Innovations

Financial Condition Analysis of Addis Ababa City Government in Ethiopia

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Abstract

In recent years, the financial issues of local governments have become more and more important in providing the required public goods and services sustainably to local residents and accelerating the development of the locality. Consequently, maintaining a sound financial condition is an important requirement for providing residents with therequired quality services, making strategic investments in the locality, and the proper functioning of local government operations. Financial condition of a local government is concerned with the ability to finance expected services on a continuing basis by surviving economic disruptions, identifying and adjusting long-term changes, and anticipating future problems without suffering for a financial resource shortfall and financial dependence. The purpose of this study was to assess the financial condition of the Addis Ababa City Government of Ethiopia. Assessing the financial condition was based on various financial ratio models developed by various scholars and suited to the system of the Addis Ababa city government as a local government. Data for the financial ratios of the fiscal period 2010/11-2019/20 was obtained from the audited IBEX results financial report of the Addis Ababa Finance and Economic Development Bureau. The analysis of financial trends and financial ratios was based on the description of the research results in line with scholarly literature on financial ratio models' implications and descriptive statistics analysis. Research results showed that Addis Ababa City Government has a special attention-demanding financial condition to maintain sound financial health to properly guarantee the provision of public goods and services at the required level and quality in the locality and assure the jurisdictions' change and development.

1. Introduction

Ethiopia is a federal state with a decentralized governance system in place that grants autonomy to local governments. