

FISCAL MANAGEMENT IN DANGILA MUNICIPALITY, ETHIOPIA. PERFORMANCE AND POLICY IMPLICATIONS

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ABSTRACT

Fiscal decentralization is one component of decentralization that gives authority to local governments to collect revenue through taxes and responsibility over spending decisions. Even though fiscal decentralization has given revenue raising and spending decision powers to lower levels of government, the implementation process has often been a daunting task for many local authorities in the developing world. In the case of Ethiopia, decentralization has been implemented since 1991. However, revenue raising and expenditure management are not efficiently and effectively exercised, especially in lower level government units of Ethiopia. Insufficient revenue collection and reprehensible expenditure management leads to financial incapability such that public infrastructure and services could not be financed amply. Dangila municipality faces the problem of financial capacity to deliver infrastructure and services to its citizens. While a number of studies have documented the financial incapacities of Ethiopian municipalities, they have been very shy to articulate the discrepancies and deficiencies that link financing to service delivery. It is interesting to know what the driving factors are in this case. Therefore, the main focus of this paper is to assess the efficiency and effectiveness of revenue collection and expenditure management of Dangila Municipality. To obtain edifying data the paper used a positivist survey study. Municipality financial documentation and questionnaires were the main sources of secondary and primary data respectively. Parametric descriptive statistical methods were applied in the analysis of data to arrive at measures of efficiency and effectiveness in revenue collection and expenditure management of the municipality. The study revealed that the municipality is not efficient and effective in its revenue collection and expenditure management. The main explanation for such inefficiency comprise; derisory assessment of taxable sources, poor organizational structure, inadequate accounting system, absence of clear operational guidelines, poor planning and data base management, lack of awareness by taxpayers and lack of skilled manpower. To resolve such challenges, we recommend the following actionable measures; widening the revenue base of local sources of revenue, improving planning and implementing capacity, establishing adequate data base systems, continuous awareness creation for taxpayers, establishing appropriate guidelines and methods of revenue collection, revision of the tariff structure regularly, installing accounting system that produces timely and reliable information, encouraging community participation in planning and resource allocation and municipal restructuring that take into account needs and welfare of employees.

Key words: Fiscal decentralization, revenue collection, expenditure management, efficiency, effectiveness..

1. INTRODUCTION

Financial responsibility is one of the core components of decentralization. If local governments are to carry out decentralized functions effectively, they must have passable level of revenue either raised locally or transferred from the central government as well as the authority to make decisions about expenditures. Given its attractiveness, it is not by coincidence that a myriad of fiscal reforms have been adopted by many governments across the developing nations. In many cases however, the results have been appalling owing to a multitude of challenges especially at the lower tiers of government.

In Ethiopia, such fiscal reforms were instigated in 1991 and almost all local authorities have since then been given the responsibility of financial management. Because of the semi-autonomous nature of the various local authorities, the implementation level and structures of financial responsibilities has tended to vary from place to place.

According to World Bank (1998) municipal governments were established in Ethiopia from the early 1940's as local governments with defined territorial jurisdiction and functions. Revenue collection from own-sources and spending are among the key activities that must be borne by local municipal government of Ethiopia. But in carrying out these activities efficiently and effectively, there are problems that should be unraveled. Poor revenue collection and low levels of expenditure management are key tribulations that need close investigation and improvement. Meagerness in revenue collection and expenditure management leads to financial incapability such that public infrastructure and services could not be financed sufficiently.

Dangila municipality is one of the Ethiopian local authorities that faces the problem of financial capacity to deliver infrastructure and services to its citizens. The major causes of inadequate financial capacity of municipalities among others are poor revenue collection and low level of expenditure management. It is interesting to know what the driving factors are in this case. Therefore, the main focus of this study is to assess efficiency and effectiveness of revenue collection and expenditure management of Dangila Municipality; which is found in Amhara regional state of Ethiopia. Along with this primary objective the study specifically aims to;

- assess the effectiveness of the municipality's revenue collection system based on selected year's performance,
- examine the efficiency in the allocation of financial resources based on specific years expenditure,

- evaluate methods or strategies designed for revenue collection as well as determining the expenditure pattern, trend and performance of revenue collection and expenditure management.

2. CONCEPTUAL FRAMEWORK

Efficiency and effectiveness were originally industrial engineering concepts that came in the early twentieth century, often considered synonyms, along with terms like competency, productivity and proficiency. However, in more formal management discussions, efficiency and effectiveness take on very different meanings. In the context of process reengineering efficiency is defined as the degree of economy with which the process consumes resources – especially time and money while effectiveness is how well the process actually accomplishes its intended purpose (Lon Roberts, 1994).

Revenues include receipts of the government from parties outside the government, primarily from tax but also from fees and other sources (Anderson, 2003). Current revenues do not always match current expenditures. As a result, there may be either a surplus or deficit. In the case of a deficit, the government is spending more during a particular period than it is receiving in revenues from taxes and other sources. A government can raise taxes in order to fully fund expenditures.

Giugale and Webb (2000) state that sub national governments must have their own revenues that are adequate to cover their current expenditure effected by their own actions, especially by changing tax rates, but also imposing new taxes, by changing the tax bases and by varying administrative effort. The underlying concept with respect to this idea is that proper revenue administration assists local governments in the collection of tax and non-tax revenues effectively.

Anderson (2003) states that expenditures are monetary disbursements by the government, including funds transferred to other units of government. Fiscal policy and fiscal management need a good understanding of how the expenditure side of the budget is planned, prepared and executed (Potter and Diamond, 1999). With this in mind, public expenditure management entails appropriate planning and spending within the budget processes; strengthening the expenditure control systems, evaluating and monitoring the expenditure control systems and evaluating and monitoring effectiveness of established systems. The same argument is affirmed by Dancorry (1997), public expenditure management techniques could be; defining objectives setting, publishing quantified targets, monitoring and publishing performance. Nice (2002), also states that budgeters must decide which services and programs deserve generous support, which ones receive modest support, and which ones should receive little or

nothing. The idea indicates that setting goals and priorities is essential before public expenditure takes place.

According to Giugale and Webb (2000), economic efficiency calls for greater autonomy of sub national governments in expenditure and taxing decisions. With regard to this, those sub national governments that are given autonomy for own revenue generation and expenditure decisions should accomplish their responsibilities efficiently and effectively. To test the efficiency and effectiveness of revenue collection and expenditure management, qualitative and quantitative indicators can be used.

