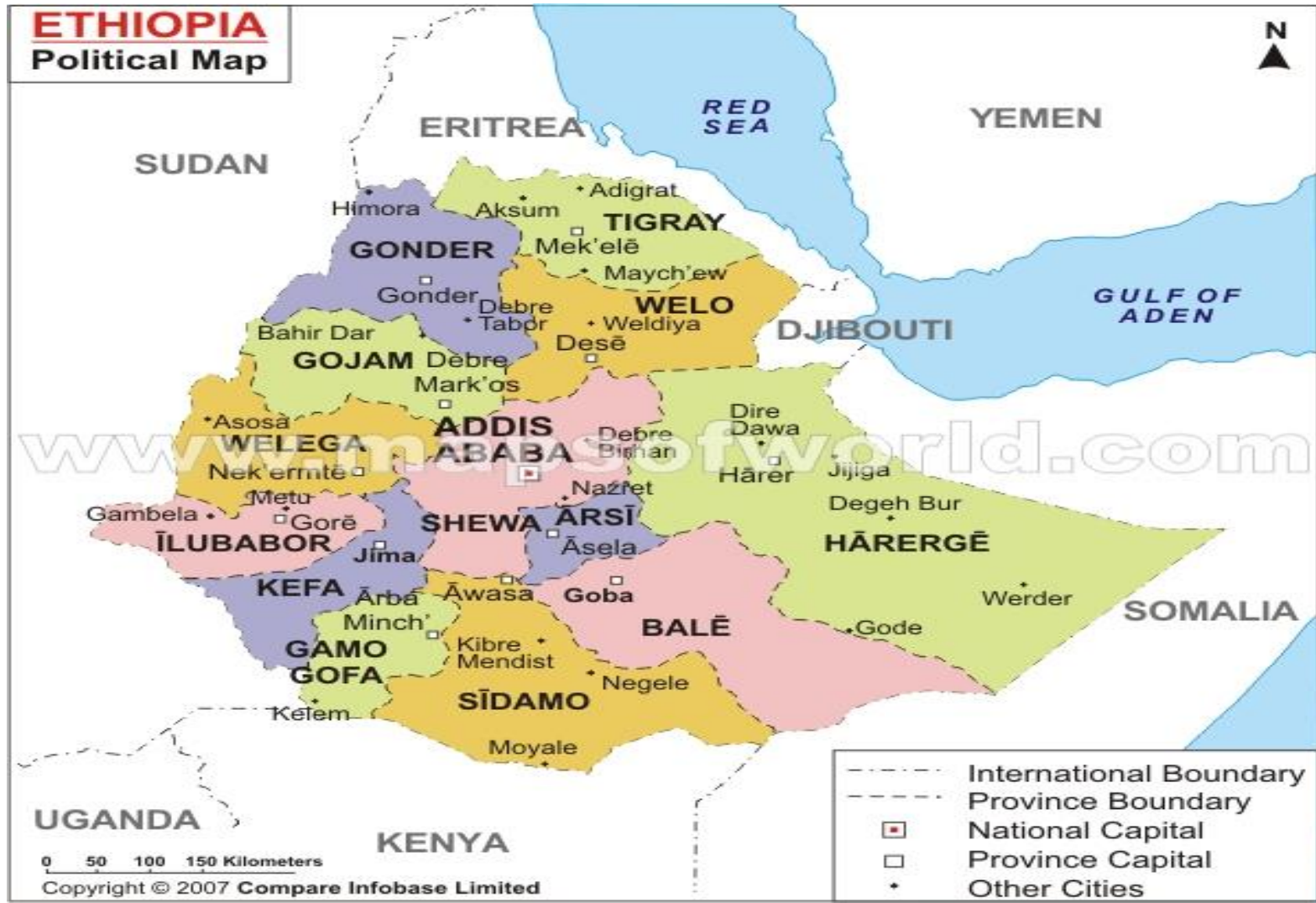


# Ministry of Urban Development, Housing and Construction

## Highlights about Ethiopian Urban Local Governments Financial Management System



# 1. Introduction

- **About Ethiopia**
  - One of the developing country in Africa
  - About 86million population 82 nations and nationalities
  - Long history, cradle of mankind, be able to defend its independence and sovereignty
  - For long its economy was staggering b/c of wars
  - Its urbanization level(about 17%) is low but the rate is fast (4%)
  - There are more than 980 towns in the country but their size is very small

