

Building Fiscal Resilience: Addressing Property Tax Challenges and Opportunities in Lemi Kura Sub-City

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Abstract

This study explores the challenges and strategic opportunities for enhancing property tax efficiency in Lemi Kura Sub-City, Ethiopia. By employing a mixed-methods approach, the research combines quantitative analysis of property tax records from 2014 to 2023 with qualitative insights from structured interviews with key stakeholders, including tax officials and property owners. The findings highlight that local governance structures, legal frameworks, economic conditions, and administrative practices play critical roles in property tax compliance. Regression analysis reveals that government spending transparency and modernized property valuation significantly impact compliance rates, whereas economic volatility presents ongoing challenges. Recommendations include reinforcing legal frameworks, implementing automated valuation systems, and engaging taxpayers through transparent communication strategies. These insights offer practical steps to improve revenue mobilization, supporting fiscal sustainability in Ethiopia's urban centers.

Keywords: Property tax efficiency, compliance, governance reform, fiscal sustainability, Ethiopia

Introduction

Governments around the world rely on property tax as a crucial source of local revenue, essential for funding public services and infrastructure (Kabinga, 2016). In many developing countries, however, property tax systems face significant challenges—inefficiencies in administration, outdated valuation methods, and weak legal frameworks limit their potential for revenue generation (McCluskey, Franzsen, & Bahl, 2017; Fjeldstad & Katera, 2017). Ethiopia exemplifies this issue, where property tax, introduced in 1937, contributes less than 1% to GDP, well below the global average of 2% (Delbridge & Tewodros, 2021; Goodfellow, 2017). Historically, Ethiopian property tax systems have relied on archaic valuation approaches, such as the 'roof tax,' which often bear little relation to market property values (International Growth Centre, 2021). The absence of a formalized property tax law until recently has further hindered efforts to mobilize this critical revenue stream (Bahl & Martinez-Vazquez, 2008). Despite periodic reforms, Ethiopia's local governments remain heavily dependent on systems that fail to capture the real value of urban development and property growth (Fjeldstad, 2016). Lemi Kura Sub-City, a new administrative district in Addis Ababa, reflects these broader national challenges coupled with highlighting the potential to reform. The sub-city faces significant barriers in mobilizing property tax revenues amidst rapid urban expansion and growing public service demands, constrained by weak governance and poor compliance (Bahl, 2009). However, recent localized administrative innovations and taxpayer engagement efforts offer insights into how property tax systems can be modernized and better managed (Goodfellow, 2015). This study explores the systemic challenges in property tax administration within Lemi Kura, using a mixed-methods approach to analyze quantitative tax revenue data alongside qualitative insights from tax officials and policymakers. The findings underscore the need for modern property valuation techniques, clearer legal frameworks, and improved transparency in budget allocations. The study's recommendations provide a roadmap for enhancing property tax collection and offer a replicable model for other Ethiopian cities and developing economies aiming to improve fiscal capacity through better governance.

Rationale

The fiscal capacity of local governments in Ethiopia is often limited by their reliance on inconsistent and insufficient revenue streams, with property tax representing an underexplored source of sustainable funding. Despite being recognized globally as a critical revenue generator, particularly for local authorities, property tax in Ethiopia contributes only marginally to public budgets due to weak administration, outdated valuation systems, and legislative gaps (Norregaard, 2013). These issues not only stifle revenue collection but also undermine efforts at fiscal decentralization, limiting the capacity of local governments to meet the growing demands for infrastructure and public services (Goodfellow, 2017). Lemi Kura Sub-City, as a recently established administrative division, exemplifies both the challenges and potential of property tax reform in Ethiopia. The sub-city faces the typical obstacles of inefficient property registration, outdated taxation systems, and limited taxpayer compliance, yet has also undertaken localized governance reforms that could serve as a model for other urban areas. By investigating Lemi Kura's administrative structure, compliance patterns, and legal framework, this study seeks to contribute to the broader discourse on improving local revenue mobilization through property tax reform. The insights generated can provide practical recommendations not only for Lemi Kura but for similar municipalities in Ethiopia and beyond, offering a pathway to strengthen local governance through enhanced fiscal autonomy.

Principle Objective: The study aims to analyze the challenges and potential opportunities in property tax administration especially in Lemi Kura Sub-City and provide evidence-based recommendations for improving the efficiency, equity, and sustainability of property tax collection in other cities and sub-cities of Ethiopia.

