

JIMMA UNIVERSITY

COLLEGE OF LAW AND GOVERNANCE

DEPARTMENT OF COMMERCIAL AND INVESTMENT LAW

LOCAL GOVERNMENT FINANCING IN OROMIA REGIONAL ADMINISTRATIONS:
PARTICULAR TO CITY ADMINISTRATIONS

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Declaration

I declare that this thesis is my original work and has not been presented for a degree in any University and all the sources of materials used for the thesis are duly acknowledged.

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Acronyms

CALG: City administration Local Government

CARAO: City Administration Revenue Authority Office

E.C.: Ethiopia Calendar

FDRE: Federal Democratic Republic of Ethiopia

OFEC: Office of Finance and Economic cooperative

HOF – House of Federation

HOPR – House of peoples Representatives

MFECD – Ministry of finance and Economic Cooperative Development

Mil.: Million

ORA: Oromia Regional Administration

OFECDB: Oromia Finance and Economic Cooperative Development Bureau

ORG: Oromia Regional Government

PA – Peasant Association

SNGS: Sub national Governments

UDA – Urban Dwellers Associations

VAT – Value Added Tax

Abstract

The objective of this paper is to examine the revenue rights and expenditure obligations of local governments particularly city administrations. The paper has utilized the qualitative method in describing and analyzing the revenue rights and expenditure obligations of city administration local governments in Oromia Regional state and their impacts on the self-administration of city administrations. This is conducted by taking the sample study of self- governments of city administrations on the base of primary and secondary data obtained through interviews and questionnaires. In Oromia Regional state all districts and some city administrations are recognized as autonomous local governments by the region's constitution and enactments. Even though the local governments are recognized as an autonomous governments in the region, their expenditure obligations and revenue rights particularly the city administrations are not separately stated by the region's constitution. And the extent of their revenue rights and expenditure obligations are not clearly known. So, the researcher is motivated to identify these issues.

The finding of this paper points out that the revenue rights of city administration local governments in Oromia Regional state are very less and limited to municipal revenues. Even the municipal revenues are not exhaustively collected. But more revenue sources are assigned to the region .The revenue collected by the city administrations only finances the municipality part of the city administration. The other government sectors of the city administrations are financed by the region's financial subsidies. On the other hand, various expenditure obligations are assigned to the city administrations. Because of this, the local governments cannot cover even quarter of their expenditure obligations by their own revenue sources. Even though city administrations are recognized as autonomous city governments, they are practically dependent on the region's subsidy to cover their expenditure obligations. Finally, the paper recommends that the revenue capacity of city administrations should be enhanced by expanding revenue sources and separately stated in the region's constitution and conducted effective transfer system in the absence of sufficient revenue bases in some city administration local governments.

Key Words: fiscal decentralization, Revenue rights, expenditure obligations, revenue capacity and Self administration

Chapter One - Introduction

1.1. Background of the study

In federal system, two or more state governments exist together and division of powers and functions among them are stated in the constitution. In other words, federalism is a political system within which each level of government is legally autonomous over its internal jurisdiction and cooperates each other on common interest ¹. In this governance system, the devolution of political, administrative and fiscal powers are constitutionally guaranteed. But this paper focuses on its fiscal aspects that mainly deals with the revenue rights and expenditure obligations of Oromia Regional State city administrations which will be dealt in subsequent sections.

When we back to the history of decentralization, due to failure to provide public goods and services in effective and efficient, various economic reforms were conducted during in 1980s in different parts of the world². The main aim of the reforms was to improve performances in public sector to achieve broad objectives such as economic stability, sustainable growth and provision of public services³. The improvement of public services and its performances could be achieved through decentralizations of government functions with the power of financing these functions through some revenue assignments⁴.

In Ethiopian context, before 1991, Ethiopia was highly centralized in administration and fiscal system. Thus, the regions' administrations of the country had no autonomy (self-rule). And the regional administrations did not have the power to levy and collect revenues to exercise their expenditure obligations. The revenue rights and expenditure obligations were exclusively assigned to the central government. Even though during the derge regime, some new regional autonomous

¹Daniel Elazar (1987), Exploring Federalism (Alabama University Press Tuscaloosa), p.70-71

²Smoke Poul (2001).Fiscal Decentralization in Developing Countries: A Review of Current Concepts and Practices, United Nations Research Institute for Social Development. P.90-100

³EbelD.Robert and Serdar Yilmaz (2001).Concept of Fiscal Decentralization and World Wide Overview ,<http://ww.desequilibrefiscal.gour.fc.ca/en /pdf/ebel.pdf>

⁴ Ibid

administrations were introduced, they were not given any taxation power and expenditure obligations⁵.

After 1991, the transitional government of Ethiopia came in to power and the self-administration of regional governments was introduced by proclamation no.7/1992. This proclamation introduced new administrative structure which was made up of a central government and fourteen regional governments. Moreover, the proclamation divided powers and functions between the central and regional governments. Accordingly, the proclamation provided the Regions, with the right to prepare, approve and implement their own budgets and to borrow from domestic lending sources and to levy and collect some taxes under their jurisdiction. The proclamation further recognized grant system in which the central government subsidizes regions that unable to finance by themselves basic social services and economic development programs due to relative under development⁶.

Later, the proclamation no.33/1992 was promulgated and introduced fiscal decentralization in Ethiopia for the first time. Thus, some taxation powers were assigned to the central government and some of them were reserved to the regions. Other taxation powers were jointly reserved to both the central government and the regions. Furthermore, the concept of subsidies which is to be granted by the central government to the regions was introduced by the proclamation. The subsidies depend on the contribution of revenues collected by the regions⁷. Even though the fiscal decentralization introduced in the proclamation, it was more realized in FDRE constitution of 1995. The FDRE constitution made division of functions between the federal government and the regional states. The constitution also assigned the revenue rights for the two level of governments (Federal and states). Moreover, the constitution introduced concurrent taxation power of the federal and the state governments. This was the first phase of administrative and fiscal decentralization in Ethiopia⁸.

⁵ Eshetu Chole, Issues of Vertical Fiscal imbalance in Ethiopia's Emerging System of Fiscal Decentralization, in Eshetu Chole ed. Fiscal Decentralization in Ethiopia (Addis Ababa University Press, 994, Addis Ababa), p.167-169.

⁶ Proclamation to provide for the Establishment of National Regional Self Governments, 1992, Proclamation no.7, Federal Neg. Gaz. year 1, No.7

⁷ Transitional Government of Ethiopia, 1992, proclamation no. 33, a Proclamation to Define the Sharing of Revenue Between the Central Government and the National/Regional/ Self Governments, *Neg. Gaz.*, 52nd Year, No.33

⁸ Constitution of the Federal democratic Republic of Ethiopia, 1995, Proclamation no.1, Federal Neg. Gaz. year 1, No.1

On the other hand, the FDRE constitution article 50(4) clearly provides that the regional states shall establish the lowest units of governments (local governments) and assign adequate powers to them. The aim is to enable the public participation in government administrations and to improve efficiency of public services⁹. Based on this constitutional principle, Ethiopia made the second phase of administrative and fiscal decentralization after the adoption of poverty reduction and development policy in 2002. Because decentralization was considered to be a key implementation means of the policy. Accordingly, local governments like Wereda (rural) and city (urban) administration were authorized to exercise a certain measure of political, administrative and financial powers. Thus, the regions amended their constitutions to establish the local governments like weredas (districts) and urban local government system to in line with the above mentioned policy¹⁰.

Accordingly, the Revised constitution of the 2001 of the Oromia Regional state re-established the organs of government (Caffee Oromia council, Executive and judicial organs) at the regional level¹¹. The constitution also established Zonal, Weredas (Districts) and Kebele Administrative Organs.¹²The Wereda (District) organ is established as the local government which comprises district council, District administrative council and judicial organ. District council comprises of representative of the people of each kebele under the district. Members of the district council are elected every five years and accountable to the people who elected them. The district council has the power to approve the plan, the budget and oversee the implementation of the government activities in the district. The District council is also the highest state organ of the district and has the power to approve the appointment of the district government officials. Furthermore, the district council is given the power to ensure the collection of taxes and utilize revenues which is not included under the regional state¹³. The district administrative organ has the power to implement the government activities in the district. The district has also the judicial organ which exercises the judicial power within the district¹⁴.

⁹ Ibid.

¹⁰ Zemelak Ayele “ Local government in Ethiopia: Still an apparatus of control?, Journal of law, democracy and Development”. volume 15(2011), P. 143-147

¹¹ The Revised Constitution of Oromia Regional state, 2001, proclamation no.46, Megeleta Oromia, year 10, No. 1

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid.

On the other hand, the Oromia town administration proclamation no.26/1999 was enacted to establish the Oromia town administrations which categorized the region's town administration in to special zone, special wereda, Sub wereda and special kebeles. The aim of the categorization of the region's town administrations was to enable the towns to provide full social and economic services for their residents. Each level of the town administrations has a council and an executive committee¹⁵. Even though all levels of the town administrations have their own councils which are elected by the residents of the towns, they are not clearly given any power to enact laws relating to revenues and other affairs of the towns.

However, the proclamation no.26/1999 was totally repealed by the proclamation no.65/2003. This proclamation declared the establishment of urban local government governance system which affirms the people self-rule principle of article 103(1) of the 2001 the Revised Constitution of the Region. According to the proclamation "urban local government is the administration of self-rule by the cities of the region"¹⁶. In addition, the proclamation grouped the towns of the region in to four grades (Grade one up to Grade four) depend on the number of the towns' residents. According to the proclamation, the urban local government of the region has expenditure responsibilities to provide municipal services like environmental, social, cultural and protective services as well as public utilities. It has also the power to initiate, adopt and execute the towns' budget and introduce, adjust and collect taxes and service charges under its jurisdiction in accordance with the law¹⁷.

Later on, the proclamation no.65/2003 was amended by proclamation no.116/2006. According to this proclamation, the name "urban local government" is changed to "City administration." Pursuant to the amended proclamation no.116/2006, only grade one and two cities have a city council. The other grade three and four cities do not have their own city council and they are claimed to be organized with rural weredas. But the proclamation does not amend the revenue powers part of the proclamation no. 65/2003¹⁸.

However, both the proclamations no.65/2003 and the amended proclamation no.116/2006 are totally repealed by the Revised Oromia Regional state cities establishment proclamation

¹⁵ Ibid.

¹⁶ The urban local government proclamation of the Oromia, 2003, Proclamation no.65, Megelata Oromia, year 9, no.12

¹⁷ Ibid.

¹⁸ The Oromia Urban local government Amendment proclamation, 2006, Proclamation no.116, Oromia megelata. Year 14, No.12/2006

no.195/2015. The main aim of this revised cities establishment proclamation is to speed up the sustainable development of the cities and to promote self-administration of the people. According to the revised proclamation, the Oromia regional state cities' are grouped in to seven: namely the Regio polis, principal, higher, Intermediate, Growing, municipal and growing municipal city administrations. The criteria to *grade these cities are the income the city collects, number of population, the surface area of the city and their being center of administration seat*. The Regio polis, the principal and higher city administrations are accountable to the city's council and the regional state president office while the intermediate and growing city administrations are accountable to city's council and Zonal administration¹⁹. The municipal and growing municipal cities are accountable to the district council and district administration. Because the municipal and growing municipal cities do not have their own city council²⁰.

In the Revised Oromia cities establishment proclamation, the power and functions of all cities are stated. Accordingly, all cities have the power to administer their budget, determine and collect the tax and service incomes as per law and spend on the growth and development of the cities. *The cities can borrow money based on the decision of the regional state or the city's council*. In addition, the cities can register contractual agreements of purchases and sales, house rents and house attached in securities²¹. This shows us some of the ways of self-funding of the cities administrations in the Oromia regional state.

On the other hand, the revised proclamation has assigned many expenditure obligation to the city administrations. For instance, the city administration has the responsibility *to construct and maintain infrastructure services like roads, potable water, electricity, telephone and mass transportation*. It also has an obligation to protect environment by performing the activities like *waste disposal, installation of pipe lines and others*. Moreover, the city administration is assigned to provide *social services like education, health services, ambulance services, slaughter houses and market services*. Furthermore, the city administration is assigned to provide *sporting services, theaters, entertainments, libraries, museum and many services*²².

¹⁹The Oromia Proclamation to Revise the State Cities Establishment, 2015, Proclamation no.195,Oromia Megeleta. Year 24, No. 4/2015

²⁰ Ibid.

²¹ Ibid.

²² Ibid.

Unfortunately, the Regio polis city administration is canceled by proclamation no.196/2016 which amended the revised cities establishment proclamation no.195/2015(Oromia Revised Cities Establishment Amendment, 2016). Currently, the Oromia regional state cities are graded in to six levels and the cities of the region are organized accordingly by cities establishment regulation no.186/2016.The graded cities of the region are the *principal, the higher, the intermediate and the growing cities* are independently established as local governments city administrations and have their own council, administrative council and city wereda courts (Judicial organs). But the *municipal and the Growing municipal city* administrations are organized with the rural districts (weredas) and they are not organized as the local government organs of the region²³.

On the other side, the wereda (rural district) administrations are organized as local government by the revised constitution of the region²⁴ while the city administrations of the region (*principal, higher, intermediate and growing cities*) are organized as local government by proclamation(enactment)²⁵.But these city administrations are not given recognition by the constitution of the region.

On the other hand, researchers have conducted in the area of fiscal decentralization mainly focus on division of taxation power between federal and member states and criticizing the limitation taxation power given to the regional governments. But all researches conducted do not give any attention to the local governments financing and their revenue rights and expenditure obligations in line of the federal system of assignment of revenue powers and expenditure obligations of the local governments in Ethiopia in general and in Oromia in particular. Let us see briefly some researches that have been conducted in the area of fiscal decentralization system at international and national level.

At international level the research conducted by the United Nations Human settlement program (UNHABTAT) has showed that in developing countries most cities depend on central government transfers with less revenue rights. And it has recommended that in order to implement strong fiscal federalism, more adequate revenue autonomy and more expenditure obligations have to be given

²³Ibid.

²⁴ The Revised Constitution of Oromia, supra note no.11,articles 76 -89

²⁵ A proclamation to Revise Oromia Regional state cities establishment, supra note no.19,article 5

to local governments so that they deliver enough public services for local communities²⁶. In similar way, the study conducted by Kindle S.T. and Olaapa under the title “fiscal federalism and local finance in Nigeria” revealed that for the existence of financial healthy local government, responsibilities and functions must be assigned in line with their taxing power and the capacity to generate funds internally.²⁷ According to the study, local governments have to be financed to the extent of the expenditure obligations assigned to them.

The research domestically conducted supports adequate allocation of taxing power to local governments that meets their expenditure obligations. For instance, the research that has been conducted by Alefe Abeje has claimed that even if there is no best model as general guide lines, local governments should be assigned with tax powers which have too much burdens locally²⁸. Zeleke Ayele in his senior thesis has revealed that urban centers in Ethiopia are not constitutionally established and suffer from internal revenues and the powers given to districts are not clearly stated in the constitution and they are not adequately empowered²⁹. Mulugeta Debebe has conducted research in the area of district local governments. But his research only focuses on the governance aspects of districts in Ethiopia by taking Dendi Wereda’s as a case study³⁰. The research conducted on Dangila Municipality showed that the financial capacity of municipality is low due to the existence of low level of revenue collections and failure to exploit them exhaustively³¹. Melkamu Negari has conducted his research in the area of urban administration. But his senior thesis focuses on the extent of urban powers in the area of town land administration³².

²⁶ United Nations Human Settlement program (UNHABITAT)(2015).The challenge of government financing in Developing countries .Available at <https://sustainabledevelopment.un.org/>. Accessed on 25 July ,2017, p.8-10

²⁷ Akindele S.T and Olaapa (2002).Fiscal Federalism and Local Finance in Nigeria. Available at: <http://unpan1.un.org/>. Accessed on 25 July,2017, p. 3

²⁸ Alefe Abeje Belay (2014).System of Division of Revenue in Ethiopia. Available at: <http://eujournal.org/>. Accessed on 25 July,2017, p. 29

²⁹ Zeleke Ayele (2008).Local Government in Ethiopia: Adequately empowered? Available at: <http://etd.uwc.ac.za>. Accessed on 25 July,2017, p. 54-55

³⁰ Mulugeta Debebe(2012).Decentralization in Ethiopia: The case of Dendi District ,West Shoa Zone, Oromia. Available at: <https://eldorado.tu-dortmund.de/bitstream/>. Accessed on 18 August,2017, p.191-199

³¹ Edson MBEDZI. (2010). Fiscal management in Dangila Municipality, Ethiopia, performance and policy Implications. Available at: <http://um.ase.ro/>. Accessed on 18 August,2017, p.116

³² Melkamu Negari(2016).Powers of Urban Local government on Land Administration and challenges of Illegal Housing: The Case of Burayu City Administration, Oromia National Regional State. Available at: <http://etd.aau.edu.et/>. Accessed on 18 August,2017, p.73

However, the above conducted researches did not assess in the area of the revenue rights and expenditure obligations of local governments in Oromia in general and city administration in particular. Thus, from above discussed general overview, below, this paper has pointed out some problems to be addressed.

1.2. Statement of the problem

In federal system, there is an assignment of functions to the different levels of government and appropriate fiscal instruments for carrying out of these functions³³. Since Ethiopia follows federal system, article 51 of the FDRE constitution assigns functions to federal government and article 52 assigns functions to the states. For the carrying out of these functions, article 51(10) of the FDRE constitution clearly provides that the federal government has the power to levy and collect taxes on those revenue sources reserved to it. In similar way, article 52(2) (e) of the FDRE constitution states that the regional governments have the power to levy and collect taxes on those revenue sources which are reserved to them by the FDRE constitution. The Oromia regional state is one of the regions which has similar power to levy and collect taxes on those revenue sources reserved to the region³⁴.

On the other hand, the FDRE constitution empowers the regions to assign adequate powers to the lowest units of government in order to enhance self-administration of the people³⁵. Thus, the assignment of adequate powers to the lowest government body is constitutional obligation of the regional states. Based on this constitutional principle, all regions have begun decentralization programs in 2001 in order to implement the poverty reduction and development policy³⁶. Accordingly, the Oromia Regional state has established and empowered lower units of the governments the weredas (districts) by 2001 of the revised constitution of the region. The revised constitution of the region assigns the power to the Weredas (districts) to exercise certain *political, administrative and financial powers*³⁷. However, the revised constitution does not state clearly of

³³Taddese Lencho "Income Tax Assignment Under The Ethiopian Constitution: Issues to Worry about". Mizan Law Review. Volume 4(2010),No.1, p.32

³⁴ FDRE constitution, supra note no.8

³⁵ Ibid.

³⁶ Zemelak Ayele, supra note no.10, P.142-144

³⁷ The Revised Constitution Of Oromia, supra note no.11

the division of functional and financial powers between the region and the districts (Wereda local governments).

On the other hand, the region has enacted the series proclamations which restructured the region's urban local governance system. Even though the urban establishment proclamations were amended continuously, the final to revise cities re-establishment proclamation and its amendment has established six levels of city administrations which are four of them organized as self-local governments while the other two city administrations are established together with the rural weredas (districts)³⁸. Currently, the Oromia regional state has established the local governments: namely *the districts in rural and city administrations in urban areas*. The rural districts and some city administrations have their own *council, executive and judicial organs*. In addition, various sectorial offices are organized in the rural districts and city administrations to deal with bureaucratic works. The region's constitution and the cities administrations proclamation authorizes the rural districts and the region's city administration to decide on their own matters pertaining to social services and economic development respectively. They can also prepare, adopt and implement their budgets³⁹.

As a principle, in fiscal federalism, the local governments must have clear expenditure responsibilities and revenue rights including their appropriate local revenues and access to intergovernmental transfer as well as clarity on local borrowing options⁴⁰. However, when we come to the Oromia regional state context, there are problems in relation to the assignment of taxation power of local governments particularly in city administrations. Even though the taxation power of city administration is stated in their establishment proclamation, there is no clear and separate division of taxation powers between local governments and the region particularly between the region and the city administrations. On the other hand, the FDRE constitution states that the regions shall assign adequate powers to the lowest units of local governments⁴¹. But it does not specifically state the functional and financial powers of the lowest units of local governments. The region's constitution also does not state clearly which matters are the powers and functions of the

³⁸Oromia Regional Government Cities Re-establishment (Amendment) Proclamation, 2016, Proclamation no.196, Oromia Megeleta. Year 24. No. 5/2016

³⁹ Ibid.

⁴⁰ United Nations Human Settlement program (UNHABITAT), supra note no.26

⁴¹ FDRE constitution, supra note no.8,Article 50(4)

local governments particularly the city administrations. Especially, the city administrations' functional and financial powers are not stated in the region's constitution. Even though it is not clear specifically, it is the city administrations' establishment proclamation that tries to state the power and functions of the region's city administrations. Because the city administrations are not the creation of the region's constitution while they are the creation of the region's proclamation. This creates challenges to the power to levy and collect of taxes by city administrations of the region.

With regard to this, there were the practical cases which challenge the power to levy and collect of taxes by city administrations of the region. For instance, one of the disputes which was presented up to the FDRE Supreme Court Cassation bench. The dispute was begun between the Jimma City Administration and Afro Tsiyon Construction PLC. The fact of the case was that the Afro Construction PLC won the bid of construction contract and concluded the contract on January 16, 2003 E.C. with the Jimma University to construct the building of Institute of Engineering and Teaching. For the construction of the building, birr 170,000,000 was expensed excluding the VAT. And the amount of the remaining work was birr 158,036,580.83. The Jimma City administration claimed that since the Afro Tsiyon Construction PLC used the city's administration road, water and other services while it was constructing the building of the Jimma University, the Afro Tsiyon PLC was bound to pay 1% of service charge tax on the amount remaining works birr 158,036,580.83 pursuant to the Oromia region urban local government establishment proclamation no.65/2003 article 8(2-C) and the Jimma city administration regulation on the titles of incomes and incomes tariff no.2/2005 E.C. The Afro Tsiyon Construction PLC, on its side, opposed the claim of the city administration that the PLC is registered by Federal government and it is bound to pay only income tax and VAT to federal government pursuant to income tax proclamation no.285/2002 and VAT proclamation no.284/2002. So, paying service tax to Jimma City administration is amounted to double taxation and the city administration does not have power to levy and collect service taxes against it. However, the case was decided in favor of the city administration on the ground that the levying and collection of service charges is the power assigned to the region and the Jimma City administration by the FDRE constitution, the region's proclamation no.65/2003 and the Jimma City Administration titles of incomes and incomes tariff

regulation no.2/2005(2/2012).⁴²In other cases there were similar disputes Matu city administrations v Ethiopian Electric Matu Districts⁴³.These cases were decided in favor the mentioned city administrations.

On other hand, some domestic and foreign scholars have put their views with regard to adequate assignment of revenue powers to local governments with their appropriate functions. But they did not conduct comprehensive study on their revenue rights and expenditure obligations.

For instance, at international level the research conducted by the United Nations Human settlement program (UNHABITAT) has recommended that in order to implement strong fiscal federalism, more adequate revenue autonomy and more expenditure obligations have to be given to local governments so that they deliver enough public services for local communities⁴⁴.In similar way, the study conducted by Kindle S.T.and Olaapa has revealed that for the existence of financial healthy local government, responsibilities and functions must be assigned in line with their taxing power and the capacity to generate funds internally.⁴⁵

Similarly, the research domestically conducted supports adequate allocation of taxing power to local governments. For example, Zeleke Ayele in his senior thesis has revealed that even if there is no best model as general guide lines, local governments should be assigned with tax powers which have too much burdens locally⁴⁶. Therefore, although, international and domestic writers have contributed on the issues of adequate allocation of taxation powers to local governments, the whole work didn't properly address the issue of revenue rights and expenditure obligations of local governments in Oromia in general and city administration in particular on their constitutional right of self-administration. So, recognizing the scholars' views on the adequate assignment of taxation powers to local governments, this paper has tried to assess the revenue rights and expenditure obligations of local governments in Oromia in general and city administration in particular.