## **...Introduction**

- Currently the country is organized in a federal system , 9 regional states and 2 chartered cities/There are 2 cities that direct accountable to the federal government/Addis Ababa and Dire Dawa/**
- For the last decay its economy is growing fast(on the average about 11% )**
- Now the country is implementing a 5 year GTP which is targeting to change the country's agriculture dependency economy to manufacturing industry with a vision of becoming middle income country with 15-20 years time**
- We are striving for change, to go out of poverty**

## 2. Urban Local Governments legal Framework

- Municipal authorities were established in Ethiopia in the 1940s
- But, since 2001/2, although the federal constitution article 50 allow to establish other administrative levels “State governments and given adequate power to the lowest units of government to enable the People to participate directly in the administration of such units”, that best advances self-government, a democratic order based on the rule of law, it falls to recognizing or providing constitutional rights or protections to (urban) local governments.
- Besides that the power for cities were not mentioned the first regional constitutions

# Urban Local ...cont

- In 2001/2
  - the Government acknowledges the important role of the urban sector and has established policies, strategies and programs that support investment in urban development.
  - the regions try to amend their constitution and incorporate articles that recognize urban local governments, and enact “City Proclamations” that generally
    - provides some measure of autonomy to cities, to determine local taxes and rates,
    - adopted an urban governance model that follows the elected council, elected mayor, Mayor’s Committee and city manager system

# Urban Local ...cont

- Urban local governments in Ethiopia have dual responsibilities. the provision of
  - “state services,” such as education, health, justice, and security, and
  - “municipal services,” such as urban roads, drainage, solid waste collection and disposal, and sanitation.
- State functions are financed through regional block grants
- All municipal functions are expected to be funded from own local revenues.
- Regions provide the basic legal framework and guidelines for financial management to the cities
- Autonomy given for urban local government depends on the population size

### 3. The financial management situation

- All government levels and jurisdictions in Ethiopia are expected to use a single Chart of Accounts and report on their revenues and expenditures through a common Integrated Budget and Expenditure (IBEX) reporting system (IBEX).
  - Cities as part of government follow a modified cash based accounting system
  - Follow a zero based budgeting system with a multi-year perspective
  - There is a charts of Accounts/coding manual developed at national and regional level
  - Almost all cities with a population 20000 and more are provided with the IBEx computerize system

# The financial ...cont

- More than 70 % of the budgeted of local governments is financed by regional transfers, which is not predictable and have no predetermined parameters
- The fiscal transfer is a general- purpose grants, most “earmarked grants” are actually sub-national development projects funded by international (external) grants or loans.
- Study by the World Bank reveals that municipalities on average collect around ETB 200 per urban resident in municipal revenues it is roughly comparable to other countries in the region.