Indictors of Efficiency and Effectiveness

Gianakis and McCue (1999) argue that the efficiency of a revenue source refers to the cost of collecting it, including the compliance costs borne by the payer. In addition the administrative costs borne by the government, such as record keeping, auditing and enforcement are ultimately borne by the tax payer. As a result the municipal revenue administration cost to the total revenue collected can be employed as a quantitative indicator to test efficiency. On the other side, the ratio of the actual revenue collected to the revenue planned can alternatively be used as another indicator of efficiency. A qualitative measure for efficiency could be analyzing revenue mobilized from relatively own revenue sources. On the expenditure side, efficiency can be examined on the perspective of ensuring local economic development.

Whether the municipal government is doing its responsibilities particularly, revenue collection and expenditure management in the right way can be evaluated using both quantitative and qualitative indicators. The quantitative indicators that are used to test effectiveness can also entail the level of delay in collection that is, collection lag, level of objectivity in assessment and valuation of taxable sources and number of defaulters. Level of use of statutory laws to enforce payment can be used as the qualitative indicator to test effectiveness. Bailey (2004) states that constantly reviewing the pattern of spending is essential to ascertain what is still required to fulfill targeted objectives. Hence, achievement of planned objectives with planned expenditure can be used to evaluate whether the expense system is effective or not.

Fiscal Decentralization

Decentralization is the process of pushing responsibilities and resource to lower levels of government within a multilevel government setting (Anderson, 2003). The Ministry of Finance and Economic Development (MOFED) (2008), also states that decentralization is the raising and allocation of

resources from the central government and its agencies to subordinate units or lower levels of government. Fiscal decentralization as one component of decentralization takes many forms such as expansion of local revenues through property or sales taxes, responsibility of spending decisions and others. In line with this, Giugale and Webb (2000) states that access to own revenues is key to fiscal decentralization because it gives sub national governments control over the size of public spending within their jurisdictions. Giugale and Webb (2000), argue that decentralization works best when taxes and the benefits of public spending (or costs incurred by governments) are closely related.

The provision of any public service involves three functions that are legislation of principles and norms, financing and delivery of the service (Giugale and Webb, 2000). The design of a clear and efficient system of expenditure assignment should address each of the above three functions. In a decentralized system of the government, different levels of government may handle different functions for any expenditure area. What confuses expenditure assignments in practice is that even though responsibility for implementation or delivery may be assigned explicitly, responsibility is not assigned for designing policy, imposing norms over expenditure functions, or financing those expenditure responsibilities.

Revenue Collection of Urban Local Governments and Strategies

Local governments are becoming increasingly dependent on their own-source revenues to cover recurrent expenditures. Municipalities are among the local urban governments and dependent on local revenue sources to finance some of public infrastructure and services. Gianakis and McCue (1999), argue that evaluating current tax structures and exploring alternative revenue options in a productive manner require an integrated and comprehensive approach. Hence, an integrated revenue management system is concerned with establishing revenue performance standards, documenting revenue performance, comparing actual with expected performance, initiating corrective action and designing controlling mechanisms.

According to United Nations Center for Human Settlement (UNCHS) (1992), municipal governments should continuously monitor their progress in revenue collection. A strict timetable must be set for each tax or charge stipulating the period within which payment is due, intervals at which reminders are automatically sent to defaulters and date at which legal proceedings or other sanctions shall be taken. Moreover, in the case of taxes and charges for which a taxpayer have a regular continuity liability, it is necessary to keep an account in respect of each taxpayer, showing the amounts due, amounts paid and any outstanding balance due to the municipality. To be effective in revenue collection, municipal governments should design and implement the points mentioned above.

Giugale and Webb (1999), state that revenue managers should examine the equity of their revenue structures in light of the distribution of goods and services provided, and the efficiency of their revenue sources in terms of the costs of compliance, the costs of administrations, and their effects on private economic activity. Moreover, three options available to local government managers have been identified including broadening existing sources through rate increases or optimization strategies, developing new revenue sources, and reducing current service levels. Tax base expansion can also enable municipal governments make existing revenue sources more productive.

Nice (2002), states that by monitoring and analyzing revenues on an on going basis, officials can detect problems early. This in turn may enable officials to begin corrective actions early and prevent avoidable damage. From this, one can understand that continuous monitoring and evaluation of revenue collection progress is one of the key strategies that local authorities can implement in order to achieve effectiveness in their revenue collection endeavours.

On the other side, Anderson (2003) states that one of the ways of evaluating municipal revenue options is that local government municipalities should be structured in a manner that minimize disincentives to revenue mobilization. The concept behind this idea is that municipalities should be structured in a way that motivates the staff so that revenue collection can be performed in a better manner. In the light of this argument, it is therefore interesting to note that one of the reasons for poor performance of municipal revenue mobilization in Ethiopia is shortage of skilled manpower within departments or work units of municipalities (Federal Democratic Republic of Ethiopia, 2005).

Public Expenditure of Local Government and Strategies

Public expenditure is incurred to provide public sector infrastructure and services in support of economic and social objectives (Dancorry, 1997). Expenditure outcomes could be categorized into three basic objectives that any system needs to achieve. These include; (i) to instill aggregate fiscal discipline, (ii) to facilitate strategic prioritization of expenditures across programs and projects, and (iii) to encourage technical efficiency in the use of budgeted resources; that is to achieve outputs at the lowest possible cost (World Bank, 1998). Taking these objectives into consideration, local authorities must be painstaking in demanding a consistent, clear, and open approach to public spending decisions, where accountability and effectiveness are deemed to be the catchphrases.

According to Potter and Diamond (1999) the key issues on budget execution are whether deficit targets are likely to be met, and any budget adjustments (both on the revenue and expenditure sides) agreed at the preparation stage are being implemented as planned. On the expenditure side of the budget, the

key issues are whether the outlay is likely to be within the budgeted figures; any change in expenditure priorities are being implemented in specific areas as planned; and any problems are being encountered in budget execution. Public expenditure can be managed best by improving the allocation of those scarce resources in accordance with the priorities identified.