⁴²Jimma City Administration v Tsiyon Construction PLC (FDRE Supreme Court, 2016, Civil Cassation no.119284) (Un published)

⁴³Matu city administration v Ethiopian Electric Mat District ((FDRE supreme court,2016, Civil cassation no.124421),unpublished

⁴⁴ United Nations Human Settlement program (UNHABITAT) , supra note no.26

⁴⁵ A kindele S.T and Olaapa, supra note, no.27

⁴⁶Zeleke Ayele, supra note no.29

1.3. Objectives of the study

This research has general objective and certain specific objectives to be achieved. These are forwarded as follows.

1.3.1. General objective of the study

The general objective of this study is to examine the revenue rights and expenditure obligations of local governments in Oromia regional administration in general and city administrations in particular with special reference to their legally guaranteed self-administration.

1.3.2. Specific Objectives of the study

Therefore, to achieve the above general objectives effectively the paper has the following specific objectives:

1. To examine and describe the extent of the revenue rights and the expenditure obligations of the city administration in Oromia regional administration.
2. To examine tax autonomy of the region's city administrations by describing tax sources on which it has the power to set its rate and tax bases.
3. To examine whether the revenue rights and expenditure obligations of the Oromia city administrations are matching or not

1.4. Basic Research Questions

The following research questions are framed to address the above general and specific objectives.

1. What are the revenue rights and expenditure obligations of the city administration in Oromia regional state?
2. To what extent the city administrations in Oromia regional state administration can levy and collect revenues in the existing legal frame works?
3. Does revenue assignment in Oromia Regional state enable city administration to administer their internal affairs properly in line with the principle of its federalism particularly with constitutional right of full measure of self-government?
4. Are the revenue rights and expenditure obligations of the Oromia regional state city administrations matching or not?

1.5. Scope of the Study

Although the revenue rights and expenditure obligations of the local government is the issue of the whole local governments in Ethiopia, *for the accessibility of data, for proximity of the study region for the researcher, for the lack of the resource and time*, the research has been conducted in Oromia regional state focusing on city administrations those have local governments status. So, save for incidental references, issues of fiscal decentralization and local government financing in Ethiopia as well as the financing of the rural district local governments in Oromia regional state administration were outside of the field of this study.

1.6. Limitations of the Study

Probably the most important limitation of this study is a comprehensive study and interviews may not be made with the high officials at Bureau and oromia regional state president office due to the time and non-availability constraints that is faced in doing this research. Accordingly, an interview is only made with the revenue and legal experts of Regional Revenue Authority, Oromia Urban development and Housing Bureau, and city administration councils and legal experts, City administration Revenue officers and city administration municipal revenue experts and it is only their documents that is used in the study. There was also a problem associated with the non-availability of a few recent data on some considerations that forced the writer to depend his analysis on earlier data was also there to take some share in the limitations of the paper.

1.7. Research Methodology

The strategy of this research is descriptive research approach. Because it describes the revenue rights, expenditure obligations and financial autonomy of city administrations based on primary and secondary data.

On the other hand, it can be clearly observed from the overall work of this paper, it is utilized the qualitative method to indicate and analyze the revenue rights and expenditure obligations of local governments in oromia in particular case of city administration of the region on the base of data collected.

1.7.1. Data Type and Collection instrument

a. Primary data sources

Primary data has been collected importantly through interviews and questionnaires. Interviews made with well-informed key informants from Regional Revenue Authority experts, Oromia Urban development and Housing Bureau municipal revenue experts, city administration councils and legal experts, City administration Revenue officers and city administration municipal revenue experts (See Annex one). In addition, primary data has been collected through questionnaires provided for well-informed key informants in Oromia regional state president office legal advisers,, Oromia Revenue Authority revenue experts, Oromia Urban development and Housing Bureau municipal experts, City administration revenue authority and city administration of FECCO experts (See annex one and Annex two). Hence, these data enhanced the reliability of the paper and enabled to reflect practical revenue rights and expenditure obligations of the city administrations and their correlative matching, the actual degree of their revenue and their spending autonomy. In other words, the data generated through this technique is mainly used in getting general information on revenue rights, expenditure obligations and trends of revenue collection and expenditure of the city administrations.

b. Secondary Data Sources

As far as secondary data is concerned, data from Regional BOFEC, Regional Revenue Authority, and city administration revenue authority and city administration OFEC in the form of statics were taken. Because they were important sources to assess the Revenue rights and expenditure obligations of city administrations. In other way, all relevant published materials as well as all related legal materials were utilized as secondary data sources. Hence, based on the comprehensive nature of fiscal decentralization, data obtained from primary and secondary sources are presented, analyzed, and interpreted in the fifth Chapter so that findings could be drawn there from. Thus, the constitutional and statutory frameworks, the revenue rights, expenditure obligations and revenue autonomy of city administration of the Oromia regional state were described and interpreted.

Generally, qualitative research methodology was utilized for the research was more of descriptive of the revenue rights and expenditure obligations made assessment of revenue autonomy of the

city administration of the region. Hence, literature and scholar's ideas around the topic including views of selected regional Bureaus and city administrations' officials and experts toward the revenue rights and expenditure obligations and their correlative matching including revenue autonomy of the city administrations of the region were qualified and interpreted using qualitative methodology. Some secondary data as well as primary data were put in percentage to identify and describe the revenue rights, expenditure obligations, trends of revenue and expenditures as well as revenue autonomy of the study city administrations.

c. Selection of respondents

The researcher used purposive sampling method in selecting respondents from their respective Bureaus and sector offices. Purposive sampling is used in order to access knowledgeable people. Respondents for questionnaires and interviews were selected purposely due to responsibility and involvement in executing the expenditure assignment and financing responsibilities in their office. Accordingly, respondents were selected from the sampled city administrations and three bureaus to fill up the questionnaires.

The revenue Authorities were selected for the fact that they collect city municipal revenues and city administration OFECs were selected for the they have role in executing expenditure and allocation of budget for all City administrations' sectors. From these sector offices, a total of 60 respondents, 9 from each sector bureaus and 51 from the sampled city administrations are invited to fill in the questionnaires.

d. Data Analysis

In the study, qualitative method was employed for the analysis of data obtained from both primary and secondary sources. Simple statistical tools like percentage was used in the analysis and presentation of qualitative data. The pattern of revenues and expenditure in the sampled city administrations were displayed by using tables.

1.8. Research Design

Research design are plans and procedures for research that span the decisions from broad assumption to detailed method of data collection and analysis⁴⁷. In this study a descriptive survey is employed with the intention to get the general picture of current revenue rights, expenditure obligations and tax autonomy of city administrations. In supporting this idea, Abiy et al. suggested that descriptive survey is used to gather data at particular point in the time with the intention of describing the nature of existing conditions or identifying standards against which existing condition can be compared or determining the relationships that exist between specific events. In other words, the descriptive survey is more effective in assessing the current practices in its natural setting⁴⁸.

1.9. Sample and Sampling technique

A study population is the entire group of people to which researcher intends to the results of a study to apply⁴⁹. The subject of this study is the revenue rights and expenditure obligations of the local governments in Oromia regional state in general and the city administration which are designated as local governments in particular. In Oromia regional state, there are 60(sixty) city administrations designated as local governments which have their own council, administrative council and judicial Organs⁵⁰. Then, the 60 city administrations are divided in to 8 principals, 10 higher, 15 intermediates and 27 growing cities. However, due to the resource and time constraints, the researcher could not make all these city administrations the participants of this study. In addition, the ways of financing and structure of all the city administration local governments are similar. So, the researcher selected the sample among 60 city administrations based on the levels of the cities. The sample cities were selected primarily by using stratified random sampling. That is, the level of city administrations are grouped in to principal, higher, intermediate and growing cities by using stratified random sampling. Then, simple random sampling was used to take from each stratified levels of city administrations. According to simple random sampling, each city

⁴⁷ Creswell, J.W. Research design, quantitative and mixed approaches(2nd ed, 2009): London, Sage Publication Inc., p.27

⁴⁸ Ibid

⁴⁹ Ibid

⁵⁰ Regulation of Oromia Revised Cities Establishment, 2016, Regulation No.186, (Unpublished)

administration had the chance to be selected as a sample. Accordingly, all the names of the 60 city administrations were listed for the selection and the cities were grouped in to principal, higher, intermediate and growing cities. Each groups of cities was added to the boxes and withdrew the names of the cities from the boxes up to number of samples taken were satisfied. In theory and practice, in quantitative as well as in qualitative research, there is no clear cut of sample size which is taken from total population during research. But there are things which are to be considered to determine the size of sample research. For instance, if the data collected from different bodies or persons give similar results, it will enough to take limited samples from total population since the size of the data taken does not have any impact on the final result of the research ⁵¹.Based on this principle, the researcher took 10% of sample from each groups of the stratified city administrations for this study. Accordingly, 10% of 8 principal, 10 higher, 15 intermediate and 27 growing cities. Thus, one city from principal (Sabetha), one city from higher (Ambo), two cities from intermediate (Fiche and Sandafa Bakke) and three cities from growing cities (Bokoji, Matahara and Dodola) were taken as samples for the study and the total sample size of the study was 7 cities. The 7 cities were taken from each groups of cities by simple random sampling techniques from total population for the study. Then key informants were selected from each sample cities by purposive sampling methods. So, by using purposive sampling method, data were collected through interviewees and questionnaires by selecting from well informants of officials and expertise of city administrations, city finance and economic cooperate office and city administration revenue authority. In addition, at regional level, data were collected through interviewees and questionnaires by selecting from well informants of officials and experts of Caffee (Oromia council), Oromia Urban development and Housing bureau, Oromia regional state president office, Oromia finance and economic cooperate Bureau and Oromia Revenue Authority.

⁵¹Yalew Endaweke (Dr.) (2006).Basic Principles and Applications of Research Methodologies. Alfa Printers, Addis Ababa, p. 47

1.10. Significance of the study

This research assessed and analyzed the revenue rights and expenditure obligations of Oromia regional state local governments particularly the city administrations of the region.

As a result, this research has the following significances.

1. The paper has pointed out the city administrations revenue rights and their expenditure obligations in Oromia regional state context. Thus, the paper can be an input for the legislative organ for making further reform to fiscal policy.
2. The region may take some legislative measures to empower the region's city administrations to generate their own revenues that may match with their expenditure obligations.
3. Readers can achieve some understanding on the revenue rights and expenditure obligations of the region's city administrations.
4. Potential researcher may use this study for further research.

1.11. Organization of the study

This paper is organized and accomplished in six chapters. The first chapter is an introductory part of the research which includes the background of the study, Statement of the problem and Research Questions. It also includes the objective, scope, significance, limitations, methodology and the sampling method of the study.

The second chapter provided general overview of different related literatures about the concept of financial decentralization in general as well as in Ethiopia in particular with regarding to the assignment of expenditure and revenues, financial transfer, financial borrowings as well as the financial autonomy of the local governments. The chapter also dealt with interstate financial relations, financial transfers and interstate borrowings in general and in Ethiopia in particular.

Chapter three focuses on Fiscal decentralization in Oromia regional state. Accordingly, functional assignment, revenue assignment, Intergovernmental fiscal relation and other important related issues were discussed.

Chapter four discussed about local government financing in Oromia regional administration which includes definition of local government, the need to local government, about local government in Ethiopia and types of local government in Oromia. The chapter further discussed the functional and revenue assignment of local governments in Oromia regional state. .

Under chapter five collected data was presented, analyzed and interpreted based on primary and secondary data sources. Finally, Chapter six is about conclusion and recommendations.

Chapter Two - General Overview of Related Literatures

2.1. Fiscal Decentralization in Ethiopia in General

2.1.1. The concept of fiscal decentralization

Before we deal with financial decentralization, primarily, we see the definition of decentralization. Accordingly, decentralization is defined as “a process of transferring political power, administrative and fiscal responsibilities from central government to lower levels of government”⁵². Here, fiscal decentralization deals with financial transfer of interstate, assignment of expenditure, tax assignment and borrowing.

On the other hand, fiscal decentralization comprises of three related process namely devolution, delegation and de concentration⁵³. Devolution means a process by which a central government transfers some authority to sub national governments including power to raise taxes and formulate expenditure budgets. Delegation is a process by which a central government transfers a responsibility to sub national governments remaining responsible for the service and keeping the authority to take back this transfer at any time. De concentration, on the other side, refers to the transfer of responsibility for certain services to regional branch offices. It does not require any participation of sub national governments. Each process involves different levels of financial autonomy. However, currently including Ethiopia, most countries emphasis heavily on the devolution aspects of decentralization. So, fiscal decentralization is devolution by the central government to local governments (states, regions, municipalities) of specific functions with administrative authority and fiscal revenue to perform those functions⁵⁴.

⁵²Derrese Degefa(2003).Fiscal Decentralization In Africa: A Review of Ethiopia’s Experiences, Economic Commission for Africa, p.1

⁵³ Bird and Vaillancourt. Fiscal Decentralization in Developing Countries, in Bird M.Richard and Francois Vaillancourt eds., Fiscal Decentralization in Developing Countries (1998), Cambridge University Press, p.3

⁵⁴Kee E. James. Fiscal Decentralization: Theory as a Reform (2003). <http://www.gwu.edu/clai/working.papers>,p.2-3

Financial responsibility is the main component of decentralization. Thus, sub national governments to perform decentralized functions effectively, they must have sufficient revenues collected locally or transferred from the central government and the authority to make expenditure decisions. As a result, today including Ethiopia, many developing countries are practicing with fiscal decentralization so as to improve their governance system and economic growth.

The main benefit of devolving fiscal responsibility to sub national levels of government is mainly justified by allocate efficiency with the provision of public goods and services. Because local needs and preferences are believed to meet by local than national governments. In addition, information on local needs and preferences can be obtained more cheaply and accurately by local governments. The reason why is that local governments are closer to the local people and more identify the local problems. Here, transparency and accountability in government activities can also be achieved by bringing expenditure responsibilities closer to the people⁵⁵. In general, fiscal decentralization is a principle of financial relations between central and sub national levels of government. But it is believed that there is difficult to obtain optimal level of decentralization. To this concern, Ebel and Yilmaz (2000:17) stated that:-

“The challenges is to design an intergovernmental system that can best achieve not only the general objectives of fiscal Decentralization (efficiency, transparency and accountability) but also obtain national integrity and political stability and Equitable to different people and places”⁵⁶.

According to Bird (cited in Ebel and Yilmaz) decentralization is based on four mainstays which include tax assignment, interstate transfers (grants), expenditure assignment and sub national borrowing (debt).

⁵⁵ De Mello, R. Luiz . “Fiscal Decentralization and Intergovernmental Fiscal Relations: A Cross Country Analysis”. *Journal of World Development*, Volume 28 (2000), No 2., p.365

⁵⁶Ebel and Yilmaz Concept of Fiscal Decentralization and World Wide Overview (2001). Available at : <http://ww.desequilibrefiscal.gour.fc.ca/en/pdf/ebel.pdf>, p. 17

2.2. Fiscal decentralization in Ethiopia

When we come to about Ethiopian fiscal decentralization, it began from the establishment of the 1991 Ethnic based Federal System of governance. This new system of governance has rearranged the financial system of the country. Accordingly, the financial powers and responsibility are divided between the tiers of governments (the federal and states).Based on this, this chapter tries to examine briefly the financial system that has been practiced in Ethiopian since the beginning of decentralization in 1991.But to have a better understanding on the existing financial system in Ethiopia, it is better to look in to the pre-1991 financial system of the country.

a. Fiscal decentralization in Ethiopia Before 1991

Ethiopian financial policy was begun under the Minilik era during the establishment of the ministry of finance in 1908.But it was during Haile Selassie regime that comprehensive and modern financial system was introduced in Ethiopia in 1941.⁵⁷ This section tries to review the pre-1991 financial system in Ethiopia beginning from the imperial regime to the modern financial system.

i. Fiscal decentralization under Haile Selassie Regime

Even though Ethiopian financial policy was begun during the Minilik era, a modern financial system was introduced during the time of Emperor Haile Selassie. During that time, to modernize the country, it was required to exploit available and additional source of revenue. This was expressed and realized by the enactment of laws that required citizens to pay their share of cost of the modernization. The statutory basis of the time was the promulgation of tax laws. This was recognized in 1931 constitution and latter in 1955 revised constitution. The power of taxation was given to the ministry of finance during that period. Article 88 of the revised constitution of 1955 was the main cited one as to tax law. According to this article all laws were approved by both chamber of parliament and should get the approval and signature of Emperor⁵⁸.

On the other hand, with other duties and responsibilities, the ministry of Finance of Emperor had the following taxation powers.

⁵⁷Eshetu Chole. Supra note no.5 , p,167

⁵⁸ Ministry of Finance (1997). ABC of Taxation in Ethiopia (1942-1996), Planning and Research Department, Ministry of Finance, Addis Ababa, p. 2

- a. It ensures that tax laws were properly enforced and that all revenues due from different types of taxes were properly assessed, collected and accounted for.
- b. It ensures that the fiscal system of the government was appropriate and regularly reviewed to make sure that it met the needs of economic and social development.

During Haile Selassie regime, development in tax system and structure had taken place. Tax laws changed over time with the development of the country's economy. Types of taxes levied and collected during the regime include custom and export duties, stamp duty tax, road tax, health tax, education tax, land tax and income tax. In regarding to expenditure, the allocation of public resources to the various functions of government and to the different administrative regions of the country had been decided at the center. The ministry of finance had branches in the administrative regions. But the ministry's administrative branches merely to facilitate its activities of revenue collection and expenditure administration⁵⁹.

However, during emperor, in some areas, the decentralized system of governance was attempted. This attempt was related to municipal governance. The other area of decentralization was the law that allowed establishing a local education board in each provinces (except Addis Ababa) to allow the provinces to manage the development of elementary schools through bearing their expenditure from their own education tax. The third attempt was to decentralize the local government. This decentralization refers to empower Awurajas to make decisions and to carry out the functions in the field of education, public works, water supply, agriculture and community development, trade and commerce and other fields in other jurisdiction. But all these decentralizations attempts were hardly practiced⁶⁰.

ii. Fiscal decentralization under the Derg Regime

The political system of the derg regime was quite different from that of imperial regime. But the practice of centralism continued more in greater length. Even though the regions were established as autonomous, it didn't bring the true devolution of power from the center to the regions. So, both autonomous and administrative regions were not created as in order to have wide political

⁵⁹ Ibid.

⁶⁰Gebrehiwot Tesfai (2002). Fiscal Decentralization: The Case of the Government of Tigray, Thesis Submitted in Partial Fulfillment of the Degree of Master of Arts in RLDS, AAU, p.2-3

administrative and financial decentralization. Limited powers and functions were given to the regions⁶¹.

During the derg regime, without the amendments of the previous emperor tax laws, similar taxes to imperial regime were imposed. However, there was an increase in the coverage of tax bases and tax rates due to the need to raise more revenues to finance the war, public sector and public goods and services. Accordingly, tax laws were changed over time. But the taxes were applied uniformly to all regions of the country and were implemented by ministry of finance branches. Resource allocations to public functions and to different regions of the country were decided by the center like during imperial regime⁶².As we see from below table 1 share of revenue collection and their expenditure obligations of the Ethiopian regions were different from region to region.

Table 2.1. below shows us share of revenue collected from different regions of the country and share of expenditure spent in each of the regions of the country during the year (1979-1989).

Regions	Percentage share in National	
	Revenue	Expenditure
Addis Ababa(the center)	70.60	85.33
Shoa	3.90	2.11
Harar	3.72	1.54
Eritrea	9.00	2.00
Keffa	0.69	0.82
Ellubabor	0.33	0.52
Arsi	0.54	0.56
Gonder	0.55	0.89
Bale	0.26	0.58
Tigray	0.31	0.89
Sidamo	1.13	1.11
Gojjam	1.02	1.00
Gamo Gofa	0.31	0.53

⁶¹ Ibid.

⁶² Ibid.

Welega	0.70	0.84
Wello	1.13	1.11
Assab	5.81	0.18

Source: Wegene: 1994:39

As could be seen from the table 1 above the total revenue collected between 1979-1989 , 70.6% was collected by central government in Addis Ababa, 14.6% which was half of the revenue collected by all regions, was collected by Eritrea and Assab regions(excluding Addis Ababa). 3.9 and 3.7 percent of the total revenue collected by Shoa and Harar consequently. The revenue share of Sidamo, Wello and Gojjam followed the total revenue share of Shoa and Harar. The total revenue share of Keffa, Gonder and Arsi located between 0.5 and 0.7 percent. The total revenue share of Ellubabor, Tigray and Gamo Gofa was less than 1 percent.

On the other hand, when we look the total government expenditure share made between 1979-1989, the central government spent 85.33 percent of the total expenditure share of the country. Among the regions mentioned above, Eritrea and Shoa spent more than 2 percent when we compare to the other regions. The regions like Harar, Sidamo and Wello received total expenditure share between 1-1.54 percent. The other regions received less than 1 percent of the total expenditure share of the country⁶³.

The table 2.2.below shows average ratio of revenue collection to recurrent expenditure of the regions between 1979-1998.

Region	Share (in %)	Region	Share (in %)
Shoa	1.18	Tigray	0.26
Harar	1.66	Sidamo	0.73
Eritrea	3.09	Gojjam	0.75
Keffa	0.61	Gamo Gofa	0.41
Ellubabor	0.39	Welega	0.60
Arsi	0.65	Wello	0.76
Gonder	0.43	Assab	45.25

⁶³Wogene Yirko (1994). History of the Post-War Ethiopian Fiscal System, in Eshetu Chole ed., Fiscal Decentralization in Ethiopia, Addis Ababa University Press ,p.39

Bale	0.31		
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Source: Wogene, 1994:47

The table 2.2.above shows us the percentage share of regionally collected revenue to recurrent expenditure. As it is observed from the table, Assab, Eritrea, Shoa and Harar were able to cover their total recurrent expenditure and transfer to the central treasury. But the revenue collected by other regions was in adequate. For instance, during the ten years Sidamo, Wello and Gojjam were supported by 27, 24 and 25 percent of their expenditure consequently. During the period Bale and Tigray regions more received their expenditure from the central government (69 and 74 percent respectively)⁶⁴.

b. Fiscal decentralization in Ethiopia after 1991

As discussed above, Ethiopia was highly centralized country in administrative and financial system before 1991. After overthrow of derg regime in 1991, the transitional government of Ethiopia came in to power and inherited highly centralized system of administration and finance. However, the transitional government of Ethiopia has begun following the policy of decentralization in administration and finance. Thus, the Ethiopian decentralization policy was argued as:-

*“Given the diversity of our people and the recent turbulent history
Of our country, the logic of decentralization is a compelling one.
Ethiopian society must construct a political frame work that
Provides sufficient space to all its constituents. This is an
Objective which excessive centralism cannot fulfill.”*⁶⁵

Having said the above introduction in general, in the next subsections the researcher tries to examine the practice of financial decentralization by focusing on the four mainstay of interstate financial relations. Primarily, the legal frame work for financial decentralization and governance structure of our country will be assessed.

⁶⁴ Id, p.47

⁶⁵Eshetu chole, cited above at note 5, p. iii

i. The Legal frame work for financial decentralization in Ethiopia

The first legislation for decentralized system of governance in Ethiopia was the charter which established the transitional government of Ethiopia⁶⁶. In this charter, the rights of nations, nationalities and peoples to self-determination, the right to administer own affairs within defined judiciary, the participation and fair representation in the central government were clearly stated. Next to the charter, proclamation no.7/1992 was enacted to establish the national regional self-governments⁶⁷. This proclamation also established the new administrative structures which are made up of the central and regional states. The proclamation further defined the powers of the three levels of governments: namely the central, regional and wereda.