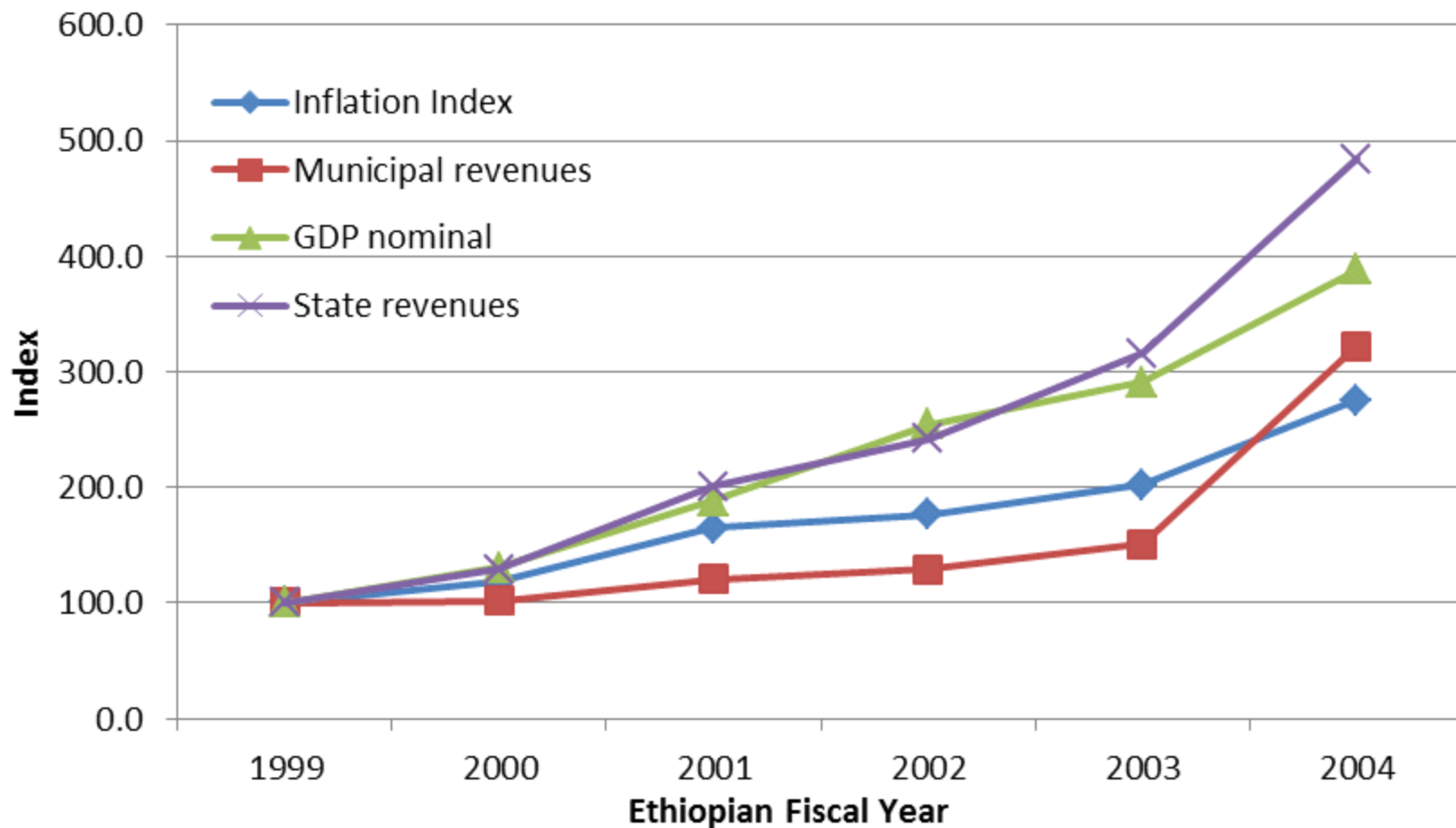
# The financial ...cont

- The 3 most important municipal revenue sources are:
  - 1) licenses, fees and charges,
  - 2) municipal rent and
  - 3) land lease.
- Although municipalities may choose to spend municipal revenues on “state functions”, municipal revenue is almost always spent on municipal development activities; and it is largely spent on municipal capital expenditures.

# The financial ...cont

- In general, larger (more populous) cities collect more municipal revenue than smaller cities, but the larger cities also tend to rely more on land lease revenue
- Addis & Dira with similar revenue mandates, because of base difference their income differs and provide subsidy for Dier heavily subsidized Dawa by federal government while Addis is self financing
- municipal revenues (especially fees and charges) tend to be eroded by inflation as they are specified in nominal terms, whereas federal and regional revenue sources (e.g. the VAT or taxes on personal and business income) are generally specified in percentage terms.

## ***Municipal revenue collections and other economic and fiscal indicators***



Source: MOFED (IBEX) and IMF.