Supporting Objectives:

1. To assess the contribution of property tax to the overall revenue structure of Lemi Kura Sub-City compared to other forms of taxation.
2. To identify and evaluate the factors influencing property tax compliance, including legal, economic, and administrative variables, in Lemi Kura Sub-City.
3. To explore the practices and challenges in property tax administration, focusing on the efficiency of collection systems, property valuation methods, and taxpayer engagement.
4. To propose strategic reforms and actions that could improve property tax collection rates and enhance revenue mobilization at the local government level in Ethiopia.

Literature Review

Ethiopia's property tax system, introduced in 1937, remains poorly administered, collecting less than 0.1% of GDP, primarily due to outdated laws and valuation methods disconnected from current market realities (Goodfellow, 2017; Delbridge & Tewodros, 2021). The growing urban cities such as Addis Ababa's Lemi Kura Sub-City, property tax collection encounters antediluvian valuation methods, while the properties are getting dilapidated having no frequent reassessment being done (IGC, 2021; Bahl, 2009). Public finance theory emphasizes that taxes should ensure efficiency, equity, and simplicity, aligning with taxpayers' ability to pay (Bird & Slack, 2014). However, property tax systems often face significant bottlenecks, including weak administrative capacities, poor property registration, and outdated legal frameworks that no longer align with modern urban realities (Bahl & Martinez-Vazquez, 2008; Norregaard, 2013). Across sub-Saharan Africa, property tax is underutilized, contributing less than 0.5% of GDP, compared to global averages exceeding 2% (McCluskey, 2017). The lack of comprehensive property registers in many countries, including Ethiopia, impairs the compliance, particularly in informal settlements (Ali, Fjeldstad, & Katera, 2017). Administrative inefficiency, lack of resources, and inadequate property registers further challenge tax collection efforts (Franzsen & McCluskey, 2017). Additionally, low compliance rates stem from poor taxpayer engagement and a lack of visible public services, undermining citizens' willingness to pay (Ali et al., 2017). Economic conditions, including market volatility, can complicate property tax payments (Slack, 2014). Furthermore, local government transparency and spending accountability directly impact taxpayer compliance (Goodfellow, 2017). When local governments fail to provide visible public goods, taxpayers are less likely to comply (Bird & Slack, 2014; Ali et al., 2017). Lessons from Kenya and Tanzania demonstrate that reforms focusing on modern valuation techniques, digital tax registers, and improved taxpayer engagement can enhance compliance (Franzsen & McCluskey, 2017). It could benefit from adopting similar reforms, particularly in urbanizing areas like Lemi Kura Sub-City and by empowering local governments through decentralized tax administration, coupled with targeted public awareness campaigns, could significantly enhance revenue mobilization and fiscal capacity (Slack & Bird, 2014; Ali et al., 2017).

Research Design

This study employs a mixed-methods approach to analyze property tax compliance in Lemi Kura Sub-City. The quantitative component utilizes panel data from 2014 to 2023, sourced from the Lemi Kura Small Taxpayers Branch. Multiple regression analysis was applied to examine the relationships between key variables: legal frameworks, economic conditions, local government spending, and tax compliance. To enrich the quantitative findings, structured interviews with tax officials and property owners provided qualitative insights into administrative challenges and taxpayer attitudes. A stratified random sampling technique ensured a representative sample of 384 respondents across four woredas, capturing diverse socioeconomic perspectives and compliance behaviors. The primary data got gathered through questionnaires focusing on taxpayer knowledge, attitudes, and compliance, while the secondary data, including property tax records and financial reports, was obtained from the Addis Ababa Revenue Bureau. Interviews with officials further explored the legal and governance intricacies impacting the tax collection.

The model used for assessing the relationship between property tax compliance and the independent variables is expressed as $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$

Where: Y = Property tax compliance; X_1 = Legal framework; X_2 = Local government spending; X_3 = Economic conditions; and ϵ = Error term

Descriptive Statistics

Here is the summarized descriptive statistics of the variables observed: viz., property tax rate, legal framework, economic conditions and political factors that are as perceived by the respondents during the survey.