Broad consultations that involve representatives of stakeholders and that incorporate feed back can help to facilitate prioritization. Hence, mechanisms that hold government accountable for allocating resources accordingly and making those allocations as transparent is an important task. Institutionalizing a process of reconciling actual expenditures with annual budgeted allocations as well as forward estimates with subsequent budget requests and publicizing all such reconciliations creates incentives for government; that is to stick to the expenditure priorities (World Bank, 1998). Similarly undertaking regular evaluations of programs and publicizing the results makes the concerned bodies more responsive to producing the outputs that they have promised to their citizens.

On the other hand, establishing effective expenditure control system is another important component of expenditure management. According to United Nations Center for Human Settlement (1992), whoever is responsible for authorizing expenditure on a particular budget item must have regular and up-to-date information on the total amount spent and therefore, ascertain whether the balance is still available for commitment. This means the expenditure must be brought promptly to account in the municipal government's ledgers and that statements of spending to date must be provided on a regular basis to those controlling expenditure on each item. Local government officials also have to be made accountable for the allocation decisions that they make and for the efficient delivery of services. That is an appropriate balance between autonomy and accountability of the officials has to be struck.

In general a well functioning budgetary system ensures accountability in the sense that every action is transparent, every participant is held accountable, every action is properly documented and reported, and every action can be subject to independent, professional and unbiased audit and review (Wynne, 2004). With regard to this, the budget system of municipal governments should promote objectives such as an efficient allocation of financial resources among programs, effectiveness of government operations and efficient financial management of government resources. Related to this idea, Ethiopia devised new approaches in the past few years to ensure efficient and effective expenditure management of municipalities. One of these approaches is significant reorientations of municipal expenditure in a manner that contributes to poverty reduction and local economic development.

The role of Municipalities in Ethiopia

According to National Urban Planning Institute (2001), an urban area is said to be efficient and effective when it provides those urban services that directly affect the quality of urban life, which include social services, physical infrastructure and municipal services. Unfortunately, provision of these services have consistently failed to keep pace with increasing service demand in urban areas of Ethiopia because municipal revenues are not large enough to cover the cost of the increasing service demand due to rapid urbanization and resultant population pressure.

Municipal services are those public services, which are rendered and controlled by the urban administration. These include sewerage, sanitation, garbage collection and disposal, public markets, abattoir, recreation and cultural places, etc. The delivery, efficiency and sufficiency of these public services are crucial in determining the quality of urban environment and life. According to Mulugeta (2004), there are more than 900 localities in Ethiopia considered to be urban. Most of these urban areas are technically and financially weak and are deprived of necessary basic infrastructures like roads, water supply, power service, postal service, telecommunication and housing.

Hailu (2003) states that municipal governments fall under the jurisdiction of regions. The legislation that governs them dates back to the 1940s and as a result, they are treated very unevenly by regional governments, they lack the direct authority to set the tax rates and user fees that fund the services they provide. As a result, their ability to serve their citizens effectively or contribute more broadly to rural urban growth is impaired.

3. THE STUDY AREA

Ethiopia is divided into nine regional states and two city administrations. Each regional state is divided into administrative zones. Amhara is one of the nine regional states and it is divided into eleven administrative zones (figure 1). Agew Awi administrative zone is one of the zones that are found in Amhara region. Dangila, where the study was undertaken, is found in Agew Awi zone and it is along the main road between the cities of Addis Ababa and Bahir Dar and about 480km from Addis Ababa the capital of Ethiopia). From the regional capital, Bahir Dar, Dangila is about 80km. Astronomically, Dangila town is located at 11° 18' N latitude and 36° 57' E longitude and has a total population of 35 477 of which 15 537 are males and 19 940 are females (Office of Dangila Finance and Economic Development, 2009).



FIGURE 1: LOCATION OF THE STUDY AREA

4. MATERIALS AND METHODS

The methodology section is an important component of the research that essentially maps out the methods used during the research work. On the basis of research problem and objectives, this study used the positivist descriptive method of data analysis. Both quantitative and qualitative data were gathered and analyzed to resolve the research question. Quantitative data of the municipal including financial data of revenue and expenditure were collected to analyze the efficiency in revenue collection and effectiveness in expenditure management. In addition qualitative data were collected from the

respondents using structured interview and questionnaire to get more insight to the research question. The data for this study were collected from both primary and secondary sources. Primary data were collected directly from the respondents through a questionnaire and structured interviews with key officials from the municipality while secondary data was collected from published and unpublished materials; predominantly from municipality financial statements, reports, minutes and documents.

To assure the qualification of data collected from secondary sources a total sample size of 50 respondents were taken from different public organizations including Dangila Municipality, Agew Awi Zone Works, Urban Development Office and Agew Awi Zone Administrative Council comprising of officials, department heads and experts. Purposive sampling was employed for questionnaire and interview. The respective organizations and numbers of respondents are indicated in Table 1.

TABLE 1 - NUMBER OF RESPONDENTS AND RESPECTIVE ORGANIZATIONS

Office	Number of respondents
Awi zone Administrative Council	10
Awi zone Works and Urban Development Office	15
Dangila Municipality	25
Total	50

Source: Study Survey, 2009

Primary data was collected using questionnaire and interview methods. Structured interviews were conducted with officials of Awi Zone Works and Urban Development Office and Awi Zone Administrative Council to collect qualitative data, in particular to do with national policy, administrative and staff resources issues. In addition, a questionnaire was given to department heads as well as experts. However, quantitative financial data including revenue and expenditure figures incurred for ten years (1999 to 2008) were collected from municipal offices and analyzed to meet the research objective and resolve research questions.

The data collected from the primary and secondary sources were analyzed using different descriptive statistical methods. Drifts in revenue collection efficiency and effectiveness in expenditure management were arrived at using trend analysis and causal relationships were construed from cross-tabulation. This research used the ratio of actual revenue collected to the planned revenue to see whether the municipality is efficient in its revenue collection or not. It also uses the municipality's way of assessment of taxable sources in order to evaluate its effectiveness in revenue collection. Finally, percentages, ratios, tables and graphs have been employed as data display outputs in order to present and deduce meaning from the collected data.

5. RESULTS AND DISCUSSION

The basic revenue sources of municipalities are defined in Ethiopia's proclamation number 74 of 1945. Accordingly, the main sources of revenue include land rents and building taxes, licenses on trades and professions, market fees, fees for municipal services slaughter houses, fire bridge services, building design permit, property registration and surveying, among others.

