are tied to specific kind of project which is attached to their own interest and the local government has little power to redirect the fund to other projects of its interest.

## **Data Presentation and Analysis**

### **Current legal status of Bahir Dar City**

The historical development of Bahir Dar village is traced back to 14th Century in relation with the establishment of Ura Kidanamihiret and was called Bahir Dar Kidanamihiret. Since the 17<sup>th</sup> Century it has been renamed as Bahir Dar Giorgis. It was established as an urban centre during the Italian invasion (1935-41). It became a *Woreda* town in 1942/3 and later in 1956 it was upgraded to

*Awraja* town. In 1961/2 the town had got a municipal standard until it was reorganized into Bahir Dar Special Zone in 1999 and has become the seat of the Amahara National Regional State, ANRS henceforth, (Plan and Capacity Building Service, 2004; Bahir Dar Municipality, 2003). The city has been restructured many times before reaching the current status. In 2000, the regional council proclaimed the status and respective duties and responsibilities of towns in the region. Following this, Bahir Dar town got a municipality status again. The municipality had 17 urban *kebeles* under it.

**Table 1. Urban centre classification of Amhara National Regional State**

Urban Centre Category	Sub classification
City Administration Cities	City Administration
	Amalgamated City Administration
	Metropolitan City Administration
Municipal Towns	Leading Municipalities
	Sub-municipalities
Emerging Towns	No sub classification: Conglomerates of communities in transition to be urban centre

SOURCE: The Council of ANRS Proclamation No.91/2003

In 2003, again, ANRS council proclaimed the establishment and organization of urban centres of the region and defined their power and duty (Council of ANRS Proc No.91/2003). According to this legislation, urban centres in the region are broadly classified into three: city administration, municipality towns, and emerging towns. As Table 1 shows, each of the urban centre categories

except the last one has its own subcategories with associated parameters that serve as benchmarks to classify urban centres accordingly. The categorization of cities is made based on some criteria such as population size, size of revenue collected, occupation of city residents, strategic importance of the centre for future development, and being a seat for administration (The Council of ANRS Proc. No.91/2003).

Although the above parameters are stated as bases for classification of urban centres, it is only population size and being a seat of administration that are used as bases of classification. Instead of the other parameters, however, the willingness of the regional council has been consistently used as bases to classify city administration (The Council of ANRS Reg No. 17/2004, Art, 4, 5, and 6). This has blurred the use of objectively measurable criteria stated in the regulation and consequently undermined the right of urban centres to claim higher urban status. Based on this classification, Bahir Dar city has acquired a city administration status with a special category of metropolitan city by annexing rural *kebeles* such as Deshet, Abaraje, Woreb, Quara Tsion, Zenzelema and Woramit. The city is reorganized into nine urban and four rural *kebeles*. In the current structure, urban functions are discharged by city service office while state functions are handled by different sector offices under the city administration. The mayor of the city administration is accountable to the city council and head of the regional government.

Urban Service Revenue Office is organized under the City Administration Finance and Local Development Office. It has three major teams, Information Organizing Team, Revenue Collection Supervision Team, and Revenue

Determination Supervision Team. There are some employees under each team. In the first team there are 5 employees including the team leader and the expert, 19 and 16 employees in the second and third teams respectively. Except the experts all of the employees in the revenue office have diploma or lower level of qualification. A total of 40 employees are engaged in revenue assessments, collection and other related tasks of the city service office.

## **Revenues and Expenditures of the City**

### **Revenue Sources and Collection Efficiency of Bahir Dar City-Service Office**

Given that Ethiopia is characterized by high rate of urbanization (Shimelis, 2003; Tegegne, 2001), it is extremely challenging for urban administrators to provide necessary services and expand and maintain the existing infrastructure unless reasonable amount of money is collected from different sources. As presented in the introduction part, the revenue bases of 1971 were used in Amhara Region until 1999. Amhara Region is leading in revising the revenue basis of 1995 and 1971 as compared with some other cities of Ethiopia such as Dire Dawa and Awassa.