On the other hand, the proclamation which has relation with financial decentralization proclamation no.33/1992 was enacted in the same year of the above stated proclamation. This proclamation defines the sharing of revenue between the central and regional governments. The proclamation also sets the objectives of revenue sharing and principles used in the sharing of revenue sources. Moreover, the proclamation categorizes revenue sources as central, regional and joint. Later, the assignment of functions and revenues restated in 1995 FDRE constitution to ensure direct participation of the people. In 2001, Ethiopia recognized decentralization process to weredas and kebeles by devolving number of responsibilities and financial empowerment from regional governments to weredas and kebeles⁶⁸.

ii. Governance structure for financial decentralization in Ethiopia

The potentialities and the problems of decentralized system came from the specific territorial structure of government. Political and administrative costs will sour if too many governments are created. In Ethiopia, the decentralized system has created a four levels of governments which include the federal government, regional states, zonal and wereda administrations. Nine regional

⁶⁶ Proclamation no.7/1992, supra note no.6

⁶⁷ Ibid.

⁶⁸ Gebrehiwot , supra note no. 59, p.39-40

states and one city administrations are created by FDRE constitution⁶⁹. And other one city self-administration created by enactment⁷⁰.

On the other hand, for administrative convenience, the levels of government below region, zones are mentioned in the region constitution. But zones do not have elected councils and depend on the regional governments. At the lowest level below zones which is the subject of this research, weredas were established and they are elected and have full time government structure and key local units of government. Because they are significant in prioritizing and provision of public services at local level. Smaller electoral units below weredas are kebeles. All the zones, weredas and kebeles are the creature of the constitution in Oromia⁷¹.

On the other side, as observed in some literatures municipalities are creatures of the provinces or states in some federal systems. Municipalities are not mentioned in the constitution⁷². In similar ways in Ethiopia, municipalities are not mentioned in the FDRE constitution. It is the regional state that governs and defines municipalities. Even though municipalities are not creatures of the constitution, they constitute a separate local government system in Ethiopia. But Brosio⁷³ has criticized the governance structure of municipalities in Ethiopia. According to him, the structure in Ethiopia forms a complex system which creates expensive, cumbersome and lengthy command channel.

iii. Expenditure Assignment under Ethiopian federal system

In the Ethiopian federal system, the FDRE constitution lists the exclusive powers and functions of the federal and state governments⁷⁴. In principle, the Ethiopian constitution follows the USA model by listing the powers of the federal government and assigning the residual powers to the

⁶⁹FDRE Constitution, supra note no.8, Articles 47 and 49

⁷⁰ The Dire Dawa Administration charter proclamation,2004,proclamation no.416,Federal Neg. Gaz,year 10, no.60

⁷¹ The Revised Constitution of Oromia Regional state, supra note no.11,article 45

⁷²Courchene, et al. (2000). Principles of Decentralization, in GiugaleM.Marcello and Steven B.Webb eds., Achievements and Challenges of Fiscal Decentralization: Lessons from Mexico, World Bank, Washington D.C.p.85

⁷³Brosio, supra note no.63 , p.14

⁷⁴ The FDRE constitution, supra note no.8 Articles 5 and 52

state governments. But it incorporates some features from India and Canada by listing some powers for the states⁷⁵.

In most federation, the functions which are considered to be the common concern of all states units of the federation are assigned to the federal government. Accordingly, immigration, citizenship, international or foreign relations, national defense etc. are the exclusive function of the FDRE federal government. The other exclusive power areas of the federal government are patents and copy rights, banking and insurance, domestic currency coinage and foreign currency usage, weights and measures, interstate commerce, postal and telecommunication services. In the same manner, rail, air and water transports and major roads linking two or more states are listed under exclusive powers of the federal government⁷⁶.

When we look the legislative power of the federal government, HOPR has the power of enacting laws over federal matters including electoral laws and procedures and the enforcement of political rights established by the constitution. With regarding to the civil and criminal laws, federal government has the power to enact penal law. But the state has the power to enact penal law which is not covered by federal enacted penal law. In regarding to civil law, the federal government may enact civil law areas which is essential for the application of uniform law in order to establish and sustain one economic community⁷⁷.

Concerning to state powers and functions, the FDRE constitution lists their powers and functions. Accordingly, states have the power to establish state police, the maintenance of public peace and order, the administration of land and other natural resources based on federal laws and governs the employment and working conditions of civil servants. The states also have power over areas like education, health and agriculture based on standards set by the federal governments. Furthermore, the states have independent power regarding to matters not listed under federal government exclusive powers⁷⁸.

⁷⁵Solomon Negussie. Fiscal Federalism in Ethiopian Ethnic-Based Federal System (2006).Netherlands: Wolf Legal publishers p.25-30

⁷⁶ The FDRE constitution, supra note no.8,Articles 51,54 and 55

⁷⁷Ibid.

⁷⁸ Ibid, Articles 51(3) and 52(2)

iv. Revenue Assignments under Ethiopian federal system

Assignment of revenue is an important instrument for the performance of the above mentioned functions and powers assigned to the federal and states governments. So, functional assignment is an important element for revenue assignments. Accordingly, the FDRE constitution assigns the taxation power in to three groups: namely the federal power of taxation, the state power of taxation and the concurrent power of taxation both the federal and states governments. The FDRE constitution, on the other hand, mandates the HOF to determine the undesignated taxation power (residual taxes). Under exclusive power of taxation, both the federal and states governments have the power to levy and collect taxes on resources reserved to them. Each tiers of governments can exercise its legislative and administrative powers within its taxation jurisdiction⁷⁹.

However, in practice tax rates are set by federal governments. The states only apply tax rates set by federal government. So, the practice shows us the uniformity of tax rate and tax bases throughout the country. Under the practice of Ethiopian financial decentralization, tax autonomy is only a constitutional promise. As opposed to lower governments in Ethiopia, both in Canada and Switzerland federations, SNGs have various revenue resources under their taxation autonomy to finance their functions. But in reality, the fiscal position of the constituents units in Ethiopia are highly dependent on federal government. Because of this, vertical financial imbalance in Ethiopia is even higher than in other countries⁸⁰.

v. Revenue sources under Ethiopia federal System

Under Ethiopian federal system, the federal and state governments have their own and common revenue resources. That is, all have their own reserved revenue sources. Types of revenue sources which are assigned by the FDRE constitution are explained briefly as follows.

i. Sources of revenue for federal government

There are revenue sources which are assigned for the federal government. Among revenue sources assigned for federal government is custom duties including import/export/ tax is the main revenue sources of the federal government. Income tax is also an important source of the federal

⁷⁹Id., Articles 96-99

⁸⁰ Solomon, cited above at note no. 77

government. It is also an important tax for states governments. But the income tax is not exclusively assigned to either of the federal and state governments by the FDRE constitution. Thus, income tax depends on their sources to determine the power of taxation of either of governments. For instance, concerning to personal income, the federal government has an exclusive taxation power on income from employees of federal governments, public enterprises owned by federal government and employees of international organizations. The taxation power of the federal government also extends to levy and collect income tax on income or profit obtained from these enterprises and organizations⁸¹. Moreover, income taxes from rail, air and sea transport and income from winning of chance from national lotteries are the exclusive power of the federal government. Furthermore, income obtained from leasing of property and houses under ownership or registered as federal properties are under the taxation power of the federal government. Other areas of exclusive taxation of federal government include sales and excise tax those related to sale and services of public enterprise owned by federal government. The federal government also exclusively determines and collects fees and charges in relation to license issued by the organs of it and collects stamp duties from the service provided by its organs⁸².

The other important revenue sources for federal government are those revenues obtained from public enterprises such as national bank, rent from government property and from public enterprises that the federal government monopolizes. In other words, the federal government is entitled to collect taxes from enterprises such as banks, insurance companies, Telecommunication Corporation, the electric power corporation, the post office, the Petroleum Corporation, sugar industries and government farms. These revenues produce higher revenue for federal government⁸³.

As we have observed from the above discussion, the types of revenue resources that are assigned to the federal government by constitutional provision are taking the dominant part in revenue generating for federal government.

⁸¹ The FDRE constitution, supra note no.8,21,Article 96

⁸² Ibid,Articles 96(3), 96(6), 96(7) and 96(9)

⁸³Ibid,Article 96(3)

ii. Sources of revenue for state governments

Some sources of revenues are assigned for state governments under FDRE constitution. However, state governments do not have exclusive tax bases assigned to them. This is to say that, tax bases listed for state governments under article 97 of the FDRE constitution are those tax bases shared from the federal governments on the base of categories of tax payers and things with the exception of custom duties which is only assigned for the federal government⁸⁴. Both tiers of governments are entitled to the collection of income tax based on different categories of tax payers or things. Thus, income taxes from employees of states governments and privately owned enterprises are reserved for states governments under their exclusive taxation power⁸⁵. In addition, states are entitled to collect taxes from profit or income from public enterprises those under the ownership of state governments. Moreover, income or profit from small business activities and individual traders are reserved for states governments as their exclusive taxation power⁸⁶. Furthermore, the constitution assigned to the states governments' tax on income from individual farmers or cooperative association, income from water transport services provided within the boundary of the state and rental income from properties owned by the states are exclusively taxed by the states. Excise tax and sales taxes from enterprises under the ownership of states governments are solely collected by states governments⁸⁷.

States governments can also levy and collect property tax on houses which are privately owned and tax on the use of land within their jurisdiction. In addition, states governments can collect royalties from the use of forests. Moreover, they are entitled to collect taxes from small scale mining activities. According to article 97(9), states governments can also collect revenues from other non-tax sources such as fees and charges from license and services provided by the organs of states governments.

iii. Common revenue sources for both federal and states governments

Common revenue sources for both federal and state governments are provide under article 98 of the FDRE constitution. But the practice of common power of taxation is implemented differently

⁸⁴ Id, Articles 96 and 97

⁸⁵ Ibid, Article 97(1)

⁸⁶ Ibid.

⁸⁷ Ibid.

from federation to federation. Common power of taxation implies that the federal and each states has the right to enact laws concerning to the subject matter under its jurisdiction. In USA, for example, both the federal and states governments are free to impose the same type of tax up on the same subject to taxation⁸⁸.

In Ethiopian case, the law (FDRE constitution) recognized an approach of concurrent powers of taxation by assigning both of tiers of governments jointly to have taxation power over certain tax bases. Accordingly, concurrent powers of taxation are assigned to both levels of governments jointly to levy and collect taxes on profit, sales, excise, and personal income of enterprises they jointly establish, to levy and collect taxes jointly on the profits of companies and on dividends given to shareholders, to levy and collect taxes jointly on incomes derived from large scale mining and all petroleum and gas operations and royalties on such operations⁸⁹. However, in practice, state governments in Ethiopia are only entitled to the share of revenue from concurrent taxes. Because states governments do not have legislative and administrative power over these taxes. From this, one can conclude that joint revenue sources in Ethiopia are still under the total control and appropriation of the federal government. So, states governments are not entitled to regulate and levy taxes listed under the title of concurrent taxes. Rather, they are entitled to the share of revenue from these sources with the federal government in the form of revenue sharing. This is, due to the decision made by joint session of the HOPR and HOF, the federal government has the power to levy, collect and administer the concurrent taxation power⁹⁰. But in the researcher opinion, unless the constitution which stated concurrent taxation power is amended, the power assigned by the constitution could not be transferred to the other body by the decision of the two joint session of houses.

iv. Undesignated sources of revenue

Undesignated sources of revenue are provided under the FDRE constitution. The FDRE constitution does not give any option to assign undesignated taxation power to either tier of governments. Rather, the constitution empowers the HOPR and HOF federation to determine by

⁸⁸R. Boad way and R.Watts (2004), Fiscal federalism in Canada, The USA and Germany .Working paper. Available at :<https://www.queensu.ca/iigr/sites/webpublish>, Accessed On 28 August,2018, p.8

⁸⁹ The FDRE Constitution , supra note no. 8,Article 98

⁹⁰ Minute of the joint session of the HOPR and HOF, 1989 E.C

joint session regarding to the assignment of undesignated taxes⁹¹. Under article 52 of FDRE constitution, states have residual powers and functions besides their exclusive functions. But in the case of taxation power, the states do not have residual power. It is left for the decision of the joint session of the two houses (HOPR and HOF)

c. The Interstate financial Relation in Ethiopian federal system

The Interstate financial Relation deals with the financial relation between the federal and state governments' which include vertical and horizontal financial relations in Ethiopian federal system. Both fiscal relations are briefly discussed as follows.

i. The Vertical financial Relations in Ethiopia

In Ethiopia, Vertical financial relations are dominated by imbalance in its fiscal federalism because of the fact that the federal government controls all sources of revenue which have national benefit⁹². However, the state governments are assigned with revenue sources which have less profitable. As a result, vertical financial imbalances are caused between the two tiers of governments.

When we look in respective of expenditure needs, state governments are assigned with important public services like health, education, roads etc. while their revenue sources cannot finance of these expenditure. Vertical financial imbalances in Ethiopia show high dependency of states governments on federal transfer. Half of expenditure needs of states governments are covered by transfer from federal government. The assessment of Solomon Nigussie shows in the year 1993/94 state governments only able to finance 26% of their expenditure needs half of which covered by federal government. That year, only 45% of recurrent expenditure needs of finance covered by state governments' revenues. In relation to revenue shares of states, state governments' only accounts less than 10% of the total revenue of the country. The causes of financial imbalances in Ethiopia include dominance of tax bases by federal government, inefficient tax administration of states, inability and unwillingness of the states to discharge their responsibilities⁹³. Low level of development of states require high expenditure needs which contributes for the existence of

⁹¹ The FDRE constitution, supra note no.8, Article 99

⁹² Solomon, supra note no.77, p.155

⁹³ Ibid.

vertical financial imbalances. The financial imbalances in Ethiopia can be seen in two aspects. That is, revenue and expenditure aspects⁹⁴. In revenue side, the federal government has dominant and lucrative revenue sources through its exclusive and concurrent power. But revenue resources are assigned to states produces less revenue. Thus, states governments are assigned with the taxes like land tax and agriculture income tax which yields less revenue. However, taxes like custom duties and other charges on imports and exports which account 33% of total revenue of the country⁹⁵. On expenditure side, low level of development in the country leads to high expenditure needs. This causes the mismatch between revenue power and expenditure needs⁹⁶.

ii. The Horizontal financial relations in Ethiopia

In Ethiopia, horizontal financial relations are based on imbalances. The causes of horizontal financial imbalances occur due to the differences in demography, geography and in natural resources endowment etc. which undermine equal access to public goods and services by individuals residing in different jurisdiction. There are other instances that cause horizontal fiscal imbalances. Sub national governments (SNGS) may not have equal financial capacity to provide equal public services even though they are assigned with the same revenue sources. They differ in their financial capacities because single tax base may not generate the same amount of money in different places. This is caused because of the factors such as tax evasion, corruption; low political commitment etc. would influence tax collection performance. Such factors lead to difference in revenue capacity among SNGS so that they are unable to provide their citizens with services at same level on the basis of comparable tax levels⁹⁷.

d. The Financial transfer in Ethiopian federal system

As discussed above, there are both vertical and horizontal financial imbalances in Ethiopia. But under Ethiopia federal system, there is a means to bridge such financial imbalances. That is, there is a financial transfer from the federal government to states governments include revenue sharing

⁹⁴ Id,p.166

⁹⁵ Ibid.

⁹⁶ Ibid.

⁹⁷ Martinez-Vazquez, Jorge and L.F. Jameson Boex. Fiscal Capacity: An Overview of Concepts and Measurement Issues and their Applicability in the Russian Federation((1997a)), International Studies Program Working Paper973, Andrew Young School of Policy Studies, Georgia State University, p.28-30

and grants. The grants are divided into unconditional and conditional grants. In Ethiopia, there are two organs responsible for interstate financial transfers. In principle, it is the HOF (House of Federations) which is the principal organ for interstate financial matters⁹⁸.

The FDRE constitution states that the HOF would determine the formula on which the federal government gives subsidies (grants) to state governments. Thus, the HOF that determines the proceeds of the federal and state governments on the revenues collected from the concurrent taxes. Accordingly, the two types of financial transfer include revenue sharing and grants are exercised by the HOF under FDRE constitution⁹⁹.

On the other hand, the constitution also states that instances when the federal government could give direct assistance (and loans) to the state governments¹⁰⁰. That is, article 94(2) of the FDRE constitution clearly shows that the federal government could give states assistance and loans for emergency, rehabilitation and development purposes. This assistance is targeted those states which are least advantages in development¹⁰¹.

Having said the above, the researcher deals with the revenue sharing and grants system in Ethiopia federal system as follows.

i. Revenue Sharing

Revenue sharing is a means of addressing vertical financial imbalances¹⁰². It is one aspect of financial transfer in Ethiopia. Here, the federal government is expected to share the proceeds of the taxes that has collected from the concurrent taxes. The amount of the proceeds of each order of government is determined by the HOF. But it is difficult to say revenue sharing is a financial transfer of the federal government to state governments. Because the federal government is not the exclusive owner of the concurrent taxes that are the subjects of revenue sharing¹⁰³.

⁹⁸ The FDRE constitution, supra note no.8, Article 62(7)

⁹⁹ Id. Art.62(7),89(4) and 94(2)

¹⁰⁰ Ibid. Art. 94(2)

¹⁰¹ Ibid.

¹⁰² Shah Anwar. Fiscal Decentralization in Developing and Transition Economies: Progress, problems and the Promise(2004), World Bank Policy Research Working Paper 3282 , p. 21

¹⁰³ The FDRE constitution, supra note no.8, Article Art. 98

As the revenue sharing in India and Nigeria is concerned, it involves the sharing of proceeds from the income of federal government it obtained from its own sources of revenue¹⁰⁴. However, revenue sharing in Ethiopia is concerned , only those taxes which article 98 of the FDRE constitution states as concurrent taxation of the federal and state governments. Here, both federal and state governments can jointly levy and collect the concurrent taxes. So, since the state governments are the owners of concurrent taxes, it is mistaken to say revenue sharing is financial transfer under Ethiopian federal system. Even though the FDRE constitution is silent on the means of revenue sharing, in practice the revenue and customs authority shows that the respective shares of the regional states is divided on a derivative bases. This more practical if the respective region collects effectively those taxes. But in the case of companies, the collections of taxes against them is neither derivative nor redistributive¹⁰⁵.That means, if the companies are incorporated in Addis Ababa and operates in different regions in the country, the federal government would only share the proceeds of all the taxes of the companies to the Addis Ababa city administration¹⁰⁶.

ii. Grants

As discussed above if the vertical and horizontal financial imbalances cannot be addressed by state own revenue or revenue sharing, there are other mechanisms (grants) under Ethiopian federal system which narrows the financial imbalances and increase the revenue capacity of states. The grants system may be conditional or unconditional. The Ethiopian grants system has a grant formula which only services for three consecutive years. The grant formula is changed after the one grants formula is expired. This grants formula has its own criteria. For instance, the grant formula of 1997/98 composed of four criteria. It includes for population 55%, for poverty 10%, for expenditure need 20% and for revenue raising effort and sector performance 15%.The main aim of the revision of the grant formula is to cover each region's expenditure needs that cannot be covered with its own revenue sources¹⁰⁷.The 1993/94, 1997/98 and 2003/04 grants formula of Ethiopia focuses on the population size of the regions. Accordingly, the regions like Oromia,

¹⁰⁴ Shah, supra note no. 102

¹⁰⁵ Beka Diribi (2014). Impacts of states 'revenue capacity' on self-administration under the Ethiopian decentralized fiscal system: the Case of Oromia National Regional state ,thesis submitted in accordance with the requirements for the fulfilment of degree of master of Art(MA) in federal study, AAU ,p,20-40

¹⁰⁶ Ibid.

¹⁰⁷ Melkamu Bessie (2004). Fiscal Decentralization in Benishangul Gumuz region: A review of problems of fiscal imbalances ,thesis submitted in Partial fulfillment of the requirement of the Degree of Master of Arts in RLDS, AAU, p,54

Amhara and SNNP which have the largest population size get higher shares of federal grants. But the 2004/05 grants based on percapita basis. According to percapita basis formula the less developed or emerging states receive higher subsidy. Thus, the Afar, Benishangul, Gambela and Harari take the highest share of grants based on percapita basis formula¹⁰⁸. This shows us the grants system under Ethiopian federal system has a substantial redistributive effect. The next topic deals with the types of grants which are recognized under Ethiopian grants system.

a. Unconditional grants

Unconditional grants are aimed for general purpose. Unconditional grants are given as a general budget support of regions without any conditions attached. Such financial transfers are also intended to preserve local autonomy and to develop inter jurisdictional equity¹⁰⁹. Unconditional grants are called block transfers when they are used to provide broad support in general area of regional states expenditures (education) while allowing recipients discretion in allowing the funds among specific uses¹¹⁰.

b. Conditional Grants

Conditional grants are designed for specific purpose of financial transfers. On the other hand, conditional grants are intended to provide incentives for state governments to undertake specific programs or activities. The purpose of conditional grants is to influence the financial decisions of the state governments with the express intent of achieving some objectives of the federal government. Accordingly, while unconditional grants are useful in the reduction of horizontal imbalances. Conditional grants are used for enhancing national priorities and to serve specific, efficiency enhancing goals¹¹¹.

On the other hand, conditional grants may be divided into matching or non-matching¹¹². Thus, conditional matching grants require grant recipients to finance a specified percentage of

¹⁰⁸ Ibid.

¹⁰⁹ Shah Anwar, supra note no.104, p.25

¹¹⁰ Ibid.

¹¹¹ Boadway and Shah (2009). Fiscal Federalism principles and practices of Multi Order Governance, Cambridge University press, p.339

¹¹² Shah Anwar, supra note no.104, p.26

expenditure using their own resources. Conditional non matching transfers provide a given level of funds without local matching as long as the funds are spent for a particular purpose.¹¹³

e. Borrowing under Ethiopian federal system

Even if the mechanisms to fill financial gaps is exercised by revenue sharing and grants system under Ethiopian federal system, state governments may still find themselves with inadequacy of revenue regarding to expenditure. The final solution for this, state governments resort to borrow either from domestic or foreign resources. But in Ethiopia, state governments are only allowed to borrow from domestic sources. However, borrowing by state governments in Ethiopia is under conditional based control. The conditionality based control is provided in proclamation no.33/1992. This proclamation states that the state governments can exercise their right to borrow from domestic sources¹¹⁴.

In similar way, borrowing is known to finance fiscal gap in many countries. For instance, in most federations, especially in developing countries, local borrowing becomes an important financial sources for developing long term projects like water works, bridges, and roads¹¹⁵. In many developing countries, SNGs obtain much of their capital budget from interstate financial transfers. However, in some decentralized countries like states, provinces and large cities can obtain capital budget from borrowing. Thus, in federation like Canada and Switzerland, SNGs have independent power of borrowing both from domestic and international financial institutions¹¹⁶. But borrowing by SNGs both from domestic and foreign are subject to restrictions. The restrictions to borrow by SNGs include the amount of debt, types of debt, maturity dates and the process to be followed. The most common means of limiting of SNGs ability to borrow is in the countries constitutional provisions or statutory laws. The laws usually focus on the tax supported obligations. Because the

¹¹³ Ibid.

¹¹⁴ Tesfaye Mergia (2005). Tax Assignments to subnational Governments in a decentralized Fiscal system of Ethiopia. a thesis submitted in Partial fulfillment of the requirements for the Degree of Master of Arts in Regional and Local Development Studies (RLDS), AAU, p.47

¹¹⁵ Ibid.