Revenue Sources and Collection Analysis of Dangila Municipality

According to the data obtained from the field work, it clearly shows that the municipality did not attempt to exhaust its revenue sources when it prepares its annual revenue collection plan. As the data obtained shows, the revenue sources of the municipality, land rent / tax and charge for the provision of technical and related service accounted for the greatest amount of the total revenue. In other words, as compared to other revenue sources, the performance of the above mentioned revenue sources had a greater contribution towards revenue generation in the last ten years (1999 to 2008). Table 2 indicates the sources of revenue and their respective contribution to total revenue in the last ten consecutive years.

TABLE 2 - SOURCES OF REVENUE AND THEIR CONTRIBUTION TO TOTAL REVENUE (IN THOUSANDS BIRR)

S.N	Sources of Revenue	Amount of revenue (1999 to 2008)	Percentage contribution to total revenue
1	Land rent / tax	1693.96	37.7%
2	Charge for the provision of technical and related service	884.06	19.7%
3	Business tax	397.20	8.8%
4	Vehicle registration and service fee	163.30	3.6%
5	Abattoir service fee	47.40	1.1%
6	Livestock market dues	148.55	3.3%
7	Fees for the registration of contract with regard to property	286.40	6.4%
8	Other fees and charges	741.29	16.5%
9	Penalties	72.27	1.6%
10	Registration on public records	39.24	0.9%
11	Municipal service fee	16.70	0.4%
12	To erect emblems and sign boards	1.97	0.0%
	Total	4492.34	100%

Source: Dangila Municipality, 2009

As depicted in table 2, the land rent tax and charge for the provision of technical and related services accounted for 37.7% and 19.7% respectively. Other revenue sources except other fees and charges, business tax, and livestock market dues contribute insignificant amount to the total revenue. This shows that the revenue from each source is not properly planned and collected. To put it more clearly, due to inefficient assessment and coverage, revenue sources such as abattoir, service fee, penalties,

registration on public records, municipal service fee and fees from registration on public records, municipal service fee and fees from erecting emblems and sign boards have not been properly considered.

Analysis of Revenue collection

As defined in proclamation No 74 of 1945, the major responsibility of municipalities among others is assessment and collation of allowable municipal revenues. The revenue of municipalities could be improved depending on the overall operation of taxation. Moreover, it could be raised by improving the system or method of collection, expanding the tax base, increasing the tax rate, and introducing new tax.

When the revenue collection trend of Dangila Municipality for the last ten years is observed, a fluctuating trend is revealed. Its growth rate is characterized by ups and downs through out the whole period (1999 to 2008), although with a generally upward drift. The actual revenue collected and its growth pattern is shown in Figure 2.

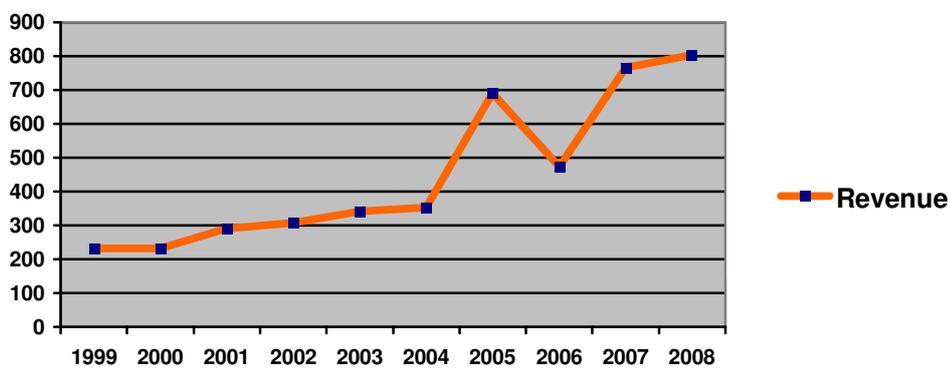


FIGURE 2 - REVENUE ACTUALLY COLLECTED (IN ETHIOPIAN BIRRS) FOR THE LAST TEN YEARS
Source: Dangila Municipality

As shown in the above graph the remarkable decline in the revenue collection of the municipality is that of the year 2006. This shows that the revenue collection system of the municipality is not designed in a way that encourages the sustainable way of collecting its own revenue. According to the data obtained from the field work, the main reasons for such inadequate revenue collection system are; poor assessment of taxable sources (for example some revenue sources such as municipal service fee and registration on public records were not assessed for the years 1999 to 2001, weak enforcement procedures, inadequacy of qualified personnel and obsolete municipal charges . To summarize, there is a need to reform the revenue collection system of the municipality. This could be achieved through

taking measures like recruiting competent staff, revising the tariff structure, strengthening enforcement mechanisms for defaulters and improving assessment mechanisms.

Efficiency and Effectiveness of the Municipal’s Revenue Collection System

Revenue collection efficiency and effectiveness can be measured by using different methods. As mentioned earlier on, the methods can be quantitative and qualitative. Among the major quantitative measures of efficiency is ratio analysis, including actual collection to planned revenue and administration cost to total revenue collected. By analyzing how much revenue is mobilized from own resources, it is also possible to measure revenue collection qualitatively. Effectiveness on the other side can be measured quantitatively by observing assessment and valuation of taxable sources.

According to the ten years revenue collection performance of Dangila Municipality, the total revenue collected amounted to 4.49 million birrs. The revenue planned to be collected for the last ten years (1999 to 2008) was 7.32 million birrs. A comparative analysis of planned and actually collected and percentage of collection of each year (1999 to 2008) of Dangila Municipality are summarized below in Figure 3.