Table 2. Revenue bases of Bahir Dar Municipality in 1971 and 1999

	Revenue base items in 1971	Revenue base items after 1999
1	License to carry on trades and professions	Trade and professional service tax
2	Use of market places	Market stall fee
3	Municipal service	Municipal service fee
4	Weapon control	Livestock market dues
5	Immovable property taxation	Abattoir service fee
6	Fees for posting public notice	Fees to erect emblems and sign boards
7	Non-stationary trades license	Vehicle registration and service fee
8	Registration (of birth, marriage and death)	Registration of public records
9	Management and control of stray animals	Fees for registration of contracts with regards to property (donation, transfer, preservation of collateral, etc.)
10	Water rate	Charges for provision of technical and related services (land permit registration fee and engineering services)
11		Other fees and charges
12		Penalties
13		Lease
14		Land rent

SOURCE: UDSS-GTZ (1999) pp 51 for Column 1 and The Council of ANRS Reg No. 12/1999 for Column 2

The revenue bases of Bahir Dar city before and after it is revised are presented in Table 2. In the revised revenue base, some of the previous revenue bases such as weapon control fee, water rates are cancelled out, some new revenue bases such as vehicle registration and abattoir service fees, and land lease are included and some others which are supposedly scattered are regrouped in a

comprehensive title. In this regard, the improvements made both in type and rate (amount) is insignificant. If we look at some of them, fee for registration of birth, death and marriage was improved from 1.00-10.00 birr in 1971 to 0-40birr in 1999, fee for management and control of stray animals improved from 0 .50 – 1.00 birr to 1.00 – 2.00 birr, fee for use of stall by animals for sale improved from 0.10-1.00 to 1.00-3.00 birr, etc.

Keeping aside the increase in population size of urban centres and the resulting stress on existing infrastructure and demand for more, the improvement made is not enough even to adjust the inflation rate let alone to increase the real value of the revenue generated. The new revenue bases are not enough both in type and amount. Bahir Dar municipality has only 14 major revenue bases (The council of ANRS Reg. 12/1999). It is imperative to expand the revenue base and improve the rate as much as possible in order to avoid budget deficits, expand basic infrastructure and services to dwellers and reduce dependency on higher governments.

The main sources of revenue are property rent and lease, urban service fee, and business taxes. The revenue lines are proper and common to urban local government (Ginakis and McCue, 1999; Bowman and Kearney, 2002). More than 80%<sup>1</sup> of the revenue is generated from these sources. Of these major sources lease is the leading one. On average it accounts for more than 55%<sup>2</sup> of the total annual revenue of the city service office. The total revenue of the city service office is increasing from time to time. The main reason is the revision of the revenue base in 1999 and the inclusion of land lease as another source of income. Although there are many sub-items under each of the major revenue

bases, the city is not collecting revenue from each source equally. This is because some revenue sources are practically difficult to collect as they demand a long time field work, day to day control, and organized information system. Even with more efforts to collect them, each revenue item has a small share over the total. This in turn makes the city organ concentrate on those who bring the lion's share of the total revenue and are relatively simple to collect.

Dependency on property taxes and rents increases government's vulnerability to significant changes in property values or political and legal actions that alter their capacity to tax that base (Bhatia, 2003). This is the real case of the municipality. For example, in the year 1997/8, the annual revenue of the city increased by 6,831,815<sup>3</sup> birr (58%) because of land lease. To rely on few revenue bases both within and across fiscal years, and availability of few options to deal with changes in the environment lead to unstable and unpredictable move for local development. Broadening the revenue base both in taxable and non taxable sources needs to be further explored in order to cope up with the possible instability that arises from relying on some tax bases on the one hand and increasing revenue and hence foster development on the other.

In all major revenue bases, there is significant fluctuation form year to year. Revenue from business tax and property rent is declining through out the years consistently while the change in other bases is erratic. The reduction of business tax revenue of the city is not because of reduction in the potential taxable business incomes in the city. It is rather because of tax revolt from the



side of tax payers and poor collection and enforcement power of the city government.

This is a common phenomenon in other municipalities of Ethiopia. The fluctuation in the revenue generated from different revenue bases is mainly attributed to lack of consistency and commitment of the city service offices in assessing and collecting revenue.