# The financial ...cont

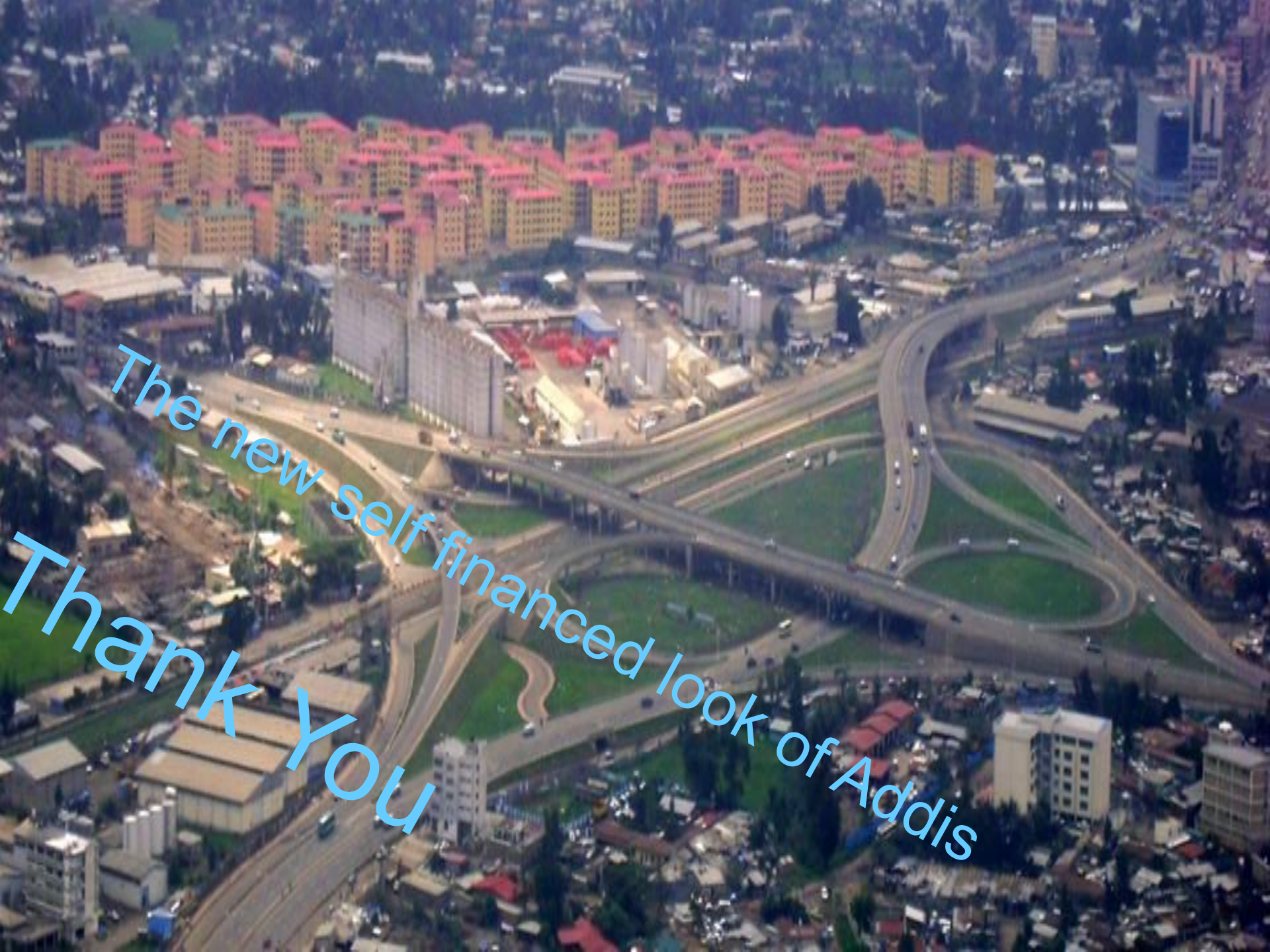
- In the financial management system the regional BOFEDs
  - provide technical support in the form of training and other capacity building for financial management –in particular the use of IBEX.
  - receive regular financial reports and compile financial reports on both state and municipal expenditures through IBEX.
  - monitors revenue collections with particular emphasis on state revenue

## 4. The opportunities

- The untapped sources like lease revenue/land is publicly owned and cities have the mandate to lease land and use the revenue for infrastructure and housing financing
- The overall country level development that pave a way to get more finance, to attract investment
- The country focus and achievement in education and training sector as means to improve implementation capability of cities
- The Federal government & partners support to modernize property tax system
- The focus given to cities by development partners like cities alliance, world bank Un habitat etc

# 5. Challenges

- Higher infrastructure and service demand with low level financial means/ low own revenue mostly related to service fees /much of the cost is not known and is not well managed, limitation on borrowing and bond issuance
- Heavily dependency on regional transfers, which is not predictable with no clear criterion , no effect on performance improve and competition among cities
- Lack of implementation capacity
- In the higher order laws it seems that Urban local governments are given autonym however, in reality, the regions issue various instructions and guidelines that in most cases nullify or significantly reduce cities' power like the ability to adopt or update local tax rates



The new self financed look of Addis  
Thank You