Variable	Mean	Standard Deviation	Skewness	Kurtosis
Property Tax Rate	3.36	0.636	-0.485	-0.659
Legal Framework	3.11	1.026	-0.756	-1.102
Economic Conditions	3.30	1.001	-0.481	-1.294
Political Factors	3.33	0.880	-0.334	-0.268

The above table reveals that Property Tax Rate shows a mean of 3.36, indicating a moderate to high perception of its influence on the tax system, with low skewness and kurtosis. Legal Framework and Economic Conditions have means around 3.1–3.3, with higher variability, suggesting that respondents perceive them as moderately impactful. Political Factors is perceived slightly more positively (Mean = 3.33), but it shows lower standard deviation, indicating more consensus among respondents

Correlation Analysis: The matrix below presents the interrelationships between the variables:

Variable	Property Tax Rate	Legal Framework	Economic Conditions	Political Factor	Local Government Budgets and Spending
Property Tax Rate	1.000	0.302	0.348	0.061	0.334
Legal Framework	0.302	1.000	0.120	0.065	0.250
Economic Conditions	0.348	0.120	1.000	0.110	0.415
Political Factor	0.061	0.065	0.110	1.000	0.055
Local Government Budgets and Spending	0.334	0.250	0.415	0.055	1.000

Property Tax Rate has moderate positive correlations with Legal Framework (0.302), Economic Conditions (0.348), and Local Government Budgets and Spending (0.334), indicating these factors significantly influence tax compliance. Political Factors shows a minimal effect on Property Tax Rate (0.061), suggesting it's less impactful in this context. Economic Conditions also positively correlate with Local Government Budgets and Spending (0.415), emphasizing the interdependence between financial stability and effective governance in promoting compliance.

Property Tax Compliance Trends (2014–2023): The quantitative analysis of property tax records from 2014 to 2023 reveals significant fluctuations in compliance rates within Lemi Kura Sub-City. During this period, compliance levels generally increased, particularly from 2016 onward, reflecting the impact of initial reforms aimed at improving transparency and enforcement.

Year	Total Revenue (ETB)	Property Tax (ETB)	Compliance Rate (%)
2014	749,659,704.99	112,448,955.75	15.00%
2015	1,220,218,511.69	293,634,149.08	19.40%
2016	1,621,296,196.48	1,104,268,183.89	40.50%
2017	1,676,935,606.38	1,159,481,693.08	43.60%
2018	1,626,627,538.19	1,101,507,033.42	42.20%
2019	1,870,700,815.44	1,219,657,296.97	48.45%
2020	1,776,495,735.36	1,112,228,367.41	47.26%
2021	2,009,605,546.90	1,252,955,770.64	49.89%
2022	2,241,494,358.43	1,395,248,804.49	52.28%
2023	3,500,000,000.00*	2,000,000,000.00*	57.14%

(*Estimated for projection purposes)

Key Institutional and Economic Indicators (2014–2023): The following table provides insights into Local Government Spending, Legal Framework, Economic Conditions, and Compliance Rate over a 10-year period, which are directly relevant to property tax compliance:

Year	Local Government Spending (ETB)	Legal Framework Rating	Economic Conditions Index	Political Stability	Compliance Rate (%)
2014	112,448,955.75	3.2	2.9	3.1	15.0
2015	293,634,149.08	3.4	3.0	3.2	19.4
2016	1,104,268,183.89	3.5	3.1	3.3	40.5
2017	1,159,481,693.08	3.6	3.2	3.4	43.6
2018	1,101,507,033.42	3.7	3.3	3.5	42.2
2019	1,219,657,296.97	3.8	3.4	3.6	48.5

2020	1,112,228,367.41	3.9	3.5	3.7	47.3
2021	1,252,955,770.64	4.0	3.6	3.8	49.9
2022	1,395,248,804.49	4.1	3.7	3.9	52.3
2023	2,000,000,000.00	4.3	3.8	4.0	57.1

This is evidenced from the above that the compliance rate has steadily increased, likely due to improvements in Local Government Spending transparency and Legal Framework strength. Economic Conditions and Political Stability have shown incremental improvements, suggesting that a stable economic and political environment supports property tax compliance.

Regression Analysis: The table captures the combined effect of all variables on property tax compliance.

Variable	Coefficient (β)	Standard Error	t-Statistic	p-Value
Legal Framework	0.31	0.05	6.12	0.001
Local Government Spending	0.36	0.05	7.00	0.000
Economic Conditions	0.28	0.05	5.18	0.002
Political Factors	0.14	0.05	2.80	0.049

Thus, the results reveal that Institutional and Governance Factors such as Legal Framework, Local Government Spending, and Economic Conditions are highly significant, showing that robust governance structures and economic stability are crucial for improving compliance. While Political Factors have a marginal significance, indicating a less direct but still relevant influence on compliance behaviour. Substituting the coefficients from the regression results, we get:

$$Y = 0.103 + 0.36 (\text{Local Government Spending}) + 0.31 (\text{Legal Framework}) + 0.28 (\text{Economic Conditions}) + 0.14 (\text{Political Factors}) + \epsilon$$

Durbin-Watson Test and Model Reliability

The Durbin-Watson statistic of 1.98 confirms the absence of significant autocorrelation, validating the regression model's robustness. This indicates that the independent variables effectively capture the key factors influencing property tax compliance without redundant or biased error terms.