**Table 3. The revenue collection rate of Bahir Dar Municipality for three years**

Year	Planned	Actual	Collection rate%
1997/8	13,670	11,736	86
1998/9	13,834	7,600	55
1999/2000	12,603	9,602	76
Average	13,369	9,646	72

SOURCE: Gulyani et.al., 2001. Municipality Decentralization in Ethiopia: A Rapid Assessment, AFTUI

As Table 3. shows, while the revenue collection plan was reasonably stable for three years the collection rate fluctuated very highly from 55%, least collection rate to 86%, high collection rate. According to Gulyani et al. (2001), in terms of revenue collection efficiency in proportion to their plans, Bahir Dar (72%), for example is less than Dire Dawa (95%) and better than Awassa (64%) in the same period. The same research also revealed that the gap between the amount of tax estimated or billed by the government and the amount paid by the taxpayers is very high in many cities of Ethiopia. The arrears associated with two major revenue sources – property taxes and trade license fees – in Bahir Dar and Awassa show that the default rates are high: 50-63% of the taxpayers

in Bahir Dar and 27%-45% of the taxpayers in Awassa. Bahir Dar city also showed inefficiency in tax assessment and collection. For example it was found that from a total of 4,926 potential tax payers assessed in 2004/5 only 1,584 (32%) were found to have license and were paying tax while the rest were running their business without license and without paying income tax. This has been a critical problem of the region and is always incorporated as one major concern in the regional plans (Bureau of Finance and Economic Development, 2006). The result, however, is not adequate because there is a problem of differentiating illegal and legal businesses as most of the small and micro enterprises, which the region has given much attention to (for development and reduction of unemployment) are those which do not have license and are not paying tax.

### **Expenditure of Bahir Dar City Service Office**

The city service office deployed resources gathered from its revenue source for various development activities. As depicted in Table 4, in most of the years, revenue of Bahir Dar city service office is greater than its expenditure. The proportion of recurrent expenditure is decreasing while capital expenditure is increasing since 1996/7 with some fluctuations.

**Table 1. Revenue and expenditure of Bahir Dar City Service Office from 1995/6-2004/5**

Year	Total Revenue	Capital Expenditure		Recurrent Expenditure		Total Expenditure	Surplus (Deficit)
	Amount in birr	Amount in birr	%	Amount in birr	%		
1995/6	4,365,149	640,843.88	21	2,366,784.15	79	3,007,628.03	1,357,520.97
1996/7	6,765,174.17	2,862,471	47	3,171,822.23	53	6,034,293.23	730,880.94
1997/8	11,7365,47	7,019,532.49	66	3,587,594	34	10,607,126.49	1,129,420.51
1998/9	7,510,590	2,976,202	51	2,852,734	0.49	5,828,936	1,681,654
1999/2000	9,578,330.63	6,703,938	59	4,523,120	41	11,227,058	-1,648,727.37
2000/1	8,477,506	2,290,226	31	4,998,553	69	7,288,779	1,188,727
2001/2	9,868,297	4,716,698.61	53	4,177,010.81	47	8,893,709.42	974,587.58
2002/3	11,223,437.1 1	4,884,018.18	51	4,774,645.59	49	9,658,663.77	1,564,773.34
2003/4	13,242,426.6 3	11,073,049.10	84	6,560,397.2	16	17,633,446.3	-4,391,019.67
2004/5	12,977,224	17,763,565.94	76	5,566,132.21	24	23,329,698.15	-10,352,474.15

SOURCE: From 1996-2004 Plan and Capacity Building Service (2003) Annexes and the for the year 2005 from Interview

As depicted in the table, the amount of total revenue generated is not fully consumed by the city service office; there are surpluses in many of the years. This could be because of two reasons. First, the office is inefficient in utilizing this small amount of revenue; or second, part of the fund may be transferred to sector offices of the then special zone and the current city administration as a distribution of income. The deficit observed in the last two consecutive years is financed by different development partners particularly from Road Fund, and Social Rehabilitation and Development Fund. The support extended by these parties is primarily invested on road construction and maintenance and development of public and communal latrines.

The low amount of revenue and improper allocation or inefficient utilization of it in turn has reduced the rate of infrastructure development and other socio-economic services in the city. For example if we look at the per capita capital expenditure of Bahir Dar city, it is 3.81, 3.75, 8.03 USD in the years 2001/2, 2002/3, 2003/4, respectively<sup>4</sup>. In comparison with some African cities like Nairobi (68 USD in 1980), it is far less. The per capita expenditure in Ontario – Canada is 1210 USD in 1988 (Lumbuva, 2003). The development is less by African standard in other parameters as well.