¹¹⁶ Smoke .Fiscal Decentralization in Developing Countries: A Review of Current Concepts and Practices (2001), United Nations Research Institute for Social Development, p.10-15

debt is secured by a pledge of tax revenues¹¹⁷. Here, borrowing by SNGs need to have effective debt management program like¹¹⁸:-

- Establish the extent that limits the powers to borrow money and avoid potential abuses.
- Provide a means to finance capital investments within the local governments' capacity to repay the loans (debts).
- Establish sound debt management practices that support creditworthiness
- Save money on interest charges by selecting appropriate debt instruments and structures

According to Smoke (2001) borrowing by SNGs depend on their fiscal context. Thus, in case where decentralized governments are strong, efforts to make direct access to capital market have a sense. However, the central government must regulate municipal bond markets, develop and enforce credit limits and stop bailing out SNGS that default on their debt. In most cases if SNGs investment responsibilities are smaller and financially weak, some type of municipal development fund will be the correct approach. Municipal credit institutions are initially regulated or managed and substantially capitalized by central government. This approach gives the central government the opportunity to control over borrowing activities of SNGs¹¹⁹. However, in Ethiopia, there is no clear criteria for the borrowing of state governments since fiscal imbalances exist.

¹¹⁷ Ibid.

¹¹⁸ Ahmed. Financing Decentralized Expenditures: An International Comparison of Grants(1996), Edward Elgar, Cheltenham, UK,p.104

¹¹⁹ Ibid.

Chapter Three - Fiscal Decentralization in ORG

Under this chapter, the nature of fiscal decentralization, the functional and revenue assignments as well as intergovernmental relations in the Oromia regional state were discussed in detail. Thus, in the region, to implement the system of fiscal decentralization, the constitution of the region was revised two times. The aim of the revision was to create closer relationship between the service provider and the service user (the local communities) based on devolved (decentralized) governances. Accordingly, the powers and the functions of the region's levels of governments are listed in the 2001 revised constitution of the region. The next topics would discuss on these issues

3.1. Functional assignment in ORG

The FDRE constitution article 50(4) empowers the regional states to establish the lowest units of governments (local governments) and to assign adequate power to them. The main aim is to enable the public participation in government administrations and to improve efficiency of public services¹²⁰. Based on this, Ethiopia made the second phase of administrative and fiscal decentralization after the adoption of poverty reduction and development policy in 2002. Because decentralization was considered to be a key implementation means of the policy. Accordingly, local governments like Wereda (rural) and city (urban) administration were authorized to exercise a certain measure of political, administrative and financial powers. Thus, the regions amended their constitution to establish the local governments like weredas (districts) and urban local government system to in line with the above mentioned policy¹²¹.

For instance, Article 45 of the 2001 revised constitution of the Oromia regional state devolves powers and functions among the region, zonal, district and kebele administrations. In addition, the constitution empowers the regional council (the Caffee) to create administrative structure when the

¹²⁰ The FDRE constitution, supra note at no.8, article 50(4)

¹²¹ Zemelak Ayele, supra note, no.10, P. 143-147

situations require. This means the council of the region is empowered to create further additional administration when the powers and functions of the region is not covered by the existing governmental structure of the region. According to the existing situation, the powers and functions of the region is provided under article 47 of the 2001 revised constitution of the region. Furthermore, the taxation power of the region is stated under the mentioned article (art. 47).

On the other hand, the zonal administration which is an administration unit below the region is assigned with some powers and functions (article (70(1) and 71(1, 2, 3))). In similar way, article 76 of the revised constitution recognizes district (wereda) administrations. Here, the wereda (district) administrations are established as local governments. These local governments are empowered to approve plans and programs in regarding to economic development, social services and public administration. In addition, the districts are empowered to administer and mobilize the people for development activities, for maintenance of peace and security and others. Kebeles which are the lowest administration of the region is empowered to have the kebele council, kebele administrative council and social courts. But the kebele administrations are not empowered to execute revenue resources.¹²² Even though the constitution of the region assigns more powers and functions to local governments like districts (Weredas), their powers and functional responsibilities are not followed by adequate revenue sources.

On the other hand, the 2001 revised constitution of Oromia regional state doesn't say anything about the powers and functions of city administrations of the region. However, the Oromia regional state has established the city administrations by series of legislations. Finally, previous series legislations of city administrations are amended and repealed by the proclamations no.195/2015 and 196/2016 which have established and graded the region's city administrations in to the new governances. Accordingly, the cities are graded in to principal, higher, intermediate, growing, Municipal and growing municipal cities. The aim to grade the region's cities are to give adequate powers to the people of the cities of the region. Among the graded cities of the region, the principal, higher, intermediate and growing cities do have their own city councils, city administration councils and courts and they have local governments' status. The last two graded cities (municipal and growing municipal) are established to be governed under the rural district (wereda)

¹²² The Oromia revised constitution ,supra note no.11 , articles 76-100

administrations of the region. These two last cities only become local governments together with the rural people of the district (wereda) administrations.¹²³

Having said this, when we come to the city administration of the region, among 644 towns of the region, 60 of them are graded as city administrations which do have their own city councils, city administration councils and judicial organs. They are established as autonomous local governments. Because at their level, each city administration has its own legislative, executive and judicial power. Theoretically, they have independent power to decide on all their affairs.¹²⁴

As mentioned above, the region's city administrations are re-established by the revised Oromia regional state cities establishment proclamation no.195/2015 and 196/2016. The powers and functions of the Oromia city administrations are assigned by these proclamations. Accordingly, the city administrations of the region are empowered to administer their budgets, determine and collect the tax and services income as per law. In addition, the city administrations have the power to spend on the growth and development of the cities. Even the city administrations can borrow money based on the decision of the region or the city administration council (the legislative body of the city which is to be elected every five years). In general, the city proclamations have assigned more powers and functions to the city administrations. For instance, the city administrations have been given the responsibility to construct and maintain infrastructures service like roads, potable water, electricity, telephone and mass transportations. In addition, the city administrations have the responsibility to protect the environment by performing activities like waste disposal, installation of pipe lines and others. They have also the responsibility to provide social services like education, health services, ambulance services, slaughter houses and market services. Furthermore, the city administrations are empowered to provide like sporting services, theaters, entertainments, libraries, museums and other services¹²⁵. Hence, the powers and functions which are assigned to the city administrations are too much huge and require high capitals to perform them.

¹²³Oromia revised cities Proclamation, supra note no.19, article 5(1)(b, c, d, e, f, g)

¹²⁴Oromia Urban Development and Industry Bureau(2016),Oromia Regional State city administrations' level. 2-36

¹²⁵ The Proclamation no.195/2015,supra note no.19,article 11

3.2. Revenue Assignment in ORG

The FDRE constitution article 97 assigns the exclusive taxation power of the states. Oromia Regional state is one of the Ethiopian states which is assigned with similar taxation power. Similarly, the 2001 revised constitution of Oromia article 47 restates the taxation power of the region as provided in the FDRE constitution.

On the other hand, the region's constitution assigns some of its powers to district (Wereda) local governments. In addition, the region assigns its constitutional taxation powers to the city administrations by its legislation. Having said this, under this topic, the researcher has discussed in detail about the revenue sources of the region.

As stated at the beginning of this paragraph, the Oromia regional state is one of the Ethiopian state governments which have the power of taxation under article 97 of the FDRE constitution. In the same way, the region's revenue rights are restated under article 47 of the region's constitution. The division of revenues provided under the FDRE constitution is based on the category of tax payer's/ownership/ and state local nature. Accordingly, the Oromia regional state has the exclusive power to levy (legislation) and collect (administration) taxes on income of employees' of the region, employees of private enterprises (small business activities and sole proprietor ship), on profits or income from the region's owned public enterprises, income from individual farmers or cooperative association, income from water transport within the region and rental income from properties owned by the region. In addition, the region can levy and collect excise tax and sales taxes from enterprises owned by the region, from property taxes on houses privately owned tax on use of land within the jurisdiction of the region. The region is also entitled to collect the taxes from small scale mining and raise revenues from other non-tax sources such as fees and charges from license and services provided by the region's governmental organs.¹²⁶ Accordingly, the region has enacted various tax laws like chat product tax, turn over tax, stamp duty tax, excise tax, rural land use rent and agricultural activities income tax and mining tax laws. These tax laws are shortly discussed as follows.

¹²⁶The Revised constitution of Oromia, supra note no.11, article 97

i. Income tax

The regional state of Oromia has legislated series of income tax laws to implement its constitutional taxation power. The first income tax of Oromia was enacted in 2003. The proclamation of income tax of the region defined the income as “ it is every sort of economic benefit including non-recurring gains in cash or kind from whatever source derived and in whatever form paid, credited or received.”¹²⁷. This means any income in what form is derived taxable without consideration of its sources. Under this proclamation, unless otherwise provided by law, every person who gets income has a duty to pay income tax. Accordingly the region collects revenues from incomes derived from an employment of the region and private enterprises, private business activities, income from entertainer, musician or sports person from his personal activities and income from entrepreneurial activities. In addition, the region collects income from movable property and its alienation, income from immovable property and appurtenance, income from live stock, income from agriculture and forestry, income from usufruct of immovable property and other benefits. Oromia Income tax is based on the four schedules. The first schedule includes income derived from an employment, the second schedule is an income from rental buildings, the third schedule is an income from business and the fourth schedule are other incomes including royalties, income paid for services (rendering services), income from games of chance, from dividends, income from rental of property, from interest income and non-business capital gains.¹²⁸ The Oromia Income tax law is amended by proclamation no.134/2008 and 171/2012. But the amendments focus on the income tax administration part. Finally, the income tax proclamation no. 74/2003 is amended completely by proclamation no.203/2017. This amended proclamation is legislated to consolidate the income tax administration of the region. The amended proclamation more expands the sources of income and other parties of income tax proclamation no.74/2003. The new proclamation introduces categories of business tax payers which includes category A, B and C depends on the annual income of business men (corporate body)¹²⁹. The new proclamation adds the new schedule E which represents exempt tax incomes. The proclamation makes clear about the expenditures which are deducted from gross income and imposes an

¹²⁷ Oromia Regional government Income tax proclamation, 2003, Proclamation no.74, Oromia Megeleta. Year 9, No.12

¹²⁸ Ibid Article 8

¹²⁹ Oromia Income (Amendment) tax proclamation, 2017, proclamation no.202, Oromia Megeleta. Year 27, No.5

obligations on categories of A and B tax payers to use books of account. The new income tax of the region includes income obtained from mining and petroleum works¹³⁰. This new income tax proclamation repealed income proclamations such as proclamation no.74/2003,134/2008 and 171/2012.

ii. Chat product tax

Chat product tax is a type of income tax in the Oromia regional state. Chat product tax is imposed on any person who is possessing or transporting chat products for sale. Here, the phrase "any person" includes artificial or natural person who possesses or transports chat product for the purpose of sale¹³¹.

iii. Turnover tax

Oromia turn over tax is previously governed by Oromia sales and excise tax proclamation no.68/1993. After the promulgation of FDRE Value added tax proclamation (VAT) no. 285/2002, Oromia turn over tax is legislated to impose taxes on those persons who are not registered for VAT. That is, the VAT proclamation imposes tax only on those persons whose annual income exceeds 500,000 Ethiopian birr¹³². According to the Oromia turnover tax, a person who supplies or sales goods or renders services in Oromia regional state and is not registered for VAT pays turnover tax for the region¹³³. This proclamation is amended by proclamation no.135/2008 which amends the tax administration part of the proclamation.

iv. Excise tax

The Oromia excise tax law is enacted to impose tax on selected goods like luxury goods and basic goods those demands are inelastic. In addition, excise tax is imposed on goods which are hazardous to health of the public and causes social problems so as to their consumptions. The goods to be taxed is listed and annexed to the proclamation. In general, excise tax is imposed on those goods

¹³⁰ Ibid

¹³¹ Oromia Regional state Chat products proclamation, 2000, proclamation no.32, Oromia Megeleta. Year 27, No.5, Art. 3(1)

¹³² Value Added Tax (VAT) proclamation, 2002, proclamation no.285, Federal Neg.Gaz. year 8, no.33, article 16(1)(a,b)

¹³³ Oromia Turn over tax proclamation, 2003, proclamation no.75, Oromia Megeleta. Year 9, No.12, article 3

produced locally or imported¹³⁴. On the other hand, the tax administration part of the Oromia excise tax law is amended by proclamation no.76/2003.

v. Stamp duty tax

Stamp duty tax is imposed on some listed instruments like memorandum and articles of any business, cooperative or others, awards, ware house bond, contract and agreements and on memoranda thereof. In addition, the proclamation imposes tax on security deeds, collective agreements, contract of employment, lease including sub lease and transfers of similar rights, notarial acts, and power of attorney and on documents of title of property¹³⁵. But the administration part of the stamp duty tax is amended by proclamation no.137/2000.

vi. Mining income tax

The Oromia mining income tax proclamation imposes tax on profit incomes derived from any mining operations except incomes obtained from large scale mining operations and any petroleum and gas operations¹³⁶. However, this mining proclamation is repealed by the new income tax proclamation no.203/2017 and included under this new income proclamation¹³⁷.

vii. Rural land rent use and Agricultural activities income tax

The Oromia Rural land rent use and Agricultural activities income tax proclamation was first introduced in 1995 by repealing the previous proclamation no.77/1976. The proclamation imposes two types of taxes. The first type of tax imposes rural land use rent on those persons who use rural land. In other words, one who uses rural land for agricultural activities has the duty to pay land use rent. But rural land held for investment is not subject to rural land use rent. The second type of tax imposes taxes on income derived from agricultural activities. This means any person who derives incomes from agricultural activities (cultivation or development of rural land by any means like breeding of livestock, development of fishery, wild animals) pays the tax¹³⁸. The rural land

¹³⁴Oromia Excise tax proclamation, 2003, proclamation no.76, Oromia Megeleta. Year 9, No.12

¹³⁵Oromia Regional government administration Stamp duty proclamation, 2004, proclamation no.77, Oromia Megeleta. Year 9, No.12

¹³⁶Oromia Regional state mining income tax proclamation, 2005, proclamation no.76, Oromia Megeleta. Year 13, No.6, article 3

¹³⁷Oromia income (amendment) tax, supra note no.131, articles 37-45

¹³⁸A proclamation to provide for the rural land use rent and agricultural activities income tax proclamation, 1995, Proclamation no.8, Oromia Megeleta. Year 4, No.6, Art.2(3), 7 and 10

proclamation is further amended by two series proclamations. The first proclamation no.64/2002 amends the rate of rural land use rent for public enterprises. The second proclamation no. 131/2007 also makes more improvement on payment of land use rent and agricultural income. Moreover, the proclamation imposes different tax rates on farmers those depend on rain and irrigation based on the size of land they hold. According to the amended proclamation, the farmer who has less than half hectare land is exempt from rural land income tax. In similar way, one who develops forest (not for profit), government organizations giving services and government national parks are free from land use rent payment¹³⁹.

3.3. Intergovernmental fiscal relations in ORG

3.3.1. Fiscal Imbalances

As discussed above, the powers and functions are assigned by the constitution and proclamation among different tiers (levels) of the region's governments. This includes financial powers of governments to satisfy the public services through expenditure responsibility and revenue raising. Even though the region allocates the responsibilities and revenue raising powers based on expenditure considerations, there are still financial imbalance between responsibilities and resources assigned. This financial mismatch between the expenditure responsibility and revenue resources results in fiscal imbalances¹⁴⁰. In similar way, In accordance with the level of governments and their relations, there exists differences between revenue and expenditures that arise from financial relations between the region and local governments (the districts and city administrations). On the other hand, the mismatch fiscal relations among local governments of the region creates horizontal financial imbalances¹⁴¹. In the following sections, the researcher has discussed the vertical and horizontal imbalances of the region in short.

¹³⁹ Rural land use payments and agricultural income(amendment),2007,proclamation no.131, Oromia Megeleta. Year16, No.13-139,Articles 2-5

¹⁴⁰Boad way,et, al,Fiscal Federalism Dimensions of Tax Reform in Developing Countries(2000), in Guillermo Perry, Whalley and Gary McMahon eds., Fiscal Reform and Structural Change in Developing Countries, Volume I, McMillan Press, London and St. Martin's, Press New York, p.1-27

¹⁴¹ Ibid

i. Vertical financial imbalances

Vertical financial imbalances is one of the problem of the region faced either of the levels of governments. Mostly, in the region, there is an existence of mismatch between the expenditure responsibility and the revenue capacity of the local governments. Because of this, expenditure needs of local governments of the region could not be financed without financial assistance of the region. This imbalance between revenue raising capacity local governments of the region and their expenditure responsibilities is results in vertical financial imbalances¹⁴² .This vertical financial imbalance is caused by the assignment of significant expenditure responsibilities to local governments while substantial revenues are assigned to the region¹⁴³ . In most federations, expansive and lucrative source of taxation are assigned to the central government while the responsibility to provide for development, welfare and social activities like education, housing, health, agriculture, etc. are primarily assigned to the states the cost of which they cannot afford by their own revenue sources¹⁴⁴.Vertical financial imbalance is measured based on two aspects namely the expenditure and the revenue capacity. If more (substantial) expenditure of the local governments is financed by their own revenue under their taxation power, the degree of vertical financial imbalance is low. On the other hand, if substantial share of local governments' expenditures are covered by the region, financial fiscal imbalances imperatively exists. For instance, data collected from sampled subject areas has revealed that the city administrations local governments' revenue in Oromia only covered 40% of their annual budgets. But the rest 60% of their annual budget is covered by state revenue of the region. This shows us the existence of high vertical fiscal imbalances between the city administration local governments and the region.

ii. Horizontal fiscal imbalances

As discussed in general part, in Ethiopia, horizontal financial relations are based on imbalances. The causes of horizontal financial imbalances occur due to the differences in demography, geography and in natural resources endowment etc. which undermine equal access to public goods and services by individuals residing in different jurisdiction. There are other instances that cause

¹⁴² Ibid.

¹⁴³Broadway, Robin. "The Vertical Fiscal Gap: Conceptions and Misconceptions (2002)". Paper presented at the conference on Canadian Fiscal Arrangements,p.1-10

¹⁴⁴ Ibid.

horizontal fiscal imbalances. Sub national governments (SNGS) may not have equal financial capacity to provide equal public services even though they are assigned with the same revenue sources. They differ in their financial capacities because single tax base may not generate the same amount of money in different places¹⁴⁵. For instance, from table two below we could observe that the sampled study area of the city administrations have different revenues due to differences in demography, geography and existence infrastructures and others. Sabeta city administration is located near Addis Ababa and more collected municipal revenues. City administrations which are far from Addis Ababa have low revenues. Hence, such factors lead to difference in revenue capacity among city administrations of the region so that they are unable to provide their citizens with services at same level on the basis of comparable tax levels

3.3.2. Intergovernmental fiscal transfer in ORG

As discussed above, in developing countries interstate financial transfer covers the highest portion of lower government expenditure. So, the design of interstate financial transfer plays a main role in federal financial systems¹⁴⁶. Similarly, Oromia regional state city administration local government is not free of this. Interview made with Oromia Urban development and Housing Bureau has revealed that there is a high vertical fiscal imbalances between the city administration local governments and the region. Because, the city administration local governments in Oromia have less own revenue sources. For instance, the city administrations of the region have only revenue rights on municipal revenue sources. The municipal revenues are those revenues which are only derived from service rendered by the municipality. The other revenues like state revenues are transferred to the region's account¹⁴⁷. So, lower level of local governments in Oromia regional state do not have revenues that match with their expenditure needs¹⁴⁸. This could be expressed by the fact that the most state revenue sources are assigned with the region while lower levels of governments execute various policies without equal revenue assignment. This results in vertical financial imbalances. This shows us the region has some revenue access whereas the local

¹⁴⁵ Martinez-Vazquez, supra note no. 99

¹⁴⁶ Ibid

¹⁴⁷ Interview with H.E Ms. Wayineshet Aseffa ,municipal revenues' expert of Oromia Urban development and Housing Bureau, May 8, 2019

¹⁴⁸Ibid

governments do not have the same access too ¹⁴⁹.Because of this, intergovernmental financial transfers exists in the region.

On the other hand, the region develops some criteria to execute financial transfers. For instance, the criteria to transfer finance to the local governments depend on the number of people, tax efforts and the lack of infrastructures in the region. Here, the one that has more number of people, tax efforts and lack of infrastructures has gotten substantial financial support from the region. This criteria works from 1995 up to 1997 E.C. But this criteria has been changed in to other criteria since 1998 E.C. The new criteria are on the service provided, the existence of infrastructures and their deficits. According to the new criteria, financial transfer (i.e. budget partition) is executed on the local governments plan in relation to the deficit of infrastructures. The budget partition of the region is divided in to two: partition of recurrent and capital. Recurrent budget is partitioned based on unit cost principle. For instance, the cost incurred to teach a single student is calculated and multiplied with the number of students planned in that year. In the case of capital partition, infrastructure deficit of the local governments are considered. Here, the capital budget is allocated based on the infrastructure deficit and the number of expected beneficiaries of the planned projects. For example, to allocate capital budget for the construction of elementary schools, the criteria to be considered is the number of schools already built and the number of students attained for education. In Oromia regional state, the budget partition for the local governments is used to fill fiscal gap that is existed between the region and the local governments. The main aim of the partition is designed to narrow the horizontal fiscal imbalances, to use financial resources effectively and equitably and to narrow expenditure needs of the local governments of the region¹⁵⁰.

Even though revenue sharing and borrowing is a means of financial transfer in federal system, there is no such practice in Oromia fiscal decentralization system.

¹⁴⁹ Ibid.

¹⁵⁰ Oromia financial and economic cooperation Bureau(2005).Budget partition guide lines, p.1-20

Chapter Four

Local governments in Ethiopia and the Local Government Financing in ORA

Under this chapter, the definition of a local government, types of local governments in ORA and their functional assignment, their sources of revenues, their revenue capacity and autonomy of their spending have been discussed as follows.

4.1. Definition of Local Government

Black's law dictionary defines a local government as "it is a government of a particular locality such as a city or country; a governing body at a lower level than the state government"¹⁵¹. From this definition one could understand that a local government is a system of government which administers the affairs of local people below the regional or state government.

Literally, local government is a management of a local affairs by the people of locality. This is based on the principle that the local problems and needs could be solved by the people of the locality better than by the central or state government. In local governments, the power of administration is assigned to the representative elected peoples of locality on regular intervals. Here, local governments are free to operate the affairs of the local people without control of higher authorities. That is, local inhabitants represent local body which possesses the power to raise revenue through local taxation and spends the revenue raised on local services¹⁵². When we are talking about local government, it is a certain subordinate body which has defined powers of making rules and regulations within its prescribed area of jurisdiction. Here, the local elected people manages the affairs of the people in the locality¹⁵³. That is, local government is a government of a specific locality by the local people through the elected representative of them.

¹⁵¹Bryan A Garner. (Editor in chief).Black's Law Dictionary. (7thed, 1999),St.Pual,Minni.West Group , p. 703

¹⁵² Meaning, Nature and scope of local governments , <http://shodhganga.inflibnet.ac.in/bitstream/pdf> : Accessed on 27, September 2018, p.42

¹⁵³ Ibid, p.44

On the other hand, a local government has some important characteristics. Local government is a local which is fixed from time to time by state government. The other is authority of local government which is conducted by the elected people residing in a particular area. In local government, it is the elected people who responsible for the management of the local affairs. The local government is used to provide services for the local communities. In order to perform its functions and powers, the local government has to be provided with adequate finances. This requires the local people to pay taxes which are imposed by the local authorities¹⁵⁴. This tells us local government is financed largely by revenues raised locally. In addition, a local government has an autonomy to decide and act activities and functions assigned to them. But the local government depends on higher government for its creation, rank, power and function. The other character of local government is an active participation of the local people on developmental plans at local level. That is, it is a local government that creates opportunity to the local people to participate in an administration. In local government, a strong leadership of the people is required in order to make the people to participate in local developmental plans¹⁵⁵.