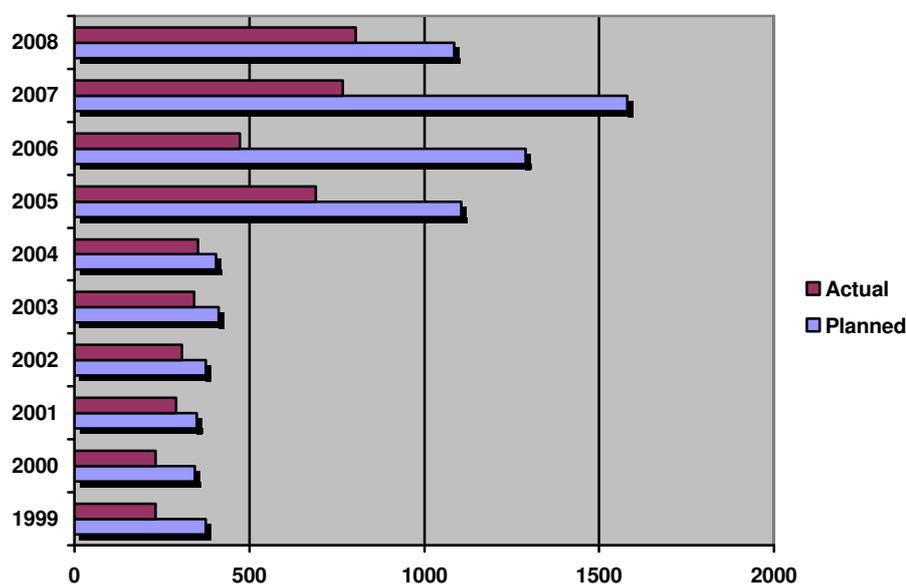


FIGURE 3 - REVENUE PLANNED AND ACTUALLY COLLECTED. (IN “000” BIRR)
Source: Dangila Municipality, 2009

From the above figure, the average collection rate of revenue is 68.2%. During the ten years period (1999 to 2008), the percentage of revenue collection ranged between 36% and 87%. When the gap between planned and actual collection is observed, it is extremely high and this shows high inefficiency

of revenue collection of the municipality that is, on average about 32% of the revenue planned remain uncollected. From this, it is easy to suggest that the municipality is not efficient in its revenue collection performance. In the years 2005, 2006 and 2007, the gap between revenue planned and actually collected shows a significant difference from that of other years. Other years do also have discrepancies between planned and actual revenue collected. Interestingly enough never has revenue planned to be collected ever been fully achieved in any of the enumerated years, that is, throughout the period under discussion, the municipality did not achieve its target plans.

Methods of Revenue Collection by Municipality

Revenue collection effort can be achieved by improving the methods of revenue collection. Among the important methods, a careful study of local sources of revenue and assessing each source of revenue is important. According to the data obtained during the field work, Dangila Municipality lacks an organized system of revenue collection. Performance standards are not well established. Additionally, actual revenue collected does not compare well with planned and when deviation between actual performance and planned is detected, corrective actions have not been taken regularly. Though the municipality prepares its annual plan every year, it however does not properly consider all the possible available sources of revenue. For example, as questionnaire data revealed, there are still unidentified taxpayers who should be paying tax to the municipality.

The assessment and collection of charges is also not properly performed by the municipality. Enforcement procedures were not implemented in a way that enhances the revenue collection process. To be precise, tax evaders are not strictly enforced to pay their tax as per the schedule. This is mainly due to lack of clear guidelines and inadequate managerial system. Moreover, lack of professional manpower in relation to planning and management is another problem for the municipality. The basic reasons for such inadequacy of designing competent methods of revenue collection are limited institutional capacity and absence of appropriate guidelines.

Review of municipal Expenditure Management

In providing infrastructure and services, municipalities expend their financial resources in the form of recurrent and capital expenditure. The recurrent expenditure (some times called the routine expenditure) is concerned with the regular operation of services like salaries of personnel, purchase of short life equipment and stock, and the costs of routine repair and maintenance. Capital expenditure is normally concerned with the creation of long term assets such as construction of roads, schools and

other infrastructural facilities. Table 3 depicts the recurrent, capital and total expenditure of Dangila municipality.

TABLE 3 - MUNICIPAL EXPENDITURE IN TERMS OF RECURRENT AND CAPITAL (IN THOUSANDS)

Year	Recurrent Expenditure	Capital Expenditure	Total Expenditure	Percentage of recurrent expenditure	Percentage of capital expenditure
1999	92	130	221	42%	58%
2000	121	151	272	44%	55%
2001	108	182	289	37%	63%
2002	121	346	467	26%	74%
2003	122	57	179	68%	32%
2004	159	188	346	46%	54%
2005	229	478	707	32%	68%
2006	566	1192	1758	32%	68%
2007	297	3587	3884	8%	92%
2008	428	90	518	83%	17%
Total	2243	6400	8643	26%	74%

Source: Dangila Municipality, 2009

Table statistics indicate that municipal expenditure amounted to 2 243 000 birr and 6 400 000 birr for recurrent and capital expenditure respectively in the last ten years. The data in the table also shows capital expenditure has been given greater emphasis than that of recurrent expenditure. The percentage of capital expenditure has ranged between 17% and 92% for the period under analysis.

Municipal recurrent expenditure on the other hand varied from 8% to 83% for the whole period (1999 to 2008). In general the proportion of recurrent expenditure is 26% to the total expenditure and capital expenditure has the proportion of 74% for the last ten years municipal expenditure. When the pattern of expenditure is observed, data shows that recurrent expenditure has an increasing trend for the years 1999 to 2006 and it only decreased for the years 2007 and 2008. On the other hand, capital expenditure has been fluctuating drastically for the period under discussion. The main reasons for the above inconsistent and inefficient resource utilization are poor planning, inadequate accounting system, poor expenditure control and inadequacy of qualified staff in the municipality.

Analysis of Expenditure Management

Good public expenditure management requires budget planning and preparation. To be fully effective, the public expenditure management system requires effective means for achieving a resource allocation that reflects expenditure policy priorities and efficient delivery of public services. Municipalities in Ethiopia are one of such public institutions and they expend their financial resources to deliver service and infrastructure for their citizens. To investigate the case of Dangila municipality, Table 4 statistics have been used.