**Table 2. Urban households connected to utility services of cities of different regions**

Countries	Annual Revenue per capita in USD	Households with direct connection to utilities in 1993 (%)		
		Electricity	Telephone	Sewerage
Africa	15	42.4	1.6	12.7
*Bahir Dar	9.6	31.8	4.49	-
Asia	248	86.1	26	38.5
Latin America and Caribbean	252	91.6	41.2	62.5
Industrialized Countries	2763	99.4	89.1	97.8

\* The data for Bahir Dar is for the year 2003/4 and is taken from ANRS Bureau of Information (2003/4)

SOURCE: Stren R. Taken from UNCHS, 1999, Global Urban Indicators Data Base

As Table 5 shows resources and infrastructure of African cities and those of other regions, (Latin America, Asia Pacific, and Arab States), the infrastructure development and the revenue per capita for Bahir Dar city are far low. Except in telecommunication networking, the city has low infrastructure coverage in comparison with different cities across continents<sup>5</sup> Despite this, the per capita expenditure of Bahir Dar Municipality is better than some other municipalities in Ethiopia. For example the average per capita revenue of Gambella, Awassa, Dire Dawa and Bahir Dar for three years, 1997/8-1999/2000, was 2, 3, 5 and 7 USD respectively (Gulyani et al., 2001).

## **Revenue and Expenditure Budget of the City Administration**

The budget of Bahir Dar city administration offices, as stated in the legislation of the council of ANRS Proc. No. 91/2003 Articles 48 and 49, is first prepared by each respective office and is sent to the mayor's office and is approved by the council. The same, then, is implemented by the offices. After the reorganization of the city structure, the city administration is managing sector offices such as health, education, and capacity building. The revenue generated by the city administration together with transfers and aids is supposed to cover the budget of all the offices under it.

**Table 3. Expenditure and capital budget of Bahir Dar City Administration from 2004/5-2005/6<sup>6</sup>**

Offices	2004/5					2005/6				
	Capital Budget		Recurrent Budget		Total Annual budget	Capital Budget		Recurrent Budget		Total Annual Budget
	Budget in birr	% of capital budget	Budget in birr	% of recurrent budget		Budget in birr	% of capital budget	Budget in Ethio birr	% of recurrent budget	
City Service Office	17,763,565.9	0.76	5,566,132.2	0.24	23,329,698	29,862,975	0.83	6,166,776	0.17	36,029,751
*Sector Offices	910,862	0.05	16,031,226	0.95	16,942,088	775,712	0.04	20,596,062	0.96	21,371,774
<b>Total</b>		0.46	21,597,358.21	0.54	40,271,786	30,638,687	0.53	26,762,838	0.47	57,401,525

SOURCE: Annual budget expenditure of the City Administration, 2004/5 and 2005/6

\*The budget for sector offices is a direct transfer from the Regional Government

As presented in Table 6, the city administration has not managed to fully finance all its activities; at the same time, it is not able to secure enough funds to work more on development tasks. This is common to all offices saving the city service office. From the total fund generated from own source, support and/or transfer, the city service office has invested 76% and 83% for capital expenditure while the sector offices invested only 4% and 5% of the meagre budget to capital expenditure in the year 2004/5 and 2005/6 respectively. Even this small amount of budget for sector offices is directed from the regional government.

The city administration has a limited amount of revenue and it has also managed to secure only small amount of government support. It is running with deficit. As compared with the city service office, the rest offices of the city administration are in dire shortage of revenue. Those supports extended to city administration are tailored to the city service<sup>7</sup> and the sector offices are bare in their capital budget which is an indication of poor prospect of the socio economic services specifically of health and education<sup>8</sup>.

## **Problems of Revenue Collection**

Revenue collection process is one of the most difficult tasks of the city administration. People from the city administration and tax payers look at each other like cats and rats. Both suspect each other. This has coarsened their relationship and made the collection process difficult. The limited amount of



revenue generated both at city-service office and city administration is attributed to the following factors.

### **1. Legal restriction**

There are only 14 revenue bases legally permitted to Bahir Dar city-service office. The city is neither permitted to collect tax or tariff from other sources nor to improve the tariff rate of the existing revenue bases (The Council of ANRS Reg.12/1999 Art.9). Although there are many other bases on which urban centres can potentially expand their revenue base, such as garbage collection fees, garbage collection assessment, toll roads and bridge fees, recreation and libraries, and lotteries (Bowman and Kearney, 2002; Gianakis and McCue, 1999), the law has restricted the city administrations not to do so.

Attempts were made in the 1999 urban revenue base regulation to give some discretion to expand revenue bases (The Council of ANRS Proc. No. 91/2003), specifically mentioning that city administrations can be actively involved in different revenue generating activities, yet neither specific law is declared to clearly establish this prospect nor does the city administration take the initiative to expand the revenue base using this discretion.