4.2. The need for Local Government

The need for local government has its back grounds. That is, when the powers of government close to the people, the representative of the people in the government will increase. Accordingly, democratic participation of the people increase and it becomes suitable for development. In Ethiopia the need for the establishment of lower units of government has its constitutional base. Thus, the FDRE constitution article 50(4) provides that the regional states can establish lower units of governments to assign adequate power to them. The need to establish the lower units of government is to enable participation of the public (people) in government administration and to improve efficiency of public services¹⁵⁶. Here, assigning powers to lower units of governments are one of the forms of decentralization. Because decentralization enhances public participation in government administrations. It may also serve for development. Furthermore, decentralization accommodates the diversities. To achieve the above mentioned objective, it requires to empower the lower units of governments adequately. Empowerment of lower units of government shall have

¹⁵⁴ Ibid, P.56-57

¹⁵⁵ Ibid

¹⁵⁶ The FDRE constitution supra note no. 8 article 50(4)

the following features. The first feature is the lower units of government must be democratically established. Secondly, its functional competences must be clearly defined by national or regional constitution or other legislation (enactment). That is, local governments must have clear (definite) decision making power on matters within their jurisdiction¹⁵⁷. In addition, in local governments, ethnic groups must administer themselves. Moreover, they must have their own adequate financial sources¹⁵⁸.

When back to the purpose of assignment of powers to lower units of governments, the first thing is to create democratic system at local level. A democratic local governments exist when there is participatory, accountability and responsiveness for local interests. In order to create a democratic local government, a local government shall be established by elected officials. However, conducting election is not sufficient for democratic local government. There should be public participation in government administration. That is, the local people must take part in the decision making of local governance. Here, process of debate, dialogue and communication between local government authority and the communities shall exist¹⁵⁹.

On the other hand, in order to have adequately empowered local governments, functional obligations should be formally assigned to them. In addition, the powers assigned to local governments should be clearly stated. Furthermore, they able to exercise all government powers (legislative, executive and judicial powers). The functions which are assigned to local governments should be appropriate to them (local nature)¹⁶⁰. That is, functions assigned to them shall be within their implementing capacity of them.

On the other side, decentralizing powers and functional obligations to local governments shall be accompanied by fiscal decentralization (devolving taxing powers and spending them). This means local governments should be given certain taxing powers which enable to them to discharge their expenditure obligations. In addition, local governments should be allowed to collect fees in return for the services that it gives to the local communities¹⁶¹.

¹⁵⁷ Zemelak, supra note no.10,p.15

¹⁵⁸ Ibid

¹⁵⁹ Ibid,p.16

¹⁶⁰ Ibid, p.16-17

¹⁶¹ Ibid,p.17-18

Financial independency of local government is necessary for three main things. First, it is to enable local governments to discharge their functions. Second, it is for maintaining of tax autonomy of local governments. Third, it is to ensure the accountability of local governments to local communities¹⁶².

In devolving taxing powers to local governments, the appropriateness of the tax assigned to them should be considered. For instance, Anwar shah states that there are three points to be considered when taxing powers are assigning to local governments: namely efficiency of the common market, national equity and administrative costs¹⁶³. That is, the internal common market becomes efficient when resources which are mobile to be taxed by the central government. The other point is those taxes which have distributive nature should be assigned to central government. Otherwise, it creates inequity. The final point is in assigning taxes to local governments, the cost of their collection should be considered¹⁶⁴.

4.3. Local Government in Ethiopia

Under this title the history of local government in Ethiopia would be briefly discussed. That is, the situation of local government during prior to 1855, Emperor Minilik, Emperor Haile Selassie I and Derg regime were assessed as follows.

i. Local Government in Ethiopia prior to 1855

The concept of local government in Ethiopia has a long history. Until 1855, Ethiopia was a highly decentralized country. But, later, the centralization of power was gradually begun. During central political system, a local government in Ethiopia works as a political and administrative system that services a center as a representative body. Ethiopia was begun called as a state during Axumite civilization which began around 10th century B.C. From the time of civilization of Axumite up to 1850, Ethiopia followed a decentralized rule political system. During this system, Ethiopia had three layers of governments (the Emperor, Regional/provincial and local nobilities). Thus, an Emperor served as a central government. Regional/provincial and local nobilities performed autonomous power within their respective jurisdiction. At the time, Regional authorities were

¹⁶² Shah Anwar, *supra* note no.104

¹⁶³ *Ibid*

¹⁶⁴ *Ibid*

equally autonomous within their local jurisdiction. Hence, historically, one could argue that Ethiopia was a decentralized country in which three levels of governments were existed together. Local authorities had also a great importance in Ethiopia during the mentioned time. During that time (during prior to 1855), a decentralized rule was created due to the broken landscapes, the economic and cultural diversity of the people and other reasons. Because of these reasons, making a country as a centralized system was not achieved¹⁶⁵. This created a regional and local boundaries and identities. As a result, local governance system was developed throughout the country. For instance, in Northern Ethiopia (Tigray and Amhara) institutions like Chikashum (a village level governor), melkenya or gultgejzi (district level governor) and Ras or Negus (King) (a provincial governor).In some parties of the country, local governors were elected people. However, in Northern Ethiopia, governorships were hereditary¹⁶⁶.

In similar way, in southern part of Ethiopia, traditional institutions of local governments were existed. For instance, the Oromo people had a Gada System in which the governor was elective and served as a governance political system. Other ethnic groups like kafa and Wolayita had their own powerful local governors. Here, a decentralized governance system which existed before 1855 suited for the emergence of autonomous local governance institutions. During a decentralized rule in Ethiopia, a central government was weak and had no control over the regional and local authorities. After experienced of a decentralized governance system, Ethiopia began a process of centralization and territorial expansion with the aim to create a unified Ethiopia during 1855-1868 by Tewodros II and 1872-1889 by Yohannes IV. However, the efforts of the two emperors were unable to create a centralized monarchical rule in Ethiopia as they desired¹⁶⁷.

ii. Local government during Emperor Minilik (1889 – 1913)

As discussed above, prior to 1855, Ethiopia was experienced the decentralized system of governance. However, through time, during emperor Minilik, the process of territorial expansion was succeeded and local authorities used only for the purpose of control ¹⁶⁸.Regional and local authorities who were peacefully submitted to Emperor Menilik were permitted to continue their

¹⁶⁶Law, Democracy and Development (2011),Local Government in Ethiopia: Still an apparatus of control?p.133-135

¹⁶⁷ Ibid

¹⁶⁸ Ibid,p.136

respective kingdoms. But the authorities were given a responsibility to ensure their securities in the regions and made timely payments as a tax to the emperor Menilik. They served as an intermediary rule which link local people to the administration of the emperor Menilik. In general, even though the regional and local authorities maintained powers in their territories, practically they served as a means of control over their own people on behalf of the central government¹⁶⁹.

On the other hand, the regional and local authorities which resisted expansion of Menilik were put under direct administration of Menilik. They were governed under the representative emperor Menilik and the regional administration and local authorities were coerced to flow tributes to emperor Menilik treasury. As a result, regions which resisted emperor Menilik were controlled directly and indirectly by a central government appointees from village level to regional level. But the appointees of emperor Menilik needed support from local indigenous leaders. Because language and cultural barriers and restricted resources coerced the emperor Menilik to depend on indigenous traditional leaders and he gave them a title of Balabbat to control the local people. The Balabbat was given a power to ensure security, assist the appointees of Menilik to collect taxes and tributes and mobilize the local people when the people needed services from the central government¹⁷⁰.

On the other side, Pastoral communities in Ethiopia moved constantly in search of grazing land and water from place to place. Because of this, emperor menilik could not control over the pastoral communities directly by the central government. The emperor, in steady depended on clan and tribal leaders to control the pastoral communities. So, during emperor Menilik, regional and local governors of the local people were not autonomous and under control over of the emperor. That is, they were simply the representatives of central government¹⁷¹.

iii. Local Government during Emperor Haile Selassie I

During Emperor Haile Selassie I, Ethiopia was more centralized and the emperor used a constitution and laws to centralize power. He more centralized the country in 1942 when he took measures to reform provincial and local administrators through the enactment of Decree no.1/1942. The main aim of the reform was to centralize powers. Based on this, Emperor Haile

¹⁶⁹ Ibid

¹⁷⁰ Ibid,p.137

¹⁷¹ Ibid

Selassie centralized the appointment of provincial and local administrators in his own person. Thus, provincial and local administrators were appointed by the emperor and they were required to act as emperor agents. In general, they exercised their power for and on behalf of the emperor. They also maintained law and order and collected taxes for the center. But for the purpose of maintaining security, each provincial and local administrator were given power of military and police force. But Ministry of interior supervised the maintenance of security¹⁷².

On the other hand, what makes unique emperor Haile Selassie I was that in some cities and towns elected municipal councils were established. Only owners of immovable property could be elected as municipal councils. But local officials were not engaged in developmental authorities and rural populations were far from services of local administrative units or central government¹⁷³. Balabbat system was also continued in southern Ethiopia during Emperor Haile Selassie. They were subordinate to the lowest level administrator of the central government. Only local rulers who were amenable to the central government were permitted to represent their people. In addition, traditional local rulers served as a means of control for the central government. Finally, Emperor Haile Selassie was removed from his throne in 1974 by Derg Regime¹⁷⁴.

iv. Local Government during Derg Regime

The Derg regime followed the socialist system of ideology which nationalized all rural and urban land including extra urban houses. During the regime, the two local level institutions were established. The institutions are the urban dwellers association (UDA) and the peasant association (PA). These associations were established at kebele, sub districts, wereda (rural district), urban district and city or regional levels. The associations were organized to run their own affairs, solve their own problems and directly participate in political, economic and social activities¹⁷⁵.

During the time, the associations were empowered to build low cost houses, roads, markets, schools etc. During the regime, the establishment of the associations had recorded good achievements in service delivery in providing basic necessities (like sugar, salt, wheat etc.) and toilets at very low prices. There was also a good progress in expanding access to health services

¹⁷² Ibid

¹⁷³ Ibid,p.138-139

¹⁷⁴ Ibid

¹⁷⁵ Ibid

and education. But later, the services were diminished through time due to the associations had focused on political affairs to eliminate political opponents of the regime¹⁷⁶.

Finally, even though during the derge regime, some new regional autonomous administrations were introduced, they were not given any taxation power and expenditure obligations¹⁷⁷.

4.4. Local Governments in ORG

After down fall of derg regime in 1991, self-administrations of regional governments were introduced by proclamation no.7/1992. This new proclamation introduced new administrative structure which consists of a central and regional governments and divided the powers between the central and regional governments. Later, the proclamation no.33/1992 was promulgated and introduced the concept of fiscal decentralization in Ethiopia for the first time. The proclamation assigned taxation powers to the central and regional governments. And joint taxation powers were given to both of them. Later on, the 1995 FDRE constitution, more realized fiscal decentralization and made division of functions and taxation powers between the federal and state governments¹⁷⁸.

On the other hand, the FDRE constitution article 50(4) empowers the regional governments to establish the lowest units of governments (local governments) with adequate powers. This is aimed to enable the public to participate in government administrations and to improve the efficiency of public services. Based on this, the Oromia regional state established local governments like wereda (at rural level) by the region's revised constitution¹⁷⁹ and city (urban) administration by enactments of the region¹⁸⁰. In general terms, the region's local governments are empowered to exercise a certain measure of political, administrative and financial powers. The main aim of the establishments of lower local governments by the regions including Oromia regional state was to implement the poverty reduction and development policy which was adopted in 2002¹⁸¹.

¹⁷⁶ Ibid

¹⁷⁷ Eshetu Chole, supra note no. 5, P.167-169.

¹⁷⁸ FDRE constitution, supra note no.8, article 96,97,

¹⁷⁹ Oromia revised constitution, supra note no. 11, article 45

¹⁸⁰ Oromia Revised cities establishment proclamation, supra note no.19

¹⁸¹ Zemelak Ayele, supra note no. 10

4.4.1. Types of Local governments in ORG

There are two types of self-governing local governments in Oromia. They are the Wereda (rural district) and city (urban) local governments. Both local governments have been discussed briefly as follows.

a. District/Wereda/ local government in ORG

The wereda local government was established by the 2001 revised constitution of Oromia Regional state. The wereda local government comprises of wereda council, wereda administration council and judicial organ. Wereda council comprises of representative of the people of each kebele under the wereda. The members of the wereda councils are elected for every five years and accountable to the people who elected them. These elected councils are empowered to approve the plan, the budget and control the implementation of the wereda's government activities. The wereda council is also the highest state organ of the wereda and has the power to approve the appointment of the wereda government officials. Furthermore, the wereda council is assigned to ensure the collection of taxes and utilize revenues which is not included under the power of the region¹⁸².

The wereda administrative organ, on the other hand, is assigned to implement the government activities in the wereda. The wereda judicial organ also exercises the judicial power within the wereda's jurisdiction¹⁸³.

b. City administration Local Government in ORG

Even though city administrations in Oromia regional state are established by the enactments of the region, they have full status of local governments. The region's cities were established for the first time by proclamation no.26/1999 of the region. This proclamation categorized the region's city administration in to special zone, special wereda, sub wereda and special kebeles. The aim of the categorization was to enable the cities to provide full social and economic services for the residents of the cities. Each level of the city administration has a council and an executive committee. The

¹⁸²Ibid

¹⁸³Ibid

proclamation also empowers the region to establish the city judicial organ, offices of the prosecutor and police in the special zone and special wereda of the city administrations as the case may be¹⁸⁴.

The special zone city administration is assigned the power of zonal administration and is empowered to prepare and submit draft of regulation to the region's government on urban land rent, service charges, urban house tax and other charges and collects on approval¹⁸⁵. Here, the special zone city administrations have only the power to draft urban tax laws. But they were not free to impose and collect taxes based on their local realities. They were not autonomous to plan and provide adequate services for the residents of the town. Even though the special zone town administrations are not autonomous to levy and collect taxes within their jurisdiction, they have the obligation to implement plan and policies and provide protection and public services to the residents¹⁸⁶.

In similar ways, the special city wereda administrations have the wereda power administration. In addition, they have the power to prepare and submit draft law relating to urban land rent, service charges, urban house tax and other charges through the zonal administration to the region for approval. Similar power is assigned to sub wereda city administration. But the draft laws relating to taxes is prepared and submitted to the region's government by the executive committee of the wereda council¹⁸⁷. Here, even though all levels of the city administrations have their own councils which are elected by the residents of the cities, they are not empowered to enact laws relating to revenues and other affairs of the cities.

However, the Oromia regional state repealed the proclamation no.26/1999 and substituted by proclamation no.65/2003 which established the region's urban local governance system to assure the region's self-rule of constitutional principle¹⁸⁸. The proclamation no.65/2003 defined the urban local government as "the administration of self-rule by the cities of the region."

The proclamation graded the region's town administration in to four depend on the number of the town's residents. According to the proclamation, the urban local government of the region has

¹⁸⁴The oromia Regional state town Administration Establishment proclamation, 1999, proclamation no.26, Megeleta Oromia, Year7, No.3

¹⁸⁵ Ibid

¹⁸⁶ Ibid

¹⁸⁷ Ibid

¹⁸⁸ The Revised Oromia constitution, supra note no.11 article 103(1)

expenditure responsibilities to provide municipal services like environmental, social, cultural and protective services and public utilities. They have also the power to initiate, adopt and execute the town's budget. Furthermore, the urban local governments are assigned to "introduce, adjust and collect taxes and service charges under their jurisdiction in accordance with the law"¹⁸⁹. Here, the whole of the concept tells us that the urban local government has the power to levy taxes and charges within their jurisdiction. But the phrase which says "in accordance with the law" does not make clear whether or not the urban local government has the power to levy taxes and charges. This leads to dispute between the one who pays service charge or taxes of the city and the urban local government administrations¹⁹⁰.

On the other hand, the urban local government administrations have all the organs of government which include city council (legislative), the mayor's committee (executive) and the city court (Judiciary). The city council is elected by the city residents once every five years¹⁹¹. The city council has the power to issue city ordinance on city affairs and introduce, adjust and ensure the collection of taxes and service charges of the city. The council is accountable to the regional council and the electorate. But the city mayor is both accountable to the city council and the president of the Oromia regional state¹⁹².

Later on, the urban local government is changed to city administration by proclamation no.116/2006. According to this proclamation, only grade one and two have a city council. That is, only grade one and two city administrations have the status of local governments. The other grade three and four cities do not have their own city council and they are organized under rural weredas. The city mayors and deputy mayors are appointed by and accountable to the region's state president. The mayors only communicate a city council by the cities' plan and reports¹⁹³. Here, the power of the city council is limited. Because mayors of the city administrations are appointed and accountable to the region's president.

However, the Oromia regional state city administrations establishment was continuously amended. Accordingly the revised Oromia regional state cities establishment proclamation no.195/2015 was

¹⁸⁹Urban Local government proclamation, supra note no.16,article 2(2)

¹⁹⁰ Ibid

¹⁹¹ Ibid, articles 12 and 13(1,5)

¹⁹² Ibid ,articles 14(2,a,c),16(1),17(1) and 18(1)

¹⁹³Oromian urban local government Amendment proclamation, supra note no.18,articles 2(2) and 2(6,7)

enacted and repealed the proclamation no.65/2003 and 116/2006 respectively. As understood from the preamble of the proclamation, the previous proclamations were revised to speed up the sustainable development of the region's cities and to promote self-administration of the residents of the region. According to the proclamation, the Oromia regional state cities are grouped in to seven¹⁹⁴.But later on, the cities are grouped in to six categories. They are the principal, higher, intermediate, growing, municipal and growing municipal city administrations¹⁹⁵. The criteria that uses to group cities are the income the cities collect, number of population of the city, the surface area of the cities and their being center of administration. Among the grouped cities, the principal and higher city administrations are accountable to the cities' council and the regional state president office. But the intermediate and growing city administrations are accountable to the cities' council and zonal administration¹⁹⁶.The municipal and growing municipal city administrations are accountable to the wereda council and wereda administration. Because they do not have their own city council¹⁹⁷.

As discussed above, the city administrations which do have the local government's status are only the city administrations which are grouped in to principal, higher, intermediate and growing cities. These cities do have their own council (legislative), Administrative council (the executive) and the city courts (the judiciary).

4.5. Functional assignments of city administration in ORG

As explained above, currently, the Oromia regional state cities' are grouped in to six levels by the revised Oromia cities establishment proclamation no.195/2015.Among the graded cities of the region, the principal, the higher, the intermediate and the growing cities are independently established as city administrations local governments. They have their own council, administrative council and city wereda courts. But the municipal and the growing municipal city administrations are structured under rural weredas/district/ and are not organized as the local governments of city administrations of the region¹⁹⁸.

¹⁹⁴ Oromia Revised cities establishment proclamation, supra note no.19, article 5

¹⁹⁵Oromia Revised cities establishment amendment proclamation, article 2(2)

¹⁹⁶Ibid, article 5(2,4,5),

¹⁹⁷ Ibid, article 5(6)

¹⁹⁸ Ibid, articles 5(2,4,5,6)

The above mentioned city administrations of the region are assigned to many functions /expenditure obligations/responsibilities/ by the region's revised cities establishment proclamation no.195/2015. Accordingly, the city administrations have the responsibility to construct and maintain city infrastructures such as roads, potable water, electricity, telephone and mass transportations. They have also the obligations to protect environment by performing the activities such as waste disposal, installation of pipe lines and others. Moreover, the city administrations are assigned to provide social services such as education, health services, ambulance services, slaughter houses and market services. Furthermore, the city administrations are assigned to provide sporting services, theaters, entertainments, libraries, museums and other services¹⁹⁹.

From the discussed above, we could understand that the city administrations in Oromia regional state have huge expenditure obligations to provide services to the residents of the cities of the region. These responsibilities require adequate funds to fulfill the obligations of the city administrations. In other words, since city administrations are assigned with huge expenditure obligations (functions), they are required to have their own adequate revenue to finance their expenditure obligations properly.

4.6. Revenue Assignments of Local governments in ORG

As discussed above, there are two types of local governments in Oromia: namely wereda/ Rural District/ and city administrations. Legally, both local governments are autonomous governments. Under this title the revenue assignments of both local governments would be discussed separately as follows.

4.6.1. Revenue Assignments in Wereda (Rural District) local governments

The wereda/Rural District/ local governments in Oromia regional state are established by the 2001 revised constitution of the region. The constitution lists the powers and functions of the weredas in general terms. Thus, the constitution of the region empowers the wereda (rural district) to collect land use taxes, agricultural product taxes and other taxes which is determined by law²⁰⁰. Here, the power that is given to wereda local governments is only to collect revenues derived from rural land

¹⁹⁹ Ibid, article 11 (1)o, p, q, r, s))

²⁰⁰ The Revised constitution of Oromia, supra note no.11, article 2(1)(g, h)

use and agricultural income revenues. From this we could understand that the wereda local governments in Oromia regional state do not have their own revenue sources on which they have the power to levy and collect revenues. Even though the weredas/Rural districts/ local governments are established by the constitution of the region, they are not empowered to levy taxes within their jurisdictions. However, as mentioned above, the constitution assigns many functional powers to the wereda local governments. On the contrary, they do not have any their own revenue sources by which they operate their functional responsibilities.

4.6.2. Revenue assignments of city administration in ORG

As discussed above, in Oormia regional state, city administrations which do have local government status are assigned many functional responsibilities by the enactment of the region. Since city administrations in Oromia regional state have local governments' status, they do have all organs of governments which include legislative(city council), executive(city administrative council) and Judiciary(city courts).Thus, the city administrations in Oromia regional state could have the power to enact (proclamation, regulations, rules etc.),execute and interpret laws. The question here is on what revenue types do the city administrations have taxations power? Because since they are governments, they should have their own revenues so as to implement their functional responsibilities. To answer the question raised, it requires the reference of laws that empowers city administrations local government to levy and collect taxes within their jurisdiction.

Accordingly, even though taxation power of city administration in Oromia regional state is not stated in the constitution of the region, there are enactments which empower them to determine and collect taxes within their jurisdiction. One of the enactments that empowers city administrations in oromia to determine and collect taxes and services is the proclamation no.195/2015 which has revised Oromia regional state cities establishment. According to this proclamation, Oromia city administration local government has the power to “determine and collect tax and service incomes”²⁰¹.However, the proclamation lacks clarity which revenue sources are or are not taxed by the city administrations. This creates confusion which tax type is determined and collected by the city administrations. This may leave room for the regional state to interfere in the internal affairs of the city administrations. Even though the city administrations are given the

²⁰¹ Oromia Revised cities establishment proclamation, supra note no.19,article 11(1)(d)

power to determine and collect tax and service incomes, in practice, this power is limited to determine and collect only municipal services. In regarding to this, the Oromia Urban development and Housing Bureau municipal revenue expert mentioned in discussion with me, the city administration has the power to determine and collect only municipal service incomes. But they exercise this power of taxation only in the range set by the Bureau. The Bureau's expert also has asserted that the power to determine and collect municipal service incomes given to the city administration is based on the decision made by the FDRE ministry of finance and economic development which is coded from number 1701 up to 1799. The Bureau decides only the beginning and the final rates of the municipal service bases within the decided rates by the ministry. Accordingly, the city administrations enact the regulation which determines the rates of the municipal services in the ranges prepared by the Bureau. Here, the Bureau prepares the model regulation law for all city administrations to establish the uniformity of law throughout the city administrations of the region. According to the expert of the Bureau, the power to prepare model law for city administrations is given to the Bureau by the proclamation no.199/2016 which re-establishes the executive organs of the region. The revenue sources of city administrations of the region is service incomes which commonly known as municipal revenues²⁰².