TABLE 4 – ANALYSIS OF EXPEDITURE MANAGEMENT

Year	Recurrent Expenditure			Capital Expenditure			Total		
	Planned	Actual	Percent	Planned	Actual	Percent	Planned	Actual	Percent
1999	125	92.	74%	296	129	43%	421	222	52%
2000	143	212	84%	302	151	50%	445	272	61%
2001	142	108	75%	386	182	47%	528	289	54%
2002	156	121	77%	415	346	83%	571	467	81%
2003	169	122	72%	353	57	16%	522	179	34%
2004	204	159	77%	360	188	52%	565	346	61%
2005	300	229	76%	765	478	62%	1064	707	66%
2006	832	566	68%	3318	1192	35%	4150	1758	42%
2007	452	297	65%	3126	3587	114%	3578	3884	108%
2008	406	428	107%	1709	90	5%	2115	518	24%
Total	2929	2243	77%	11032	6400	58%	13961	8643	62%
Average			77.5%			50%			52%

Source: Dangila Municipality, 2009

By observing the data in table 4, it is possible to understand some important facts. First, the recurrent expenditure of the municipality spent lies between 65% and 107% for the period under discussion. Moreover, out of the total of 2.92 million birr, it used 2.24 million birr which accounts for 77% of the planned expenditure.

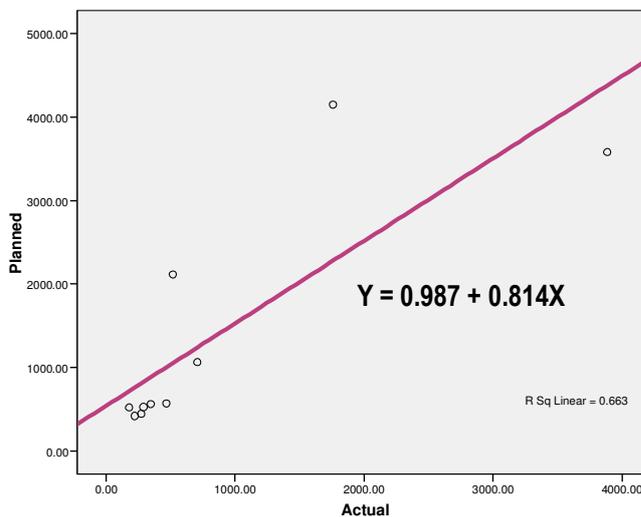
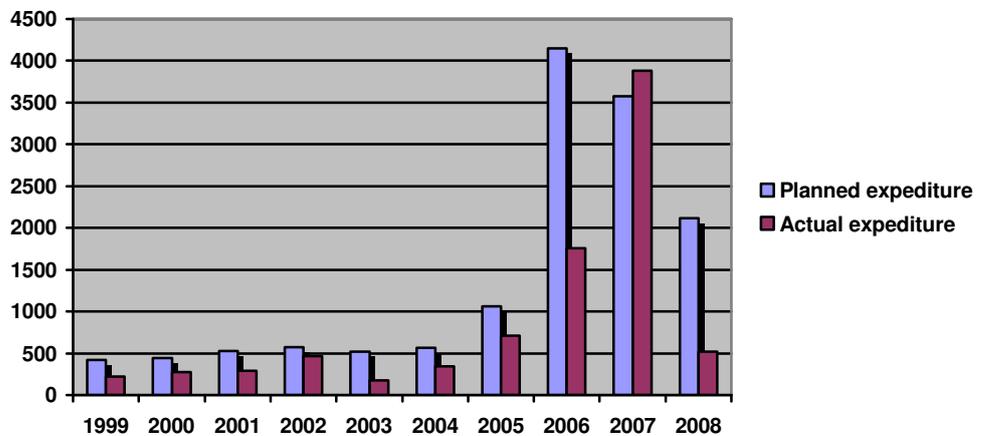
Second, when the pattern of the recurrent expenditure is observed, planned expenditure has shown increasing trend from year to year except for the year 2007 and 2008. Third, actual recurrent expenditure has also increased for the first six years (although it shows decrease and increase then after). Lastly, throughout the whole period, even though the municipality has not utilized its recurrent expenditure as planned, it has more or less a moderate level of utilization which averages 77% for the ten year period under analysis.

Regarding the capital expenditure, the actual utilization of the budgeted expenditure lies between 5% and 114%. Despite the fact that the municipality has given more attention for the capital expenditure than that of recurrent expenditure, its actual performance has proved that the municipality has not utilized its capital expenditure properly. More specifically, from the total of 11.03 million birr planned capital expenditure; the municipality has actually spent 6.39 million birr accounting for only about 58% of the planned expenditure.

As the data obtained portray, the municipality spent its capital expenditure for construction of inner roads of the town, the maintenance of existing streets, and providing street lightning. To conclude, the average recurrent and capital expenditure utilized is 77.5% and 50% respectively and this has indicated that the municipality does not utilize its resources efficiently.

Evaluating Efficiency and Effectiveness of Expenditure Management

To see whether or not the municipality is efficient in its expenditure management, this research has used the ratio analysis of actually utilized expenditure to that of planned expenditure. Effectiveness has been evaluated by analyzing the achievement of the targeted or planned objectives of the municipality. The total actual expenditure of the municipality shows 8.64 million birr out of which 13.96 million was planned expenditure. Figure 4 indicates that the municipality utilized 62% of total expenditure that has been budgeted for the period under discussion.



Results show a significant less than perfect correlation between planned (Y) and actual (X) expenditure ($R^2 = 0.663$; $df = 9$; $F = 15.752$; $p = 0.004$). The regression equation (using standardized coefficients) is:

$Y = 0.987 + 0.814X$

FIGURE 4 - PLANNED AND ACTUAL EXPENDITURE (A and B)
Source: Dangila Municipality, 2009

As the figure 4 shows, the municipal's expenditure pattern has been erratic. On the other hand, about 75% of the respondents explained that there were no well defined standards established to control the expenditure. In addition to this, the municipal budget document does not clearly show the expenditure

items and sources of revenue. Further, the accounting system employed by the municipality is not designed in a way that enhances the expenditure control system. More specifically, as all of the respondents reflected, the municipality used a single entry system of accounting which is not modern and does not give clear financial information. As a result of the above facts, the expenditure of the municipality shows fluctuations from year to year. From this it is easy to conclude that the fluctuation from year to year is mainly caused by poor expenditure control, inadequate accounting system, inadequacy in reporting of financial performance and weak linkage between planning and budgeting.

