

Unlocking Urban Revenue Potential for Sustainable City Financing in South Ethiopia Regional State

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Wolaita Sodo

1. Executive Summary

Urban centers are increasingly becoming engines of economic growth, investment, innovation, and service delivery. In the South Ethiopia Regional State (SERS), rapid urbanization has expanded economic activity, increased land and property values, and heightened demand for infrastructure and public services.

However, the revenue performance of cities has not kept pace with this transformation. Municipal and regular government revenues remain significantly below their actual and potential levels, limiting the capacity of cities to finance infrastructure, improve services, and respond effectively to urban growth pressures.

This policy brief presents findings from an assessment of urban revenue potential in 11 selected cities of SERS. It identifies major revenue gaps, institutional and legal constraints, and weaknesses in current revenue systems. Based on these findings, the brief outlines priority policy actions to strengthen urban revenue mobilization, enhance fiscal sustainability, and support resilient and self-reliant urban governance.

2. Problem Statement

Despite rapid urban growth, the fiscal capacity of cities in SERS remains weak. Current urban revenue systems are not adequately aligned with the pace and structure of urban economic transformation. Key challenges include:

- Weak alignment between urban growth and revenue performance:
- Cities are expanding, but revenue systems remain fragmented, weakly enforced, and outdated.
- Underperformance of tax and non-tax revenues:
- Significant revenue from business activities, land and property, service charges, and municipal fees remains uncollected or under-collected.

Institutional and administrative weaknesses:

- Limited technical capacity, poor data systems, fragmented mandates, and manual processes undermine revenue efficiency and accountability.
- Legal and regulatory gaps:
- Emerging urban revenue opportunities are not adequately captured within existing laws and regulations.
- Growing expenditure pressures:
- Cities face rising demand for infrastructure, housing, sanitation, employment, and urban services, while local revenues remain insufficient.

These challenges call for urgent and evidence-based urban fiscal reforms.

3. Methodology

The assessment was conducted in 11 selected cities of the South Ethiopia Regional State—Wolaita Sodo, Arba Minch, Dilla, Jinka, Karat, Yirgacheffe, Areka, Boditi, Wonago, Birbir, and Sawla—chosen to reflect variations in urban size, economic structure, administrative importance, and growth dynamics.

The study employed a policy-oriented analytical approach combining secondary data review, legal and institutional assessment, and comparative revenue analysis. It examined both municipal and regular government revenues, with particular attention to business-related taxes and fees, land and property revenues, service charges, licensing, and other own-source revenues.

To assess urban revenue performance and estimate revenue potential, the study applied trend analysis, tax gap analysis, and benchmarking. This approach enabled the identification of untapped revenue sources, structural inefficiencies, institutional bottlenecks, and strategic reform priorities.

4. Key Findings

The assessment identified the following major findings:

Revenue collection remains far below potential:

- Both municipal and regular government revenues in the sampled cities are significantly lower than estimated potential.

Substantial revenue gaps exist across major sectors:

- Large gaps were found in business taxation, land and property revenues, service charges, licensing, and municipal fees.

Land and property-based revenues are underutilized:

- Weak registration, limited valuation systems, incomplete databases, and inconsistent fee application constrain this major revenue source.

Legal and policy frameworks are inadequate:

- Existing frameworks do not sufficiently capture new and emerging urban revenue opportunities.

Revenue planning is weakly linked to economic realities:

- Revenue forecasting is often not based on actual business growth, land development, or local market expansion.

Institutional weaknesses continue to undermine performance:

- Weak coordination, low technical capacity, outdated systems, and poor enforcement reduce efficiency and accountability.

5. Conclusion

Cities in the South Ethiopia Regional State possess substantial but underutilized revenue potential. The central challenge is not the absence of economic activity, but the inability of existing systems to effectively identify, assess, administer, and collect revenues generated by expanding urban economies.

Without reform, cities will continue to face fiscal constraints that undermine infrastructure development, service delivery, and sustainable urban growth. Strengthening urban revenue systems is therefore essential to building financially resilient, service-capable, and development-oriented cities in the region.

6. Priority Policy Recommendations

To strengthen urban fiscal sustainability and improve revenue performance, the following actions are recommended:

1. Institutionalize periodic urban revenue potential assessments

Undertake comprehensive urban revenue potential studies every 3–5 years to align planning with changing urban economic conditions.

2. Modernize urban revenue administration

Introduce integrated digital and data-driven systems for registration, assessment, billing, collection, enforcement, and reporting.

3. Update the legal and regulatory framework

Revise existing laws and regulations to capture emerging and underexploited urban revenue sources.

4. Align revenue planning with urban economic growth

Base revenue forecasting on land development trends, business activity, population growth, and service demand.

5. Strengthen institutional and human capacity

Invest in organizational reform, technical systems, and staff capacity development to improve urban revenue administration.

6. Improve land and property revenue administration

Strengthen property registration, valuation systems, land databases, and fee administration to better capture the value of urban land and assets.

7. Enhance inter-agency coordination and accountability

Improve coordination among finance, land administration, trade, licensing, planning, and municipal service offices, supported by clear accountability mechanisms.

Policy Message

- Urban growth without urban revenue reform is fiscally unsustainable.
- Unlocking local revenue is essential for financing competitive, inclusive, and resilient cities in South Ethiopia Regional State.