On the other hand, the city administrations are represented by the region to collect regular state revenues and transfer them to the region's account. The expert continued to argue that the lack of capacity of the city administrations' employees, municipal revenues are collected below the capacity of the city administrations. Because of this, the city administrations could not cover their annual budgets by their own revenues²⁰³.

In similar way, the Oromia revenue Authority office revenue expert asserted that all cities in Oromia regional state have the power to levy and collect municipal revenues according to the proclamation no.195/2015 that re-established the cities of the region. Accordingly, all cities in the region have their own municipal tax laws (regulations) which enacted by the city's councils. In addition, the cities in the region are mandated to collect state revenues. The expert continued to argue that municipal revenues which are levied and collected by cities are used only for the annual budget of municipal services. But the state revenue collected by the cities are transferred to the

²⁰² Interview with H.E Ms. Wayineshet Aseffa ,supra note no.149

²⁰³ Ibid

account of the region. However, the region gives every year budget support grant for the cities' annual budget²⁰⁴.

The Oromia Regional state council (Caffe) urban development standing committee head discussed with me mentioned similar arguments. Thus, the cities in the Oromia regional state have the power to levy and collect municipal revenues given by the region's re-establishment of the cities. According to this head of standing committee, the cities collect Value added Tax (VAT) from VAT registered individuals and organizations. But they do not have any share from the revenues collected from VAT. He has commented that since VAT revenue is collected from under jurisdiction of city administrations, the cities shall have some share of the revenue derived from VAT in order to curb cities revenue problems²⁰⁵.

In the same way, Revenue experts of all sampled study area of cities have argued that all cities specifically the city administrations in Oromia regional state have the power to levy and collect municipal revenues and use it for their an annual budget of municipal services. But, the state regular revenues are collected by city administrations and transferred to the region's account. Then, the regional state gives budget support grants for the city administrations²⁰⁶.

On the other hand, according to the proclamation to revise Oromia regional state cities establishment no.195/2015 article 52(1), income of city administrations are derived from revenue and taxes authorized by law, service fees, budget support grant by the region, loans and assistances as well as other income sources. But the revised cities establishment proclamation does not make clear from which taxes, services and fees are collected by the city administrations. The mentioned Proclamation states "all regular incomes or revenues collected at city administrations level shall be incomes of the cities"²⁰⁷. But this article is repealed and proclaimed that if city administrations collect regular income more than their annual plan, they can use over collected regular income for the next year budget²⁰⁸. But in practice this does not exist in sampled study area of city administrations.

²⁰⁴ Interview with H.E Mrs. Tofik Mohamed, Revenues' expert of Oromia Revenue Authority, May 8, 2019

²⁰⁵ Interview with H.E Mrs. Lachisa Hayu, Head of Urban development Standing committee of Oromia Regional state council(Caffe), May 8, 2019

²⁰⁶ Interviews with Their .E. Cities' revenue experts of municipal managers and revenue authority offices of (Sabeta, Ambo, Fiche, Sandafa Bake, Matahara, Bokoji and Dodola city administrations), May 4 - 29 2019

²⁰⁷ Oromia Revised cities establishment proclamation, supra note no.19, article 52(2)

²⁰⁸ Oromia Revised cities establishment amendment proclamation, supra note no.37, article 12

As the researcher has reviewed and observed from the sampled study area, all city administrations have municipal revenue regulations which are enacted by their city administrations councils. The regulations were enacted based on the model prepared by the Oromia Urban development and Housing Bureau which inversely set by the FDRE Ministry of finance and economic development. The Oromia Urban development and Housing Bureau prepares the model of regulations of municipal revenues on title of bases municipal taxes set by the ministry. Here, the Bureau sets only the range of rates of each tax bases in which the cities enact the municipal revenue regulations. Accordingly, all the sampled study area city administrations (the principal, higher, intermediate and growing cities) have enacted the same and identical municipal revenue regulations²⁰⁹. The Municipal revenue items are coded from 1701 to 1799 by FDRE ministry of finance and economic development cooperation. This coded municipal revenue items are divided in to five categories: such as tax revenues from municipal services (1701-1719), municipal rent revenues and investment income (1720-1734), municipal service charges (1740-17490), property and services sales of goods and services (1750-1789) and other capital receipts (1791-1799)²¹⁰. The categories of municipal revenue items would briefly be discussed as follows.

a. Tax Revenue from municipal services (1701-1719)

Under this category, there are 19 different tax item codes. But among the codes only four items tax titles are known by names. The other codes s are taxed under the name “other taxes”. In all the sampled study area cities, the category of tax revenue from municipal services are divided in to five (building tax, assurance tax, entertainment tax, Business and professional services registration and licensing fee and other taxes) and they are taxed accordingly. Tax revenue under this category is more related with property taxes basically building tax. This building tax is imposed on residential and commercial houses. The tax rate is calculated based on market value of the buildings. The market value of the buildings depends on the geographical location of the cities. If the cities are far from the center (Addis Ababa), the market value of the buildings decreases and revenue obtained also decreases accordingly. But there is no trained human power who valuate the buildings in all sampled study area cities. In addition, the infrastructures like roads have impacts

²⁰⁹Municipal regulations of Sabeta, Ambo, Fiche, Sandafa Bake, Matahara, Bokoji and Dodola regulation no. 004/2017, 004/2017, 003/2015, 01/2013, 01/2015, 01/2017 and 25/2016 respectively

²¹⁰ The Oromia urban development and housing Bureau municipal revenue regulation model no.2 /2018

on the market value of the buildings. That is, buildings which are near to the infrastructure facilities have high market value and the amount of tax increases accordingly²¹¹. The rate of building taxes imposed for principal and higher cities are the same. Even though the tax rate decreases as the level of cities decreases, the tax rate of buildings of intermediate and growing cities are the same²¹².

The other revenue under revenue from municipal services is assurance tax. Assurance tax is a tax which is levied on provision of confirmation of ownership of buildings. Assurance is usually provided to lenders or banks for confirmation of ownership of a building held as collateral for bank loans. Entertainment tax is revenue for municipal services. This tax is levied on cinema, stadium, theatre, night clubs and similar business services. This tax is levied on each entrance tickets based on the declaration of the owner of the business. This tax depends on the economic development of the cities. The other tax revenue from municipal services is Business and professional services registration and licensing fee. This tax is imposed when business and professional services are registered and licensed. The tax rate is calculated based on the capital of the business and it increases based on the increment of the capital of the business. The persons who are bound to pay business and professional service tax are engineers, contractors, traders, financial institutions like banks, insurance, saving and loan share companies²¹³. In general, the category of revenue from municipal services is imposed based on the service given by municipality.

b. Municipal rent revenues and investment income (1720-1731)

These categories of revenues are derived from the rent of property owned by municipality. Again the revenue derived from this category includes support/contribution/ of individuals, NGOs and public. In addition, the category of this revenue requires the cities to invest in different areas of investment like building of residential and commercial houses, buying different machineries etc. Accordingly, the cities can get revenue from the rent of residential houses and business buildings, market veranda and market places, stable livestock market place, funeral service vehicle, rent from machinery and other rents. Land rent and leases are other revenues of the cities which are categorized under municipal rent revenues. Revenue derived from land rent and lease have the lion

²¹¹Interviews with their .E municipal revenue authority experts, supra note no.208

²¹² Urban model regulation, supra note, no.212

²¹³Ibid

share of revenues of the cities²¹⁴. In general, the revenues collected under this category depend on the economic capacity of the city administrations.

c. Municipal services charges (1740-1749)

Municipal service charges (fees) are paid only when services are given by the municipalities. These municipal services include business and professional services registration and licensing fees, building and fence construction permit license, solid space dumping license, permission for driving on prohibited roads, fines from violation of rules and regulations of traffics, bus terminal services, environmental protection fees and other charges are under the category of municipal service charges²¹⁵.

d. Property and services sales of goods and services (1750-1789)

Under this category of municipal revenues, there are around 30 different revenue codes are listed. The municipality collects charges when it gives these different types of services. Here, the municipalities collect payments for providing of services for the public. These services include sanitation services, technical services fee, supervision of building and construction works, design and tender document preparation, contract registration and confirmation and road services fees. The services also include water service, sewer service, fire brigade and emergency services, vital statistics service and vehicle related municipal revenues. Moreover, the municipal is empowered to collect service charges under the mentioned title from registration from land acquisition, renewal of land building title deed, plan and maintenance of houses, debt suspension, and cancellation of registration, fore closure and funeral service. Furthermore, the municipal is entitled to collect service charges from abattoir service, loading and unloading charges, and provision of cart and chariot service, provision of park services, emblems and sign board and any advertising services and other sales of property and services²¹⁶.Some of services mentioned above require the economic capacity of the municipality. For instance, services like abattoir requires building of slaughtering houses and provision of transporting services. The slaughtering service includes the

²¹⁴Urban Model regulation, supra note no.212

²¹⁵Ibid

²¹⁶Ibid

cattle, sheep and goat slaughtering. But as mentioned because of the shortage of budget abattoir service is not well developed in all sampled study area of city administrations²¹⁷.

On the other hand, even though vehicle related revenues are coded under municipal revenues, in practice, the service charges are collected by state organ (the transport office). These Municipal related revenues include driving license fee, Annual vehicle inspection fee, driving instructor and vehicle title deed, valuation of vehicle, registration of driving instructors and others registrations. It also includes vehicle plate sales and rent, permission for change of type of vehicle service services and transfer of title deed fee²¹⁸. It is similar in all study area city administrations.

e. Other Capital receipts (1791-1799)

Under this category the revenue for municipalities are collected from sales of movable and immovable properties, community contribution and other capital receipts²¹⁹.

In Oromia Regional state, all the above discussed municipal revenues are assigned to the city administrations. Hence, one could conclude that the above mentioned revenues are the revenue rights assigned to the city administration local governments in Oromia regional state.

²¹⁷ Ibid

²¹⁸ Ibid

²¹⁹ Ibid

Chapter Five - Data Presentation, Analysis and Interpretation

5.1. Description of the Study Area

This study has been conducted in Oromia Regional State particular to City administrations. The Oromia Regional State has been selected for the study due to the lack of resources, time and proximity of the study Area for the researcher .This research has been conducted in seven city administrations which were taken using primarily by stratified random sampling, then by simple random sampling and purposive method. The sampled areas included in the study are Sebata, Ambo,Fiche, sandafa Bake, Matahara, Bokoji and Dodola city administrations.

As we know Oromia Regional Government (ORG) is the largest area and populace Regional state in Ethiopia. According to 1999 E.C (2007 G.C) population and Housing census, the population of the region was estimated 26,993,933²²⁰ . However, now the population of the Region is estimated to 38 million²²¹ and accounts 35.1% of the population of our country. In addition, Oromia has the land area of 359,620 square kilo meters and is divided in to 21 administrative zones, 339 rural Weredas and 644 towns. Among the towns of the region, 60 towns are city self-administrations which do have independent city council, city administrative council and judiciary.²²²

As mentioned above, among 60 city administrations, sabeta town is one of the sampled study area. Sabeta town was emerged in 1935.It is situated in Oromia Regional state, at Oromia special zone surrounding Finfinne about 24 kilo meters away west of Addis Ababa along Jimma road. The town has gotten municipal status between 1953 and 1954. Now sabeta town has 10 kebeles and 32 governmental sector offices. It is one of among eight principal cities of the region. The total area of the town is 9,900 hectares. And the population of the town is estimated to 336,975 based on

²²⁰ The Ethiopian Population and Housing Census(2007),Addis Ababa, Unpublished , p. 35

²²¹Aynalem Adugna. Oromia Demography and Health - www.EthioDemographyandHealth.Org,Nov.2017,p.2

²²² Oromia Regional state Urban development and housing Bureau towns Grading rules(2016) ,Finfinne, P.1-26

counted data of 2018. The town has different social and economic sectors which give service for the dwellers of the town and others.²²³

The second sampled study area is the Ambo town. Ambo town has established in 1881 E.C. The town is located in west shoa zone of Oromia Region, west of Addis Ababa about 114 kilo meters away. According to the Ethiopian Central Statistical Agency the population of the town is 92,216 whom of 46,710 female and 45,506 male. The land area of Ambo town is 8,587 hectares. Ambo town is one of the ten higher cities of the Oromia regional state. The town is divided in to 6 kebeles and has 32 governmental sector offices. It has gotten municipal status in 1923 of E.C.²²⁴

The third sampled study area is the Fiche town. Fiche town is situated in Oromia Regional state, at north shoa zone, north of Addis Ababa at the distance of 112 kilo meter from the center Addis Ababa on the Way to Gojam. Now, the town is among one of the fifteen intermediate cities of the Region. The town has 4 kebeles and 29 governmental sector offices. The total area of the town is 3,325.1 hectares. And the population of the town is estimated to 55,000 whom of 28,063 female and 26,937 male based on counted data of 2015. The town has different social and economic sectors which give service for the dwellers of the town and others²²⁵.

The fourth sampled study area is the Sandafa Bake town. Sandafa Bake town is situated in Oromia Regional state, at Oromia special zone surrounding Finfinne, east of Addis Ababa at the distance of 39 kilo meter from the center Addis Ababa on the way to Tigray. Now, the town is among one of the fifteen intermediate cities of the Region. The town has 3 kebeles and 27 governmental sector offices. The total area of the town is 4606.34 hectares. And the population of the town is estimated to 56,652 whom of 29,174 female and 27,478 male based on counted data of 2018. The town has different social and economic sectors which give service for the dwellers of the town and others.²²⁶

The fifth sampled study area is the Matahara town. Matahara town is situated in Oromia Regional state, at East shoa zone, east of Addis Ababa at the distance of around 200 kilo meters from the

²²³ Sabeta city administration Planning and Economic development office (2016), Physical and socio-economic profile of sabeta city Administration(Unpublished), p.2-10

²²⁴ Ambo town administration Planning and Economic development office (2016), Physical and socio-economic profile of Ambo city Administration(Unpublished), p.1-3

²²⁵ Fiche town administration Planning and Economic development office (2015), Physical and socio-economic profile of Fiche city Administration(Unpublished), p.2,7,11

²²⁶ Sandafa Bake town administration Planning and Economic development office (2015), Physical and socio-economic profile of Sandafa Bake city Administration(Unpublished), p.1-6

center Addis Ababa on the way to Harar. The main factor for the foundation of the town was the Djibouti- Addis Ababa railway. Now, the town is among one of the twenty seven growing towns of the Region. The town has 2 kebeles and around 25 governmental sector offices. The total area of the town is 4.874 km². And the population of the town is estimated to 33,724 whom of 17,188 female and 16,536 male based on counted data of 2017. The town has different social and economic sectors which give service for the dwellers of the town and others.²²⁷

Bokoji town is one of the sixth sampled study area. It is situated in Oromia Regional state, at Arsi zone, south - east of Addis Ababa at the distance of 231 kilo meters from the center Addis Ababa and 56 kilo meters from Asella town on the Way to Bale zone. The town was established in 1929 E.C. Now, the town is among one of the twenty seven growing cities of the Region. The town has 2 kebeles and 25 governmental sector offices. The total area of the town is 10 square kilo meters. And the population of the town is estimated to 35,727 whom of 18,265 female and 17,462 male based on counted data of 2018. In addition, the town has different social and economic sectors which give service for the dwellers of the town and others.²²⁸

The seventh final sampled study area of the town is Dodola. It is situated in Oromia Regional state, at West Arsi zone, south - east of Addis Ababa at the distance of 320 kilo meters from the center Addis Ababa and 78 kilo meters from shashemanne town on the way to Bale zone. The town has gotten the municipal status in 1947 E.C. Now, the town is among one of the twenty seven growing cities of the Region. The town has 2 kebeles and 25 governmental sector offices. The total area of the town is 1620 square kilo meters. And the population of the town is estimated to 34,025 whom of 17,232 female and 16,793 male based on counted data of 2016. In addition, the town has different social and economic sectors which give service for the dwellers of the town and others.²²⁹

5.2. The revenue rights of city administration in ORG

As discussed in general part of this paper, decentralization is needed for the devolution of governmental powers to lower units of local governments. Because local governments know more

²²⁷ Matahara city administration Planning and Economic development office (2017), Physical and socio-economic profile of Matahara city Administration(Unpublished), p.1-14

²²⁸ Bokoji city administration Planning and Economic development office (2017), Physical and socio-economic profile of Bokoji city Administration(Unpublished), p.1-3

²²⁹ Dodola city administration Planning and Economic development office (2017), Physical and socio-economic profile of Dodola city Administration (Unpublished) p.1-3

the need and preferences of local people and can efficiently identify and address their needs and preferences. Particularly, those public functions which are limited to the boundary of LG should be managed efficiently when the government is closer to the people.

Oromia regional state is one of the Ethiopian regional states which has implemented decentralization governance system. Accordingly, the region has established local governments such as district for rural and city administration for urban. Both the districts and 60 city administrations in the region have their own council (legislative), administrative council (executive) and court (judiciary). Here, district administrations are established by the region's revised constitution while the city administrations are established by the region's enactment. Under this topic, the researcher has discussed briefly the revenue rights of city administration of which the subject matter of this paper.

As it was observed from the sampled study areas, all city administrations in Oromia Regional State have revenue rights only on municipal revenue sources. Oromia Urban local government establishment proclamation no.65/2003 is the first legal document which attempted to assign taxation power of city administrations of the region. The proclamation provides that urban local government in Oromia regional state “ can introduce, adjust and collect taxes and services under their jurisdiction in accordance with law²³⁰. However, the proclamation does not make clear which type of taxes and services are under the jurisdiction of Oromia urban local governments. But based on the proclamation, all urban local governments in Oromia regional state enacted each their own regulation of municipal taxes and services laws by their own council within the range set model regulation by Oromia Regional state Industry and urban development Bureau in 2004 E.C²³¹. The model regulation of municipal revenue tax has been continuously modified. According to the regulation model, all urban local governments were authorized to customize (it could say copy of it) based on the conditions of their towns. That is, the Oromia Regional state Industry and Urban development Bureau prepared the model regulation and the urban local governments customized the model regulation according to the nature of their towns and approved as their laws by their own city council. Here, tax bases and tax rates are determined by the Bureau. But the urban local government does not have any role in the initiation of the model regulation. Because the Bureau

²³⁰ Oromia Urban proclamation, supra note no.16, Article 8(2-C)

²³¹ Oromia Regional State Industry and Urban development (2011), Oromia Urban local government Municipal revenue tax Regulation model, Finfinnee

is authorized to investigate, follow and draft of the model regulation according to Oromia Regional state executive organs revised establishment no. 163/2011, 170/2012 and 199/2016 respectively.

Having said the above mentioned, when we come to the implementation of the municipal tax laws of the city administration, it was challenged on grounds of validity. For this, there were practical cases which challenged the validity of the city administration municipal revenue tax laws. For instance, there were cases which were presented up to the FDRE Supreme Court Cassation bench. The first case was begun between the Jimma City Administration and Afro Tsiyon Construction PLC. The fact of the case was that the Afro Tsiyon Construction PLC won the bid of construction contract and concluded the contract on January 16, 2003 E.C. with the Jimma University to construct the building of Institute of Engineering and Teaching. For the construction of the building, birr 170,000,000 was expensed excluding the VAT. And the amount of the remaining work was birr 158,036,580.83. The Jimma City administration claimed that since the Afro Tsiyon Construction PLC used the city's administration road, water and other services while it was constructing the building of the Jimma University, the Afro Tsiyon PLC was bound to pay 1% of service charge tax on the amount remaining works birr158, 036,580.83 pursuant to the Oromia region urban local government establishment proclamation no.65/2003 article 8(2-C) and the Jimma city administration regulation on the titles of incomes and incomes tariff no.2/2005 E.C. The Afro Tsiyon Construction PLC, on its side, opposed the claim of the city administration that the PLC is registered by Federal government and it is bound to pay only income tax and VAT to federal government pursuant to income tax proclamation no.285/2002 and VAT proclamation no.284/2002. So, paying service tax to Jimma City administration is amounted to double taxation and the city administration does not have power to levy and collect service taxes against it. However, the case was decided in favor of the city administration on the ground that the levying and collection of service charges is the power assigned to the region and the Jimma City administration by the FDRE constitution, the region's proclamation no.65/2003 and the Jimma City Administration titles of incomes and incomes tariff regulation no.2/2005(2/2012).²³²

Here, from the case we have understood that the Afro Tsiyon PLC opposed paying taxes to Jimma City administration is amount to double taxation. The Jimma city administration, however, claimed on its side that paying service taxes for cities are not double taxation. All level of courts have

²³² Jimma City Administration v Tsiyon Construction PLC, supra note no.42

accepted the claim of the Jimma City administration and decided in favor of it. The courts have reasoned that levying and collection of service charges are the powers assigned to the Jimma City administration by FDRE constitution and Jimma City administration municipal revenue tax regulation²³³. In other cases there were similar disputes between Matu city administrations v Ethiopian Electric Matu Districts²³⁴. This case was also decided in favor of the Metu city administrations.

The researcher has supported the decisions given by all levels of courts in favor of the City administrations. When we look at the cases by taking Jimma City administration V Tsiyon Construction PLC, the decision of the court is valid. Because the Ethiopian regional states are empowered to determine and collect fees and charges for the service rendered by their organs²³⁵. Oromia Regional state is one of the Ethiopian regional states which has similar taxation power. Accordingly, the region has devolved its part of taxation power for city administration of the region to determine and collect tax and service charges by proclamation no.65/2003. Based on this proclamation, all city administrations of the region enacted regulation of municipal revenue taxes. In similar way, Jimma city administration has enacted the regulation of income tax and service charges of the city administration no.2/2005 E.C. So, since Jimma City administration is one of the organs of the region's and can collect charges for services rendered by city administration. There is the same argument for the second case.

On the other hand, the Afro Tsiyon construction PLC is obliged to pay service taxes for the Jimma city administration for the service obtained from the city. Because the PLC has used repeatedly the internal roads and other services of the city while it was building the Jimma University buildings. Here, paying taxes for services rendered was not double taxation. The reason is that paying income tax and VAT is different from service taxes of the city. That is, income tax paid by the PLC was for the income obtained from the business profit of building and VAT is paid when sales made or services are rendered by business owners whose business capital is exceeding 500 ETB²³⁶. Here, the Afro Tsiyon construction PLC was required by the Jimma City administration

²³³ Jimma City Administration Municipal revenue regulation, no. 2/2012

²³⁴ Matu city administration v Ethiopian Electric Mat District , supra note no.44

²³⁵ The FDRE constitution, supra note no.8, article 97(9)

²³⁶ VAT Proclamation, supra note no.134

for the service obtained while it was doing its business (building). Therefore, income tax and VAT are quite different from taxes of service rendered by the city administration.

In the researcher opinion, however, the main cause of the disputes discussed above was the lack of clarity of the city administration proclamation no.65/2003 that assigns taxation power to the city administrations of the region. In federal system, the powers and functions of the tiers of governments shall be clearly stated by constitution or other legislation. However, when we look the cases at hand, the powers and functions of the Oromia regional state city administration are not identified and stated clearly in the region's constitution or enactment. Even though the powers and functions of the Oromia regional state city administration are not clearly stated in the constitution of the region, the powers and function of district (for rural) administrations, which have similar jurisdiction with city administration, are provided in the region's revised constitution of 2001. In addition, even though the powers and functions of them are provided in the region's revised cities establishment proclamation no.195/2015, the powers and function of them are still not identified and stated clearly. There is also no clear distinction power of taxation between the city administration and the region. Thus, the absence of clear distinction of jurisdiction between the city administrations and the region as well as non-clearly stated taxation powers have contributed for the mentioned above disputes.