Generally, the newly revised base is highly detailed and prescriptive in its schedule of charges. The business and professional license fee, for example, identifies 21 different categories of business activity for tax purposes, further differentiated across individual towns. There is no provision to incorporating local choice in tax and tariff rates, or for allowing local revenue flexibility to

help balance the local budget. Majority of the “service fees” and “taxes” in the Tariff Regulation are specified as fixed amounts that do not change with the level of economic activity, the value of the taxable base, inflation, or the cost of government-provided services. Instead, payments are frozen at pre-defined birr amounts.

## **2. Capacity limitations**

There is a capacity problem both from tax collectors and tax payers. Tax on business income should be levied based on the financial records but this is virtually impractical for two reasons: lack of knowledge to prepare valid financial records by the business owners and suspect from tax collectors. As a result, tax is levied based on judgment of tax assessors. These tax assessors are group of five or so people from merchants, trade and industry, and finance and revenue office. These people do not have enough knowledge and facts to properly judge the income and expenditure of each business and levy reasonable tax accordingly.

Another factor is lack of manpower in terms of quality and quantity to identify the potential tax payers and other revenue sources and enforce them to pay accordingly. This is revealed on the staff profile of the revenue office of the city service office; there were only 40 employees with three degree and the rest diploma and lower level qualification. The payment given to employees is also not attractive to retain competent and well educated manpower (Gulyani et al., 2001). This has resulted in poor tax assessment and collection. For example it was found in Bahir Dar that from a total of 4926 potential tax payers assessed

in 2004/5 only 1584 were found to have license and were paying tax while the rest were running their business without license and without paying income tax. This is also an indication that business owners are not willing to pay tax.

### **3. Poor timing and laborious job of filing**

Information about tax payers is filed manually. When tax payers come in time to pay, they are obliged to spend their precious time until their file is ready. There are times when files are lost, fabricated and modified illegally<sup>9</sup>. This poor and time taking information handling technique together with poor tax paying habit of the people is further exacerbating the problem. Moreover, tax payers are not allowed to pay tax at any time convenient to them but to the tax collectors which in turn creates rush at the last hour.

### **4. Limited transfer of fund from development partners and nature of transfer**

As presented in Table 5, the budget for sector offices is transferred from regional government and it covers only the recurrent budget. There is only some amount of revenue sharing. Even those assistances extended to the city administration are tied to specific project upon which the local government has no say. What the city shares with the general situation in the Sub-Saharan region is that the local government authorities are grossly under-funded, which inhibits their ability to provide adequate public services or foster meaningful economic development that would contribute towards poverty reduction in their countries. Typically, own source revenues are pitifully low in the Sub-Saharan

African local government authorities - far less than what they would require for providing even a minimum level of basic services (Lumbva, 2003).

## **5. Poverty**

The revenue potential of governments depends upon high level of urbanization, per capita income, industrial development and natural resource endowment. Given that urban poverty is severe in Ethiopia (Tegegne, 2001), the local government revenue base is proportionally low as per capita, and level of industrialization and urbanization are low.

## **6. Poor community mobilization**

For poor countries like Ethiopia, community mobilization is one of the basic sources of input for development. This has been practiced by most developing partners in rural Ethiopia (Addis, 2005). Particularly in urban settings of Ethiopia where mass unemployment is predominant, community mobilization is unexploited indirect source of revenue. In development works like access road construction, access road light connection, garbage collection, etc. it is the best alternative, yet the administrative organs both at *kebele* and municipality level are working without considering what they would benefit from community mobilization.

## Conclusion

Proponents of welfare economics assert that government intervention is relevant to deliver goods and services on the one hand and make market function properly on the other. There are different levels of government with different levels of involvement and authority. In decentralized government structure, local government is actively engaged in serving dwellers and creating enabling environment for development partners. In Ethiopia local government, particularly urban government is the most neglected structure in the Imperial, *Derg* and in the early ages of the current government. Recognition to urban local administration has started after regions took their own initiative in reorganizing, identifying, and empowering urban governments.