From this, it is easy to understand that the municipality did not manage its expenditure properly for the last ten years. Therefore, it is difficult to say that the municipality is efficient in its expenditure management. Regression results in figure 4b show a significant less than perfect correlation between planned (Y) and actual (X) expenditure ($R^2 = 0.663$; $df = 9$; $F = 15.752$; $p = 0.004$). Accordingly, as actual utilization of the budgeted expenditure is less, the municipality can not achieve its targets or objectives effectively. Weak technical and managerial capacity of the municipality has negatively affected its expenditure management system. The weakness is caused by out dated organizational structure and staffing policies that do not attract skilled manpower. Various studies undertaken on the Ethiopian municipalities come up with similar conclusion. Moreover, the revenue actually collected does not squarely match with actual expenditure (Table 5).

TABLE 5 - ACTUAL REVENUE COLLECTED AND EXPENDITURE SPENT FOR THE LAST TEN YEARS (IN THOUSANDS)

Year	Actual collected Revenue	Actual expenditure	Actual Expenditure compared to Actual Revenue Collected (%)
1999	233	222	95%
2000	232	272	117%
2001	291	289	99%
2002	307	467	152%
2003	342	179	52%
2004	354	346	98%
2005	691	707	102%
2006	473	1758	372%
2007	767	3884	506%
2008	803	518	65%
Total	4,492	8,643	192%

Source: Computed from Dangila Municipality Finance and Economic Development Data, 2009.

From the above data, it is indicated that actual expenditure for the municipality is 8 643 000birr where as actual revenue collected is 4 492 000 birr which implies that the municipality is dependent on the intergovernmental transfers to finance its municipal functions. More specifically, the municipality has covered only 51% of its total expenditure by own source revenues for the last ten years (1999 to 2008).

Planning and Resource Allocation of Dangila Municipality

Planning is anticipating future actions to be done. As the data obtained revealed, Dangila Municipality used stakeholders participatory modern way of planning. Activities to be performed are included in the annual plan of the municipality. During planning process, only those municipal staff members who have better knowledge regarding municipal functions are involved in the planning process. The residents of the town do not participate during the planning stage.

After identifying the activities to be preformed annually, the municipality allocates budget to achieve the objectives identified. The budget allocated is approved by Dangila Town full council meeting, prior to the establishment of the city administration; the municipal functions were accountable to the council of Dangila District. Once the budget is approved, the remaining task is accomplished by the staff of municipality. Involving residents is the best way that strengthens municipality planning and resource allocation in such a way that ensures appropriate and transparent allocation of public expenditure among competing priorities.

A review of Human Resources Capacity of Dangila Municipality

The competence of staff plays a decisive role in the development efforts of municipalities and improving the level of municipal services. With the above fact in mind, when the manpower profile of Dangila municipality is analysed, it is difficult to say that the staff engaged in performing municipal functions are competent and equipped with pre-requisite skills and knowledge. The educational status of majority of staff members is below degree level. More clearly, the following data indicates the education level of the municipal staff. As depicted in figure 5, the educational level of municipal staff is below the required level.

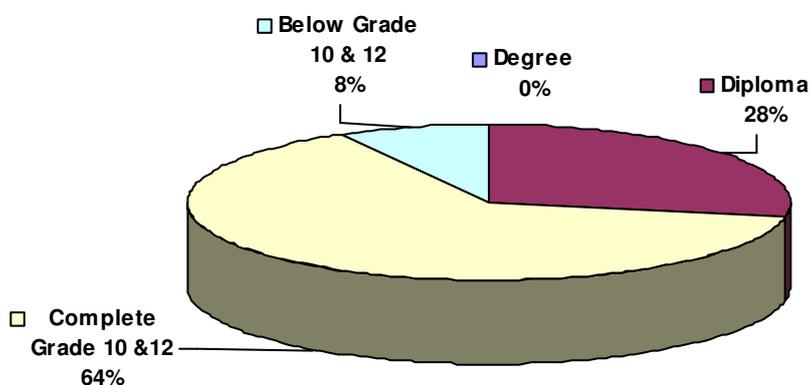


FIGURE 5 - EDUCATIONAL BACKGROUNDS OF THE MUNICIPAL STAFF
Source: Dangila Municipality, 2009

That is, about 28% of the staff members have diploma while 64% are grade 10 and 12 level with 8% below grade 10 and 12 level. From the data above, it is possible to conclude that the municipal staff are not competent and can not effectively achieve the objectives of the municipality. The staffs required are not recruited and about 22 vacant positions are presented in the data which is about 30% of the expected total staff complement. This also has negative impact in the achievement of municipal services. On the other side, the organizational structure is not designed in a way that can attract skilled manpower.

Therefore, there is a need to restructure the organization so that qualified professional can be retained and municipal services and functions can be improved. As explained in the foregoing discussions, unless attention is given to institutional restructuring and acquisition of skilled man power, municipal services and functions could not be improved. The following data shows the municipality also has poorly structured salary scale and incentive system.

TABLE 6 - SALARY SCALE OF THE PERSONNEL (IN ETHIOPIAN BIRR)

Item	Salary Scale	Number of personnel	Percentage to total personnel
1	896 to 1200	2	8%
2	761 to 895	3	12%
3	531 to 760	7	28%
4	292 to 530	13	52%
Total		25	100%

Source: Office of Dangila Municipality, 2009

As table 6 indicates, the highest monthly salary for the municipal staff is 1200 birr which is not enough to cover the basic necessities of the personnel (about only US\$94.25¹). Out of the total of 25 municipal employees, only 8% earn monthly salary ranging from 896 to 1200. 52% or above half of the total employees earn salary ranging between 292 and 530. From this, it is clear to conclude that the salary scale of the municipal staff is not structured in away that motivate the current staff or attract new ones. Therefore, it is better to restructure and redefine the organizational structure and the salary scale of the staff.

¹ 1 200 Ethiopian Birr is equivalent to US\$94.25 as per the Commercial Bank of Ethiopia Exchange Rate of 12.73100 to US\$1 as of September 2009

6. CONCLUSION

Dangila municipality, like other municipalities in Ethiopia is expected to provide basic economic and social services to the citizens under its jurisdiction. Despite the fact that revenue sources have been identified, each of the revenue sources is not assessed and taxed carefully. Some revenue sources have not been assessed and this led the municipality to be ineffective in revenue collection. Moreover, poor planning and inefficient managerial system have negatively influenced the municipality's revenue collection performance. The prominent revenue sources for the municipality, land rent tax and charge for the provision of technical and related services constitute 37.7% and 19.7% respectively whilst other revenue sources contributed insignificant amount to the total revenue.