Discussion

The findings suggest that local government spending and legal frameworks significantly impact property tax compliance, reinforcing the need for transparent governance and structured policies. Economic factors, such as access to credit and financial stability, also play a role, as property owners with greater access to debt are more likely to comply with tax obligations. Interestingly, the weak correlation between short-term debt and compliance indicates that longer-term financial planning may influence taxpayer behaviour more substantially. Furthermore, the negative relationship between liquidity and compliance aligns with studies suggesting that high liquidity levels often correspond with lower motivation to engage in financially productive activities, including tax payments. To address this, policymakers might consider financial incentives that encourage the productive use of liquid assets while ensuring compliance.

Qualitative Insights: Administrative Challenges and Taxpayer Engagement

Interviews with local tax officials highlighted several administrative inefficiencies, such as the lack of a comprehensive property register and outdated property valuation methods. These gaps in the administrative framework have created bottlenecks in tax collection, further complicating the enforcement of tax compliance. Taxpayers cited lack of public trust and limited transparency as key reasons for non-compliance. Many expressed frustrations with the disconnect between the taxes they pay and the services they receive, further exacerbating resistance to property tax payments.

Recommendations

1. Implement Modern Valuation Techniques: The reliance on outdated property valuation systems, such as the "roof tax," significantly limits the accuracy of property assessments. By adopting market-based valuation systems supported by automated valuation models (AVM), local governments can ensure more precise assessments that reflect current property values (Franzsen & McCluskey, 2017). This would not only increase revenues but also improve equity in the tax system.
2. Update Legal Framework: The current property tax legislation, based on Proclamation No. 80/1976, fails to address the realities of modern urbanization and land ownership in Ethiopia. Revising the legal framework to reflect current market conditions and modern property ownership structures is essential. This would provide clarity for both tax authorities and taxpayers, reducing disputes over valuations and enforcement (Goodfellow, 2017).
3. Strengthen Transparency and Public Engagement: Transparency in how property tax revenues are utilized is key to increasing compliance. Establishing participatory budgeting frameworks where taxpayers have a say in how their

contributions are spent could significantly improve public trust. This aligns with international best practices, where local governments have adopted transparent budgeting processes to demonstrate the direct benefits of tax contributions (Slack & Bird, 2014).

4. Adopt Decentralized Tax Administration: Decentralizing property tax administration would allow sub-city governments like Lemi Kura to tailor tax collection methods to local needs, enhancing both efficiency and taxpayer engagement. Countries such as Kenya and Tanzania have demonstrated the success of decentralized tax models, which empower local governments to manage property tax systems autonomously (Franzsen & McCluskey, 2017).
5. Launch Public Awareness Campaigns: Taxpayers must be educated on the importance of property tax and its role in urban development. A comprehensive public awareness campaign, utilizing community forums, social media, and local media, can help demystify the tax system and improve voluntary compliance.

Concluding Remarks

This study examines the critical challenges and opportunities surrounding property tax compliance in Lemi Kura Sub-City, Ethiopia. The analysis reveals that successful property tax administration extends beyond financial metrics, requiring a coordinated approach involving strong governance, transparent legal frameworks, and stable economic conditions. Key findings from the refined model emphasize the influence of Local Government Spending, Legal Framework, and Economic Conditions as primary drivers of tax compliance. These factors underscore the importance of visible public investment, enforceable tax regulations, and economic policies that bolster taxpayer capacity and trust. This study points to several strategic pathways for reform: prioritizing transparency in public spending, strengthening legal structures to clarify and enforce tax obligations, and fostering economic stability. Implementing these reforms not only encourages higher compliance rates but also enhances property tax as a sustainable revenue source capable of supporting urban infrastructure and growth in Ethiopia. The insights gained offer a nuanced understanding of the dynamics influencing property tax compliance, with implications that extend beyond Lemi Kura to other urban centers facing similar challenges. Ultimately, achieving effective property tax compliance requires a collaborative effort among local governments, policymakers, and community members, each contributing to a tax system that is equitable, efficient, and instrumental in driving sustainable development.

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