On the other hand, the proclamation no.65/2003 discussed above was repealed by the revised Oromia Regional state cities establishment proclamation no.195/2015. This revised proclamation states the taxation powers of the city administration of the region similarly as provided in proclamation no.65/2003. Under article 11(2-d) of the revised this proclamation, the taxation power of the city administration is provided in general terms. According to the proclamation, the city administration of the region has the power to “determine the tax and service incomes as per the law”²³⁷. Here, the revised proclamation states the taxation power of the city administration of the region in general terms. But it lacks clarity on which of taxes and service income taxes the city administrations have the jurisdiction. That is, there is no identified and separate power of taxation between the city administrations and the region. However, based on the revised proclamation, the city administrations of the region have enacted municipal revenue tax regulations in accordance with the model tax regulation which was drafted by the Oromia Urban Development and Housing

²³⁷ Oromia revised cities establishment proclamation ,supra note no.19,article 11(2-d)

Bureau. The model regulation has listed tax titles with its range of tax rates which was prepared by the ministry of finance and Economic Cooperation of Ethiopia. Hence, based on the revised Oromia cities establishment proclamation and the model municipal tax regulation, the city administrations of the region have the taxing power on the following tax titles. The tax titles are coded from 1701 up to 1799. The main revenue sources of the city administrations of the region are categorized as in to five and provided in the tables as follows.

Table 5.a. Municipal revenue items and their account codes

S/N	Revenue Items	Account code
1.	Tax revenue from municipal services	1701-1719
1.1.	Building tax	1701
1.2.	Assurance tax	1702
1.3.	Entertainment tax	1703
1.4.	Business and professional services registration and licensing fee	1704
1.5	Other taxes	1719
2.	Municipal rent revenues and investment income	1720-1734
2.1.	Urban land rent	1721
2.2.	Residential houses rent	1722
2.3.	Business Building rent	1723
2.4.	Market veranda rent	1724
2.5.	Market place rent	1725
2.6.	Stable livestock market place rent	1726
2.7.	Funeral service vehicle rent	1727
2.8.	Rent from machinery	1728
2.9.	Other rent	1729
2.10.	Municipal investment income	1730
2.11.	Land lease	1731
2.12.	Support from NGOs	1732
2.13.	Support from private individuals	1733
2.14.	Public contribution	1734

3.	Municipal service charges	1740-1749
3.1.	Business and professional services registration and licensing fee	1741
3.2.	Building and fence construction permit license	1742
3.3.	Soil dumping space license	1743
3.4.	Permission for driving on prohibited roads	1744
3.5.	Traffic fines for violation of traffic rules regulations	1745
3.6.	Fines for violation of rules and regulations	1746
3.7.	Bus terminal services	1747
3.8.	Environmental protection fees	1748
3.9.	Other charges	1749
4.	Property and services sales goods and services	175-1789
4.1.	Sanitation services	1751
4.2.	Technical services fee	1752
4.3.	Supervision of building and construction works	1753
4.4.	Design and tender document preparation	1754
4.5.	Contract registration and confirmation	1755
4.6.	Road services fee	1756
4.7.	Water service	1757
4.8.	Sewer service	1758
4.9.	Fire brigade and emergency services	1759
4.10.	Vital statistics services	1761
4.11.	Driving licenses fee	1762
4.12.	Garage services	1763
4.13.	Annual vehicle inspection agencies fee	1764
4.14.	Driving instructor and vehicle title deed	1765
4.15.	Valuation of vehicle	1766
4.16.	Registration of driving instructors and others registrations	1767
4.17.	Vehicles plate sales and rent	1768
4.18.	Vehicle parking fees	1769
4.19.	Permission for change of type of vehicle services	1771

4.20.	Transfer of title deed fees	1772
4.21.	Registration fee for land acquisition	1773
4.22.	Renewal of land, building title, deed, plan and maint of houses	1774
4.23.	Debt suspension, cancellation of registration, fore closure service	1775
4.24.	Funeral service	1776
4.25.	Abattoir service	1777
4.26.	Loading and unloading charges	1778
4.27.	Provision of cart and chariot service	1779
4.28.	Provision of park services	1781
4.29.	Emblems and sign board and any advertising service fee	1782
4.30.	Other sales of property and services	1789
5.	Other capital receipts	1791-1799
5.1.	Sales of movable and immovable property	1791
5.2.	Community contribution and other capital receipts	1792
5.3.	Others	1799

Source: Oromia Urban development and Housing Bureau, August, 2018

The above table 5.a. has revealed us the limited lists of Oromia regional state city administrations' municipal revenue sources. All the sampled study area of city administrations have included the above municipal revenue sources in their city's municipal revenue regulations by their own city council. That is, the content of all city municipal regulations of the city administrations are similar. In addition, own revenue sources of city administration of the region are provided under article 52(1) of the revised oromia cities establishment proclamation no.195/2015. Accordingly, own revenue sources of city administrations of the region include revenue and taxes authorized by law and service delivery fees collected from service they render, budget support granted by the region, loan and assistances and other income sources²³⁸. In similar way, own revenue sources of the city administrations are provided under oromia regional state cities regulation no.186/2016. According to the regulation, without prejudice to provide in other laws, city administration in the region could

²³⁸ Id.,article 52(1)

get revenue sources from property rent, grants, contribution made, market veranda rent, stable livestock market place rent and fees from different services²³⁹.

On the other hand, according to the amended Oromia revised cities establishment proclamation no. 196/2016, regular state revenue is collected by city administration concerned and annual regular state revenue ceiling to be collected determined by the Bureau. If city administration collects the revenues more than their ceiling plan, the city administration can use 70% of beyond collected revenue incomes and 30% of it transferred to the region's treasury²⁴⁰. In addition, the Oromia regional state council may allocate additional budget to the city administrations that require due consideration. The criteria to allocate for city administration that requires due consideration include city administrations that have expanded industries, city administration that located at the border and those city administrations which are center for tourism²⁴¹.

As discussed above, even though the city administrations in Oromia regional state have their own revenue rights, these rights are only limited to municipal revenues. But the region's regular revenues are collected on behalf of the region by each city administration and to be transferred to the region's treasury. Then, the region decides the ceiling of each city administration budget and transfers budget support to city administration in the form of grant²⁴².

On the other side, interviews made with informants has revealed that in Oromia regional state city administrations, there are various VAT registered business organizations and individuals those are operating businesses in the region. But they do not pay any share of proceeds of VAT to the city administration of the region. Practically, high amount of revenues are obtained daily from the VAT revenue sources. It is better to allow some shares from VAT revenues to city administrations to more modify city administrations' revenue sources²⁴³.

As mentioned above even if each city administration has revenue rights on municipal revenue sources, revenue obtained from municipal sources from city to city administration are vary. Even though the table one below has showed that the municipal revenue of city administration increases from 2006 to 2010 E.C, the trends of increment different among the sampled study area of city

²³⁹ The municipal revenue model, supra note no.212

²⁴⁰ The amended Revised proclamation, supra note no.38

²⁴¹ Revised cities establishment Regulation, supra note no.49 article 29

²⁴² Interview, Ms. Wanyshet, supra note no. 149

²⁴³ Interview, Mrs. Tofik, supra note no.206

administrations. For instance, Ambo city administration has revealed the highest increment of municipal revenues 248.3 % (see table one below) when we compared to the other sampled study area of city administrations. However, it is 4th in rank in municipal revenue generating among sampled city administrations. The sampled study area of city administrations of sabeta, fiche and sandafa bake have recorded high municipal revenues during the years of 2006 to 2010 E.C. But all sampled study area city administrations revenue capacity are low due to their different efforts to generate the revenues (see table one below).

In relation to municipal revenues, the researcher has conducted question both for questionnaires and interviewees. Accordingly, from the total of 60 informants 51 of them which is about 85% responded that the municipal revenue generating capacity of city administrations of the region have been improved (see Annex two).

5.3. Expenditure obligations of city administration in ORG

As discussed in the general part of this paper, the revised 2001 of the region's constitution, under its article 45 the powers and functions, the region's government is devolved to among regional government, zonal administration, districts and kebeles of the region. In addition, the constitution empowers the region's council (caffa) to create additional administrative structure when it deems necessary. Accordingly, powers and functions of the region including taxation powers are provided under article 47 of the region's constitution. Similarly, powers and functions of the zonal and districts administrations are provided in the region's constitution of articles 70(1), 71(1-3) and 76. Particularly, article 76 of the constitution, recognized the districts local government administrations. Even though the city administration of the region have local government's status, they are not recognized like districts as local government in the constitution of the region.

On the other hand, one could understand from the spirit of the FDRE constitution article 50(4) and article 45 of the Oromia regional state constitution (which empowers the region to create further local governmental administrative organs when it seems necessary), city administration local government status is assumed to be recognized. Based on the provision of the constitution, the region has recognized 60 city administrations as local government status to improve their public service and goods to the people of their cities. Even though 60 city administration of the region are established as local governments, based on their social and economic developments, all city

administrations of the region are divided in to six levels. The levels of the city administrations are principal, higher, intermediate, growing, municipal and municipal growing cities. Among these levels of city administrations, the principal, higher, intermediate and growing cities have the status of the local governments which have their own council, administrative council and judicial organs at city administration level.

Accordingly, the city administrations are assigned to many functions by the revised Oromia cities establishment proclamation no.195/2015. The functions include the responsibilities to construct and maintain city infrastructures such as roads, potable water, electricity, telephone and mass transportation. As the data collected from question of questionnaires and interviewees, it has revealed that the population of the cities is growing rapidly. This requires providing infrastructures and other social services. To fulfill these demands, it requires huge capitals. Furthermore, the city administrations have other responsibilities like the duty to protect the cities' environment by doing activities like waste disposal, installation of pipe lines and gives services like education, health services, ambulance services, slaughter houses and market services. Even the city administrations have the obligation to provide sporting services, theaters, entertainments, libraries, museums and other unlisted services. Hence, the city administrations have huge obligations to perform.

In addition, the city administrations those have status of local governments have many governmental offices and kebeles which are organized under them. These government organs require annual budget from the city administrations. For instance, from data collected, the researcher has observed that the sampled study area of city administrations sabeta(32,10), Ambo(32,6), Fiche(29,4), sandafa Bake (27,3), Matahara(25,2), Bokoji(25,2) and Dodola(25,2) have governmental offices and kebeles respectively. All these governmental offices including kebeles require their own annual budget from the city administrations. With regarding to this, interviewees made with city administration councils and revenue authority officers have revealed that even if the city administrations in the region are assigned with many functions, their own revenue sources are only those are generated from municipal revenue sources. But, the revenue collected from municipal revenue sources are merely used for municipal recurrent and capital activities. Other governmental offices which are organized under the city administrations could not get any budget support (grant) from municipal revenues. But city administrations governmental offices get their annual budget from the region's revenues (grants). From this

discussion, one could understand that the region's revised cities establishment proclamation no.195/2015 emphasizes on the expanded functional assignment. As discussed in the general part of this paper, according to the theory of fiscal decentralization, devolution of functions must be followed by sufficient revenue sources. But in case of Oromia city administrations, only vast expenditure obligations are devolved to them without devolution of adequate revenue sources.

On the other hand, the accountability of lower levels of governments to local communities is promoted when lower local governments are given to their own revenues with the right to set tax rates. Here, service delivery of local governments may improve if they have the power to raise their own revenue through tax increases rather than depends on budget subsidies. According to Jorge Martinez Vazquez, to have effective fiscal decentralization, local governments must control their own revenues. Because local governments are more accountable and responsive to local communities' need and preferences in providing public services²⁴⁴.As discussed above, the main objective of fiscal decentralization is to transfer financial decision making closer to the local communities as the final beneficiary of public functions. However, it is clear that the fiscal system in the region is more or less behaved highly centralized to the region and high functions are devolved to the city administrations. So, the whole city administrations in the region are dependent on the region's subsidy for providing public services and goods for their residents.

On the other side, the Oromia regional state is one of the regions that has implemented decentralization functions from the region to local governments (city administration and rural districts) with vast devolution of functions. But this does not mean that those functional devolution to lower local governments are followed by adequate financial sources. Data has showed that all the sampled study areas are highly dependent on the block grant of the region (67.1%, see table two) to finance their expenditure responsibilities in the absence of their own sources revenues.

As it has been described above, the sampled study area city administrations are more populous and much lack of infrastructures and social services. Therefore, the dependency of city administration on the region's grants would be one of the challenges to accountability in the region to ward service provision in quality and quantity required. In this regard, interviewees made with selected key officials and experts from city administrations and Bureau levels revealed that inadequate own

²⁴⁴ Martinez Vazquez, supra note no. 99, p.30-40

sources of revenue and reliance on block grant from the region creates problem to provide public services in quality and quantity required in the city administrations. In addition, it creates variation of services provision among city administration in the region. Therefore, although the main objective of decentralization is to make local governments as responsible institution for meeting service delivery and interaction point between service provider and citizens. But inadequate of financial access of the city administrations undermines the performance of these functions. In relation to this, for instance, the researcher has conducted question both for questionnaires and interviews. Accordingly, from total of 60 informants 35 of them which is 58.3% responded that the own revenue source of city administrations do not enable them fully to exercise their functional obligations²⁴⁵. They only cover 32.9% of their annual budget (see table two).

5.4. Revenue Autonomy of the City Administration in ORG

As discussed in the general part of this paper, fiscal autonomy of sub national governments have its measurement. For instance, scholars such as Daffilon and Madies argue that fiscal autonomy of sub national governments could be measured by the extent of SNGS control over own revenue sources through their taxing power and the extent of their capacity to match it with their expenditure obligations (free of influences). But much focus should be given to measure the capacity of local governments to set tax rates and tax bases independently of higher level of governments. In addition, SNGS could be measured by having their ability of matching provision of service to the needs of their local governments’²⁴⁶. Therefore, here, the tax autonomy of city administrations in Oromia regional state would be analyzed on the bases of the above mentioned elements of measure of fiscal autonomy. Accordingly, as far as determination/setting/ of tax rates and tax bases are concerned, the Oromia regional state executive organs establishment proclamation no.199/2016 article19(16) provides that the Oromia urban development and housing bureau has the power to investigate, modify and provides alternative initiation and model of tax bases and tax rates of municipal revenue sources. Accordingly, the bureau has prepared model of municipal revenue regulation for city administrations by limiting the ranges of tax base and its

²⁴⁵The question pose is “Do you know that in ORG city’s local government revenue capacity enable them to exercise full measure of their self-administrations?”

²⁴⁶ Bahl Roy (1999).Implementation Rules for Fiscal Decentralization. <http://www. World Bank. Org/public sector/ Decentralization /ed/implementation rules.pdf>. p.50-60

rates for all city administrations of the region. Here, the city administrations of the region have only the power to customize the model regulation between the ranges set by the bureau.

However, the model regulation gives a chance to city administrations to initiate new municipal tax bases not included in the model regulation. But the new tax base initiated by city administrations reported to the Oromia Urban development and Housing Bureau. It is the Bureau which has only the final say on the new initiation. In this case, the power of city administrations is that only approves the tax base and tax rates by their council between the ranges set by the Bureau.

In regarding to this, the researcher has conducted the question both interviewees and questionnaires. They responded that the city administrations in Oromia regional state prepared municipal revenue taxes regulation based on the range of tax bases and tax rates set by the bureau. The aim to prepare municipal revenue model regulation for city administration is to establish uniformity of municipal taxes throughout the region. But from different literatures, it would be understood that in decentralization applying uniformity particularly in local governments are impossible. So, in relation to municipal taxes, the city administrations do not have the power to determine their tax bases and tax rates. Because the enactment of municipal tax regulation is not exclusively assigned to the city administrations. Even though the city administration have the revenue rights administration over municipal revenues, the revenues generated from municipal revenues do not have such much significant effect on their annual budget (covers only 32.9%, see table two). Particularly, most of the municipal revenues covers only the recurrent expenditures of the municipalities.

On the other hand, even if uniformity of municipal revenue taxes are not expected in local governments, the taxes imposed by them do not affect cities inter relation commerce. If the taxes imposed affect inter local relation of commerce, the region shall intervene since the power of coordinate city administrations is the region. This means that the tax imposed by the region is applied uniformly across the whole city administrations of the region. In general without authorization of the Bureau, city administrations of oromia regional state are unable to set tax rates and introduce new tax bases to expand their revenue capacity. City administrations, in addition to, inability to determine the tax rates and tax bases of municipal revenues, their revenue autonomy are influenced due to the fact that the region is substantially dependent on the region's grant (67.1% grant) provided that it seems take and give back. Because the region's regular revenue is collected

and transferred by city administrations and grant to them by the region. In this regard, interviewees and questionnaires made with those informants revealed that there is high financial dependence on the region would highly influence the manner of delivery of public services in quality and quantity. That is, the incapacity of city administrations to cover the cost of service provision by their own revenues implies absence of revenue autonomy. Questionnaires made with 60 informants 35 of them which is 58.3% responded that city administration in the region do not have tax autonomy. But out of informants 23 of them which is 38.3% responded that since city administration have taxation power on the municipal revenues, it could be concluded that they do have tax autonomy(see Annex two).But all the respondents argued that municipal revenue generates the least revenue compared to the city administrations' expenditure obligations. So, insufficient revenue sources and high degree of financial dependence affect negatively their autonomy. Less revenue from own sources and dependence of city administrations on the oromia regional state could be observed from budget and financial sources of the sampled study area of city administrations(see table two).

It is observed from the table one below the average of the three consecutive years(2007-2009 E.C) that the substantial share of annual budget of city administrations has been financed by the subsidy obtained from the region. For instance, Dodola city administration is one of the growing cities of the region and only financed 19.6% of its total expenditures. That is, 80.4% of its total expenditure is covered by the region's subsidy. In similar way, Fiche city administration is one of higher cities which could only finance 22% of its annual budget. The other 78% of its expenditure was financed by the region's budget support. The sandafa Bake city administration which is one of the intermediate cities of the region, only 32.1% financed its expenditure by the city's own revenue sources. The remains 67.9%% of its expenditure was financed by the region's grants. Ambo city administration also financed 28% of its annual budget (expenditure).The remains 72 was financed by the region's grant. The city administrations, particularly higher, intermediate and growing are showing high dependence on the region's grants. One of the principal city administrations, Sabeta city administration, is revealing the potential to finance its expenditure by its own municipal revenues (46.5 %). Only 53.5% of its expenditure was covered by the region budget support.

Hence, the analysis above shows that the city administrations have only a little revenue autonomy on municipal revenues and high dependence on the region's grants (67.1% of its annual budget – see table two). To make clear the discussion, primary data has been collected on the revenue

autonomy of the city administrations of the region. Accordingly, from the total of 60 informants of questionnaires 35 of them which is about 58.3% responded that the city administrations under the study do not have full revenue autonomy. Because the city administration could only determine the tax rates and revenue bases on municipal revenues in the ranges set by the Oromia Urban development and Housing Bureau.

On the other hand, 70% of respondents commented that low political commitment for revenue raising and lack of skilled human powers have contributed for the less revenue capacity of city administrations. Moreover, revenue sources under municipal revenues are less progressive. Furthermore, interviewees made with some officials revealed that VAT taxes are merely collected by federal governments while revenues are generated from city administrations of the region. But Oromia city administrations do not have any share from VATs collected. The respondents viewed that since VAT which is the main revenue sources of the cities, the city administrations shall have some share of incomes from VAT revenues.

In general, it has been discussed in the section above, the Oromia revised cities establishment proclamation no.195/2015 has decentralized various functions and a few revenue sources (that is municipal revenue sources).However, as far as assignment of revenue is concerned, city administrations are rarely entitled to collect revenues from municipal revenue sources. The others are the region's regular revenues which are collected by city administrations and provided for them in the form of block grant. This, hence, has revealed that despite their vast functions, the city administrations have the problems of insufficiency revenue for the executions of these functions.

5.5. The impacts of revenue autonomy on the city administrations of ORG

Based on the right to self-rule, city administrations are empowered to govern their affairs under their jurisdiction. However, this paper has viewed that the city administrations under the focus is dependent even for their recurrent expenditures. This dependency implies that the region through the design of grant influences the budget allocation. This affects the principle of self-administration of the city administrations of the region.

To explain more, decentralization is a means to assist local governments to develop their localities on their initiative through administering their affairs. However, city administrations in Oromia Regional state do not have adequate income to undertake their legal functions towards the people

under their jurisdiction. The annual budget of the city administrations in the region depends on (67.1%) the regions grants. In regarding to this, for instance, Martinez views that the increased accountability related with decentralization can only be assured when sub national governments have sufficient level of an autonomy and discretion in managing their budget expenditures and raising their revenues. In relation to this view, data collected showed that revenue bases for city administrations could only finance between 19.6-46.5% of their expenditures which affects their power to prioritize the citizens' needs and preferences (see table two). This is occurred due to the mismatch between cities' own sources of revenue and their expenditures. As it has been discussed above, the city administrations could only finance very low portion of their expenditures by their own revenues. This causes the city administration of the region in high degree of dependence on the region's for their substantial portion of expenditures. In addition, some respondents of the interviews argued that centralization of all revenue sources to the region and federal government influenced the city administrations to fund higher share of recurrent expenditures than capital expenditures. That is, allocation of substantial revenue sources on recurrent expenditures could negatively affect the growth across the city administration to give accessible service in quality and quantity expected across the city administrations. This does not mean that the study area of city administrations is totally under developed. But it is obvious that there are some changes in economic and social services in the city administrations of the region. However, while interviewees made with informants in the study area have argued that because of the cities' rapid increasing of population and areas of cities, the city administrations could not make provision of economic and social services (like infrastructures such as road, water, electricity and social services such as health, education etc.) equally across all the cities of the region in quantity and quality required.

Finally, to make the city administration local governments more efficient and effective, it is required to enable them in financial resources and skilled man powers.

Chapter 6

Conclusion and Recommendations

6.1. Conclusion

Federalism is a form of government system in which two or more tiers of governments exist together and division of powers and functions are provided in legislation particularly in the constitution. In this system of governance, three main governmental powers are devolved to lower units of governments: namely political, administrative and fiscal powers.

On the other hand, to improve the potential role of public sector and its performance, there were various attempts to be made across the world. The main aim of the efforts was to achieve economic stability, sustainable growth and provision of efficient and effective public services. An important to achieve the mentioned objective was the introduction of decentralizations of government functions. Among the decentralization dimensions, this paper focused on the fiscal dimension of decentralization.

Now days, many developing countries including Ethiopia in general, Oromia regional state in particular are practicing fiscal decentralization as a strategy to improve the governance and economic growth. To benefit from the strategy, Ethiopia has developed and defined constitutional and legal provisions to support decentralization and the strengthen of decentralized levels of governments .Particularly, the FDRE constitution states that regional governments shall establish lower units of governments and assign adequate powers to them to enhance public participation in government administrations. Accordingly, Oromia regional state has established local units of governments: namely district administration in rural and city administrations in urban areas. And Oromia Regional state has devolved governmental functions and taxation powers by the constitution and legislation of the region to districts and city administrations.

As discussed in the general part of this paper, the main benefit for devolving fiscal power to lower units of governments is mainly justified by allocative efficiency for the provision of public goods and services. It is believed that local governments are the best to meet local preferences and needs

of the local people better than national and regional governments. However, it is practically, difficult to find the optimal level of fiscal decentralization. Fiscal decentralization is composed of four pillars (assignment of expenditures, tax assignment, intergovernmental transfers/grants and sub national borrowing) of which expenditure and tax (revenue) assignments are the particular emphasis of this paper.

In principle, in federal system, if certain expenditure responsibilities are assigned to tiers of governments, it is believed that each tier of government must have the revenue resources to finance those responsibilities. However, there is no perfect assignment of taxes between central and regional as well as regional and local governments. But a set of tax assignment rules has been developed in the traditional fiscal federalism theory. The principle is mainly related to the respective responsibilities of central and sub national governments in macro-economic stabilization, redistribution and resource allocation. In addition, when tax powers are assigned to SNGS, capabilities of tax harmonization are the issues to be considered.