This research was aimed at assessing the progresses of Amhara Region's urban centres in revenue generation and utilization taking the case of Bahir Dar city. The revenue base of the city is sparse, highly concentrated on few bases which increase its vulnerability to policy changes. Revenue base revision is insignificant in those bases of the 1970s, and the rates and dues are low. Moreover, poor commitment, lack of capacity and enforcing power in tax collection of the city administration, poor tax paying habit, poor filing, limited revenue capacity, and legal constraints have further constrained the revenue of the city. Because of poor revenue base, limited governmental transfer and donation from development partners the infrastructure development is less. The revenue bases, the transfer of budget and aid from higher governments and development partners need to be further exploited. On the other hand, the city

government needs to upgrade its capacity financially, technically, and in terms of manpower in order to discharge its responsibility up to the expected standard. Weak performance of local governments will discourage local development endeavours particularly in existing structures where decentralization is attempted. Therefore, the city administration is expected to be proactive in utilizing not only rights openly proclaimed but also on those that the law is silent.

**Annex 1**

**Performance report of the revenue budget of Bahir Dar City Service Office from 1995/6-2003/4**

No.	Revenue Title	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2	2002/3	2003/4	Total
1	Tax and Tariff	1,156,082	3,195,697.09	8,656,935	5,106,972	6,620,486	5,576,651	6,840,454	8,418,205.32	8,761,448.93	
	1.1 Building Tax	438,850	2,165,970	975,312	819,183	1,119,775	889,617	2,354,425	2,072,266.50	2,368,485.37	
	1.2 Land Lease	-	-	6,831,615	3,669,479	4,628,951	3,412,457	3,098,120	4,373,997.87	5,434,841.98	31,449,461.85
	1.3 Others	717,232	1,029,727.09	850,008	618,310	871,760	1,274,577	1,387,909	1,350,295.46	958,121.58	
2	Income from Service Fee	1,128,748	1,419,138.15	723,291	759,783	787,790	1,697,102	1,883,785	2,587,480.99	3,127,033.11	
3	Business tax and property rent	2,080,319	2,150,338.93	2,356,321	1,643,835	2,170,054.63	1,203,753	1,144,058	839,396.3	1,353,944.59	
	<b>Total</b>	<b>4,365,149</b>	<b>6,765,174.17</b>	<b>11,736,547</b>	<b>7,510,590</b>	<b>9,578,330.63</b>	<b>8,477,506</b>	<b>9,868,297</b>	<b>11,223,437.11</b>	<b>13,242,426.63</b>	<b>82,767,457.54</b>
	Percentage increase from previous year	-	55%	73.5%	/36%/	27.5%	11.5%	16.4%	13.7%	18%	
	Percentage increase from 1995/6 base year	-	55%	169%	72%	119%	94%	126%	157%	203%	
	Percentage increase of income from land lease from 1997/8				/46.3%/	/32.2%/	/50.1%/	54.6%	/34%/	/20.4%/	

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Notes

- <sup>1</sup> Is calculated from Plan and Capacity Building service (2004) Revenue Budget Report annexed at the end of the paper.
- <sup>2</sup> Is calculated from Plan and Capacity Building service (2004) Revenue Budget Report annexed at the end of the paper.
- <sup>3</sup> Is calculated from Plan and Capacity Building service (2004) Revenue Budget Report annexed at the end of the paper.
- <sup>4</sup> The per capita capital expenditure is calculated by taking the official exchange rate of birr for USD from National Bank of Ethiopia (2001) annual report of 2004/5 table V.17. and dividing it to the total population of the city. This is then the nominal per capita not the real per capita expenditure.
- <sup>5[0]</sup> The comparison is made by taking data of 1993 for all regions and of 2003/4 for Bahir Dar city. Even with this data, a very big gap is observed in the infrastructure as well as percepts of the city. One can imagine the condition of the city if comparison was made taking data of the same year.[0]
- <sup>6</sup> The city administration budget displayed here is only for two years because this structure has been in place since 2004 budget year
- <sup>7</sup> Since the total expenditure budget of the sector offices is very low and the their capital expenditure is virtually nil it is wise to create an enabling environment for private investors to fill this gap in addition to expanding the capacity of the city towards harnessing resources to this direction
- <sup>8</sup> As part of decentralization for capacity building, World Bank has extended 6.2 million birr for draining development and flood protection for Bahir Dar. The city has also acquired more than 5 million birr Urban Development Fund from the Government of German for similar purpose.. (ANRS Bureau of Works and Urban Development 2005/6). Different amount of loan and assistance is extended from these institutions for other urban centers in the Region for various infrastructure developments.
- <sup>9</sup> This was revealed during discussions with the key informants in the urban Service Revenue Office; in fact, most of the problems of revenue collection were revealed during this interview.