Revenue collection trend of Dangila municipality has shown great fluctuations. This suggests that the municipality has given little attention to comparing actual with expected performance on the one hand and fluctuations from year to year on the other as well as devising meaningful corrective measures timely to deal with deviations from the expected outcome. Particularly, revenue collection system like recruiting competent staff, strengthening enforcement mechanisms for defaulters and improving assessment mechanisms are not designed properly in a manner that encourages sustainable way of collecting revenue.

The revenue planned (1999 to 2008) was birr 7.32 million and only 4.49 million birr has been collected (61%). The gap between planned and actual collection clearly indicates that the municipality was not efficient in its revenue collection performance. Besides, poor assessment of some revenue sources has proved that the municipality is not effective in revenue collection.

The main reasons for such inefficiency and ineffectiveness include lack of trained manpower, inadequate planning, and lack of awareness by taxpayers and poor method of data base management. Even though the municipality is responsible to give municipal services and functions effectively, it is constrained by lack of skilled manpower and competent staff. Poor organizational structure coupled with institutional incapacity has led the municipality to be inefficient in performing its municipal services and functions.

The recurrent expenditure has been spent for the regular operation of municipal services and functions accounting for 26% of the total expenditure (capital and recurrent). The trend of recurrent expenditure for the last ten years is characterized by erratic pattern. Capital expenditure, on the other hand constituted about 74% of the total expenditure for the whole period. Drastic change has been observed in the trend of capital expenditure. The fluctuation in the recurrent as well as capital expenditures shows

that the municipality experienced inconsistent and inefficient resource utilization. This is mainly due to poor planning, inadequate accounting system, poor expenditure control and inadequacy of qualified staff (shown by about 30% vacant positions) in the municipality.

Planned recurrent and capital expenditure compared to that eventually spent, show that the municipality did not properly utilize its financial resources as per the plan. The municipality only utilized 77% of recurrent expenditure and 58% of capital expenditure for the whole period (1999 to 2008). Even though due attention was given for capital expenditure when budgetary planning was made in each year than that of recurrent expenditure, the municipality's actual utilization is less which is 58% and one can understand from this there is weak resource utilization. The total expenditure spent to the planned for the period under discussion was 62% of the total expenditure.

To summarize; lack of skilled manpower, poor organizational structure, out dated and obsolete tariff structure, inadequate accounting system, lack of clear guidelines, poor planning and data base management, lack of awareness in taxpayers, inadequate assessment of taxable sources are the main findings of the foregoing analysis. These problems collectively have hindered efficiency and effectiveness of revenue collection and expenditure management of Dangila municipality.

7. RECOMMENDATIONS

In order to enhance the revenue collection as well as expenditure management of Dangila municipality, the following recommendations could be used as input in the decisions of the concerned bodies.

Widening the revenue base of local sources of revenue

Financial incapability of the municipality is due to low level of revenue collection. This low level of revenue collection is also the result of weakness in studying local sources of revenue and exploiting them exhaustively. Accordingly, the municipality should carefully assess taxable sources of revenue and exert full effort for implementation including revenue sources such as.

Improve planning and implementing capacity

Poor planning and inefficient implementation system have adverse negative effect on the municipal's achievement of development activities like assessment and collection of allowable municipal revenue and expenditure management. Hence, planning system should be improved in a way that can forecast future actions actively. Additionally, the implementing capacity must be developed through provision of appropriate and sustained training to the staff of the municipality.

Establishing adequate data base systems

As observed during the field work and data obtained revealed, the municipality has not exercised an organized data base management. As a result, revenue planned and actually collected had shown fluctuations from year to year. Had it used a coordinated and organized data, it would have been easy to take corrective actions when fluctuation appeared. Therefore, by improving the data base management the municipality should smooth the progress of its revenue collection and expenditure management.

Continuous awareness creation for taxpayers

To reduce the number of defaulters and increase revenue, one of the important tasks to be done is providing organized information to the taxpayers as to why the payer is charged. This enables the taxpayers to link the relationship between tax obligations and municipal service delivery. Taking this fact in to consideration, the municipality should design and implement tax payer's awareness creation program.

Establishing appropriate guidelines and methods of revenue collection

As it has discussed in earlier sections, the municipality has no clear guidelines that the can be used as a base in managing its activities. Moreover, methods of revenue collection are not adequately designed and implemented with clear process flows. Absence of clear guidelines and well established methods of revenue collection has put a negative effect in the municipality's achievement of municipal functions. Hence, there should be clear guidelines and proactive methods of revenue collection that deal with priority gaps.

Revise the tariff structure regularly

The tariff structure currently used by the municipality to charge tax was designed over ten years ago by ANRS². With Ethiopia experiencing an average annual inflation rate of 46%, this suggests that the current tariff structure is outdated and can not recover currently needed service cost. It has also negative influence in the municipal revenue collection performance. Therefore, the tariff structure should be revised and modified to develop the financial capacity of the municipality. It is therefore recommended that each time the municipality prepares its annual budget; the current economic trends should be taken into account and factored into the tariffs structure.

² ANRS is an acronym for Amhara National Regional State

Installing accounting system that produces timely and reliable information

One of the tools in public finance management to manage revenue and expenditure is financial performance reporting in a timely and reliable manner. The accounting system used by the municipality is not modern that it can not provide up to date and clear financial information. Hence, improved accounting system should be designed and implemented so that comprehensive financial reports can be produced and used for decision making.

Encouraging community participation in planning and resource allocation

There should be active participation of the residents in needs identification, planning and implementation process. This could help in promoting transparent and participatory decision making. Contradicting to this, Dangila municipality had not encouraged the participation of community in development activities of the town. Therefore, the municipality should promote community participation during planning and implementation process through the use of full council meetings.

A need for municipal restructuring

The organizational structure and institutional capacity of the municipality is not designed in a way that can accommodate and retain skilled man power. Due to this reason, lack of skilled manpower has been one of the bottlenecks of the municipality to perform the municipal services and functions effectively. Therefore, municipal structure should be modified so that it is capable of retaining competent municipal staff as well as attracting new one to fill vacant positions. Salary scales and benefits must be in line with similar counterparts in the other regions as well as approximating those in similar capacities in the private sector.

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