In current practice of fiscal decentralization in Oromia regional state, the tax bases assigned to local governments of the region particularly to city administrations is very low and generates below the minimum required to fulfill the aim of fiscal independence. For instance, the data collected revealed that city administrations of the region can able to collect the revenues between average 19.6-46.5% of their budget. This makes financial capacity of the city administration of the region is very low. Specially, higher, intermediate and growing city administrations could not cover more than 40% of their annual budgets. Even most of the revenues generated by city administrations could only cover the recurrent expenditures.

This mismatch between the revenue raising and capacity of the city administration and their expenditures shows vertical imbalances. The result of this, mismatching of functions and finances of city administrations are more dependent up on grants from the region (67.1% - see table three below). In fact methods used narrow the fiscal imbalances of the city administrations have an implications to reduce imbalances among city administrations. In the region, grants have been used as the only means to resolve vertical and horizontal imbalances. Other means such as revenue sharing between the region and city administrations have not been still established. The grant system in the region is determined on an ad- hoc basis and it does not have established standard rules. Thus, the region decides the ceiling of budget and the amount of grants given to city

administrations. Then, based on some formal and it distributes to the districts and city administrations of the region every year. This method of determining the grants and ceiling of budget may have different disadvantages. Thus, city administration could not predict and plan their expenditure budget properly and it gives more freedom to the region to make influence on the city administrations with respect to the partition of budget among city administrations.

On the other hand, the Oromia Regional state has general guide lines by which annual budget of the region's local governments is portioned. Primarily, this new guide lines of partition of budget was adopted in 2006 and the criteria provided in the guide lines basis on the service provided and the existence of infrastructures and their deficit. The criteria service provided is used to distribute budget for recurrent expenditures while the criteria the existence of infrastructure is used to partition for capital expenditures. Among the criteria set, the region focuses mainly on the number of service receivers. Accordingly, the city administrations which do have more service beneficiaries could get more budget partition. But the needs and preferences of the people of the city administrations could not be considered.

On other side, the missing of the criteria "tax efforts" in the new guide lines may make the city administrations more disincentive for better revenue efforts. In addition, large grants from the region may cause city administrations to underutilize their own tax bases. To avoid all these problems, the grant system of the region is required to be designed in such a way that it encourages the city administrations to more effort in to tax administrations and collections.

With the existence of grants, the city administrations may still with insufficient revenue relative to their expenditure. In this regard, borrowing and tax sharing could be taken as a last resort to fulfill their expenditure gap particularly the capital expenditures. However, even though the city administrations in Oromia Regional state are empowered to borrow from domestic financial resources, there is no borrowing practice by city administration of the region.

Finally, as discussed in the preceding chapters, Oromia regional state has started to deepen and broaden the decentralization process to districts and city administrations. However, the practice has revealed that currently the city administrations in Oromia regional state control more their expenditures side than their financial resources. That is, city administrations in Oromia administer only their municipal revenue sources. But the other regular revenue sources are under the control of the region.

Therefore, searching for appropriate additional tax sources for city administrations is one of the immediate and challenging tasks to deep the decentralization process. However, the region seems reluctant to devolve taxation powers particularly the local nature taxing powers. This may reduce accountability at the local level as intended. As discussed, the city administrations have only own revenue sources on municipal revenues (even not all) which could not yield (generate) revenues those match with their expenditure obligations. As a result, the city administrations in Oromia Regional state are forced to depend on the region's grants for their full expenditures.

6.2. Recommendations

As discussed above, this study has revealed that in Oromia Regional state, vast expenditure obligations have been assigned to the city administrations. However, there is no sufficient financial arrangements for effectively and efficiently carrying out the responsibilities through tax assignment and transfers. Even though the city administrations have the power to raise revenues from municipal sources and to perform vast spending activities, the dominant taxing power of the region rests in the hands of the region. As city administrations are empowered to perform many functions, their expenditures are expected to increase. Therefore, the need to design a system of tax assignments and transfers (grants) that takes in to account the requirements of the city administrations is appropriate. The researcher has recommended the following points.

1. Hence, it would be advantageous to take measure in a way that could advance revenue efforts of the city administrations by identifying more adequate bases. In addition, for allocation efficiency and accountability, city administrations shall have their own sufficient revenue sources of taxes. If city administrations depend on grants for the substantial part of their expenditures from the region, there is less incentive to enhance their own tax revenues and more incentive too much spend with money other than their own. The discretion shall be broad enough to allow city administrations some power of choosing on their tax rates (for instance, tax rates of municipal revenues). In addition, grants guide lines need to be developed in a manner that encourages the city administrations from developing their own revenue sources.
2. On the other hand, at city administration level, the practice of revenue sharing should be implemented between the region and city administrations on some revenue sources including VAT revenues (which have the lion's share of revenues of cities).

3. To minimize risk of disputes in the area of taxation powers of the city administrations of the region, the constitution of the region shall be amended in order to include the separate lists of revenue sources of the city administrations and the region. That is, to avoid jurisdictional disputes, the taxation power of the city administrations (which are local in nature) shall be clearly stated in the region's constitution. Here, there must exist separate and clear taxation powers between the city administrations and the region.
4. On the other side , based on the consideration of stability, equity and administrative taxation powers , the city administrations, in addition to the municipal revenues, they must have taxation powers on revenue sources those have local nature such as user fees and charges, personal income tax, employee taxes of the city administrations, government and enterprises employees, business profit tax(category C), turn over tax and excise tax from individual traders, rental tax(from rent of houses and properties),royalty and turn over tax from mining activities in the cities, income from enterprises owned by municipalities, tax on capital gains and royalties from forest within the municipalities are recommended as appropriate revenue sources of the city administrations.
5. Finally, to improve fiscal autonomy of city administrations, the capacity of the revenue collecting authorities should be strengthened by giving them on jobs training and by fulfilling necessary logistics to the revenue authorities. In other words, to make the city administration local governments more efficient and effective, it is required to enable them in financial resources and skilled man powers.

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Interviewees

1. Interviews with Their .E. Cities' Administrations revenue experts of municipal managers and revenue authority offices of(Sabeta,Ambo,Fiche,Sandafa Bake,Matahara, Bokoji and Dodola city administrations), May 4-29, 2019
2. Interview with H.E Mrs. Lachisa Hayu , Head of Urban development Standing Committee of Oromia Regional state council (Caffe), May 8, 2019
3. Interview with H.E Mrs. Tofik Mohamed, Revenues' expert of Oromia Revenue Authority, May 8 24, 2019
4. Interview with H.E Ms. Wayineshet Aseffa, municipal revenues' expert of Oromia Urban Development and Housing Bureau, May 8, 2019

Annexes and Tables

Annex One: General Information about respondents

S/N	Name of Organizations	Number of Respondents			Level of Education			
		Male	Female	Total	Diploma	Degree	Masters	Above Masters
1.	Oromia Regional national state Caffee Council	2	-	2			2	-
2.	Oromia National Regional state president office	3	-	3	-	2	1	
3.	Oromia Urban development and Housing Bureau	1	2	3	-	-	3	-
4.	Oromia Revenue Authority	4	-	4	-	3	1	-
5.	Sabeta city Administration Council	1	-	1	-	1	-	-
6.	Sabeta City Administration municipal office	2	-	2	-	2	-	-
7.	Sabeta City Administration Revenue Authority office	3	-	3	-	3	-	-
8.	Ambo City Administration Council	1	-	1	-	1	-	-
9.	Ambo City Administration municipal office	2	-	2	-	2	-	-
10.	Ambo City Administration Revenue Authority office	3	-	3	-	3	-	-
11.	Sandafa City Administration Council	1	-	1	-	1	-	-
12.	Sandafa City Administration municipal office	1	1	2	-	2	-	-
13.	Sandafa City Administration Finance and Economic cooperation Office	2	1	3	-	3	-	-
14.	Sandafa City Administration Revenue Authority office	2	1	3	1	2	-	-
15.	Fiche City Administration Council	1	-	1	-	1	-	-
16.	Fiche City Administration Municipal office	2	1	3	-	2	-	-
17.	Fiche City Administration Revenue Authority office	2	1	3	-	3	-	-
18.	Matahara City Administration Council	1	-	1	-	1	-	-

19.	Matahara City Administration Municipal office	2	-	2	-	2	-	-
20.	Matahara City Administration Revenue Authority office	3	-	3	1	2	-	-
21.	Bokeji City Administration Council	1	-	1	-	1	-	-
22.	Bokeji City Municipal office	2	1	3	1	1	-	-
23.	Bokeji City Administration Revenue Authority office	2	1	3	1	2	-	-
24.	Dodola City Administration Council	1	-	1	-	1	-	-
25.	Dodola City Administration Municipal office	2	1	3	-	3	-	-
26.	Dodola City Administration Revenue Authority office	2	1	3	-	3	-	-
Total Respondents		49	11	60	4	47	7	

Annex Two: Question provided and data collected

S/N	Questions	Number of informants	Number of responded to					
			Yes	%	No	%	I don't Know	%
1.	Do you believe that the city local government administration in Oromia regional state have the power to levy and collect taxes?	60	54	90%	6	10%	-	-
2.	Do you think that in Oromia regional state City's local government revenue capacity enable them to exercise full measure of their self-administration?	60	35	58.3%	25	41.7%	-	-
3.	Do you think that fiscal decentralization/ fiscal freedom of local governments of city administration/ matches with political decentralization (expenditure obligations) in Oromia regional state?	60	22	36.7%	34	56.7%	4	6.6%

4.	The city local government administration in Oromia Regional state are established by proclamation .Do you believe that this have impacts on the power to enact laws concerning to the city matters particularly revenue laws?	60	32	53.3%	28	46.7%	-	-
5	Does the limitation of power of setting of city administration on tax base and rates (e.g. Municipal Revenue and Service charges) have impacts on the self-rule of the city administration?	60	40	66.7%	16	26.7%	4	6.6%
6.	Do you believe that block grants (budget) given by Oromia Regional state to city administration enhances the revenue capacity of the city administration to provide public services effectively and to administer its internal affairs?	60	39	65%	19	31.7%	2	3.3%
7.	Do you think that centralization of fiscal power particularly revenue power at Oromia Regional government/revenue dependence of City Administration/ affect the exercise of self-rule of city administrations?	60	36	60%	21	35%	3	5%
8.	Do City Local Government Administrations in Oromia Regiona state have tax autonomy/ sovereignty/?	60	23	38.3%	35	58.3%	2	3.4%
9.	Do you think that, all expenditure needs of local government of city administration in Oromia Regional state could be financed only by the revenue collected from their tax sources and non-tax sources under their jurisdiction?	60	20	33.3%	38	63.3%	2	3.4%
10.	Can the provision of public goods and service in local government of city administration in Oromia Regional state be properly performed matching the needs of the cities in the presence of high dependence of the cities on Oromia Regional state subsidy?	60	20	33.3%	39	65%	1	1.7%
11.	Do you think/do you observe/ that low political commitment for revenue raising and lack of skilled man power for proper administration of taxes causes less revenue	60	42	70%	15	25%	3	5%

	capacity of city administration in Oromia National Regional State?							
12.	Do tax payers and tax collectors have contributed to the city administration less revenue capacity?	60	49	81.7%	11	18.3%	-	-
13.	Do you observe that revenue generating capacity of city local government in Oromia Regional state is improved?	60	51	85%	9	15%	-	-
Average		780	463	59.4%	296	38%	21	2.6%

Annex Three: Questions provided to interviewees

JIMMA UNIVERSITY
COLLEGE OF LAW AND GOVERNANCE
DEPARTMENT OF COMMERCIAL AND INVESTMENT LAW

Interview questions provided for the key informants

First of all, I would like to forward my sincerely greetings and appreciation to you for your willingness to share your understanding/experience/ for this interview.

OBJECTIVE

This interview is designed and prepared to collect information on the title *Local government financing in Oromia regional administration*. The study is carried out as a partial fulfilment of the requirement for the master of LLM in law in Jimma University College of law and Governance in department of commercial and investment law. The findings of the study will only be used for academic purposes and to make recommendation based on findings. Hence, you are kindly requested to forward your views and experiences as carefully as possible. Each of your answer is highly helpful in the preparation and understanding of the title under the study as well as has great contribution for the completeness of this research paper. I would like to thank you in advance for your kind cooperation in responding to this interview.

- a. Name of your office _____
- b. Your experiences in the current office in years _____
- C. Your position in the office _____
- d. Your level of education _____
- e. Subject _____

1. There are city administrations in Oromia Regional state which independently established by the region's proclamation and they can approve their budget by city proclamation. Does it valid?
2. Do you believe that under Oromia regional state the setting of the bases and rates of municipal revenue and service charges of city administrations are centralized against the principles and theory of fiscal decentralization?
3. Do city administration have the power to levy and collect taxes practically?
4. What if certain tax bases previously owned by the Oromia Regional state would be decentralized to City administration as a policy option to narrow vertical fiscal imbalance?
5. Do you think that City administration in Oromia Regional state would fully exercise self-government in the presence of high dependence on the Region for financial support to perform their responsibilities?
6. Does City administration in Oromia National Regional State have tax autonomy according to the theory of fiscal decentralization which claims that the sub-national government to determine tax rates and tax bases under their jurisdiction?
7. On which tax bases can City administration in Oromia National Regional State determine its bases and rates freely?
8. What do you think is the practical cause of less revenue capacity of city administration in Oromia National State?
9. What problems do you observe in relation to city administration revenue rights and expenditure obligations?

Annex four: Contacted Informants for interviews

S/N	Name	Office	Interview day
1.	Mr. Yilma Wayessa	Office of the speaker and the secretariat of the caffe	May 8,2019
2.	Mr. Lachisa Hayu	Office of the speaker and the secretariat of the caffe	May 8,2019
3.	Ms. Wayineshet Asefa	OUDEHB	May 8,2019
4.	Mr. Kuma Shuma	Sabeta CARAO head	May 6,2019
5.	Mr. Eliyas Hamid	Sabeta CARAO revenue expert	May 6,2019
6.	Mr.Tofik Mahamad	ORAU Expert	May 8,2019
7.	Mr.Dajan Tashoma	Sandafa Bake CARAO head	May 15,2019
8.	Ms.Kasech Gurmu	Sandafa Bake City council speaker	May 15,2019
9.	Mr.Kumesa Bekele	Bokeji CA Finance head	May 22,2019
10.	Mr.Aman Tuke	Dodola CARAO head	May 23,2019
11.	Mr. Gari Tola	Ambo CARAO revenue expert	May 29,2019
12.	Mr. Getu Kebede	Fiche CARAO revenue expert	May 4,2019
13.	Mr.Mebiratu Gudeta	Matahara CARAO revenue expert	May 21,2019

Annex Five: Lists of Oromia City administrations Local governments

S/N	Name of the town	Level of the town	Zone	Selected for sampling study
1.	Adama	principal	East Shoa	
2.	Shashamanne	principal	West Arsi	
3.	Bishoftu	Principal	East Shoa	
4.	Sabeta	Principal	Special zone surrounding finfinne	Sabeta
5.	Burayu	Principal	“ “	
6.	Jimma	Principal	Jimma Zone	
7.	Nakemte	Principal	East Wellegga	
8.	Dukam	Principal	East Shoa	
9.	Assalla	Higher	Arsi Zone	
10.	Sululta	Higher	Special zone surrounding finfinne	
11.	Galan	Higher	Special zone surrounding finfinne	
12.	Mojo	Higher	East shoa	
13.	Ambo	Higher	West shoa	Ambo
14.	Holota	Higher	West shoa	
15.	Robe	Higher	Bale	
16.	Batu	Higher	East Shoa	
17.	Waliso	Higher	South - west shoa	
18.	Laga Tafo Laga Dadi	higher	Special zone surrounding finfinne	
19.	Beddele	Intermediate	Buno Beddele	
20.	Bule Hora	Intermediate	West Guji	
21.	Nagelle Borena	Intermediate	East Guji	
22.	Adola wayu	Intermediate	East Guji	
23.	Chiro	Intermediate	West Hararge	
24.	Matu	Intermediate	North shoa	
25.	Fiche	Intermediate	North shoa	Fiche
26.	Dambidollo	Intermediate	Kelem wellega	
27.	Gimbi	Intermediate	West wellega	
28.	Najo	Intermediate	West wellega	
29.	Sandafa Bake	Intermediate	Special zone surrounding finfinne	Sandafa Bake
30.	Arsi Nagelle	Intermediate	West Arsi	
31.	Agaro	Intermediate	Jimma zone	
32.	Shambu	Intermediate	Horro Guduru wellega	
33.	Yabello	Intermediate	Borena	
34.	Shakiso	Growing city	East Guji	
35.	Gobba	Growing “	Bale	
36.	Awaday	Growing “	East Hararge	
37.	Badessa	Growing “	East Hararge	
38.	Dodola	Growing “	West Arsi	Dodola
39.	Ginnir	Growing “	Bale	
40.	Mandi	Growing “	West wellega	
41.	Bokoji	Growing city	Arsi	Bokejii
42.	Bishan Gurracha	Growing city	West Arsi	
43.	Babbile	Growing “	East Hararge	
44.	Matahara	Growing “	East shoa	matahara

45.	Dadar	Growing “	East Hararge	
46.	Haromaya	Growing “	East Hararge	
47.	Kofale	Growing “	West Arsi	
48.	Limu Gannat	Growing “	Jimma zone	
49.	Huruta	Growing “”	Arsi	
50.	Dhera	Growing “	Arsi	
51.	Angar Gute	Growing “	East wellega	
52.	Hirna	Growing “	West Hararge	
53.	Galamso	Growing “	West Hararge	
54.	Machara	Growing “	West Hararge	
55.	Meki	Growing “	East Shoa	
56.	Gerba Gurracha	Growing “	North shoa	
57.	Moyale	Growing “	Borena	
58.	Chancho	Growing “	Special zone surrounding finfinne	
59.	Kolobo	Growing “	Special zone surrounding finfinne	
60.	Karcha	Growing “	East Guji	

Table one: Trends of municipal and the region's regular revenues (2006 – 2010 E.C)

Years in E.C.	Sampled Study area CA	Municipal Revenues		Region's regular revenues	
		Plan	Actual	Plan	Actual
2006	Sabeta	118,384,652	116,161,304	277,989,182	279,930,321
	Ambo	11,331,957	8,450,842.55	24,060,307.01	17,312,238.72
	Fiche	25,000,000	23,607,116.77	13,333,466	11,379,266
	Sandafa Bake	-	21,118,256.13	-	13,568,052.02
	Matahara	7,370,811	7,957,586.30	8,357,219	7,817,845
	Bokeji	-	5,424,433.27	-	7,114,977.22
	Dodola	6,537,049	6,980,930.50	9,360,967	9,279,859.57
2007	Sabeta	165,318,793	181,426,162	390,004,692	364,630,888
	Ambo	23,000,000	21,801,025	25,956,504	23,503,305.63
	Fiche	40,000,000	33,493,584.76	16,728,934	19,494,068.85
	Sandafa Bake	-	32,500,170.4	-	22,968,235.5
	Matahara	9,797,184	8,760,566	9,733,881	9,927,473
	Bokeji	-	6,765,362.19	-	10,718,068.89
	Dodola	8,847,374	8,082,542.90	11,565,287	12,477,052.00
2008	Sabeta	234,767,482	145,681,614	584,937,651	452,246,116
	Ambo	33,146,956	20,666,085	34,717,179	33,850,102.17
	Fiche	50,024,038	30,854,406.55	28,440,927	22,857,580.29
	Sandafa Bake	-	24,441,843.62	-	30,370,730.97
	Matahara	11,514,269	6,802,572.48	13,770,099	11,126,137.18
	Bokeji	8,918,485	7,759,272.14	-	12,922,081.35
	Dodola	11,419,992	7,910,096.69	17,356,652	14,800,627.15
2009	Sabeta	235,912,922	149,292,063	571,749,373	484,801,525
	Ambo	33,987,628	117,34,817.46	57,943,603.92	46,105,098.36
	Fiche	41,920,235	28,259,409.61	24,231,235	24,952,339.95
	Sandafa Bake	-	34,535,343.98	-	32,904,074.7
	Matahara	11,000,000	11,216,855.04	13,147,149	12,132,306.97
	Bokeji	10,169,363	8,108,386.70	-	14,587,435.60
	Dodola	8,837,703	7,781,276.95	16,768,135	13,995,907.68
2010	Sabeta	263,500,000	209,966,916	601,976,769	609,477,522
	Ambo	30,691,980.97	20,978,910.31	54,148,914	51,176,765.45
	Fiche	32,965,104	30,655,439.39	30,178,340	33,018,771.93
	Sandafa Bake	-	35,486,107	-	43,737,457
	Matahara	14,021,068	16,490,454.18	15,969,490	17,406,560.72
	Bokeji	8,547,113	10,183,589.27	-	20,703,964.38
	Dodola	8,917,204	10,700,401.86	17,131,620	19,962,520.81
	Average				

Table two: Trends of revenues and expenditures of the three years study Area of City administrations

Years in E.C.	Sampled CA	Revenue collected				Expenditures			The region's grant (%)
		Municipal (in mil..Bir)	Region (in mil..Bir)	Budget	Share of CA (%)	Municipal (in mil.Bir)	Region (in mil.Bir)	Share of CA (%)	
2007 E.C	Sabeta	181.43	364.63	235.9	76.73	181.63	54.47	76.9%	23.1%
	Ambo	21.8	33.9	42.94	50.8	21.8	21.14	50.1%	49.2%
	Fiche	33.5	35	112.7	29.72	33.5	79,2	29.7%	70.3%
	Sandafa Bake	32.5	23	93.5	34.8	32.5	61	34.8%	65.2%
	Matahara	8.8	9.93	18.5	47.6	8.8	9.7	47.6%	52.4%
	Bokeji	6.9	10.8	17.7	39	6.9	10.8	39%	61%
	Dodola	8.1	12.48	30.7	26.4	8.1	22.6	26.4%	73.6%
Average								43.6%	56.4%
2008 E.C	Sabeta	145.7	454.23	821.73	17.73	145.7	676.03	17.7%	82.3%
	Ambo	20.4	46.6	137.63	14.82	20.4	117.23	14.8%	85.2%
	Fiche	30.9	22.9	161.41	19.14	30.9	130.51	19.1%	80.9%
	Sandafa Bake	24.44	30.4	94.5	25.9	24.44	70.06	25.9%	74.1%
	Matahara	6.8	11.13	17.93	37.93	6.8	11.13	37.9	62.1%
	Bokeji	7.76	12.93	20.69	37.51	7.76	12.93	37.5%	62.5%
	Dodola	7.91	14.8	46.9	16.9	7.91	38.99	16.9%	83.1%
Average								24.3%	75.7%
2009 E.C	Sabeta	150	485.33	334	45	150	184	44.9%	55.1%
	Ambo	20.9	52.9	114.44	18.3	20.9	93.54	18.3%	81.7%
	Fiche	28.3	25	165.6	17.1	27.44	137.3	17.1%	82.9%
	Sandafa Bake	34.54	32.90	97.2	35.54	32.9	62.66	35.5%	64.5%
	Matahara	11.22	12.13	23.4	48	11.22	12.18	47.9%	52.1%
	Bokeji	8.4	14.7	23.1	36.4	8.4	14.7	36.4%	63.6%
	Dodola	7.81	14	50.4	15.5	7.81	42.59	15.5%	84.5%
Average								30.8%	69.2%
Total Average								32.9%	67.1

Table three : Information of the sampled city administrations

S/N	Name of cities selected for sampling study	City level	Location of the city
1.	Sabeta	Principal city	Special zone surrounding Finfinne
2.	Ambo	Higher city	West Shoa
3.	Fiche	Intermediate city	North shoa
4.	Sandafa Bake	Intermediate city	North shoa
5.	Matahara	Growing cities	East shoa
6.	Bokoji	Growing cities	Arsi
7.	Dodola	Growing cities	West Arsi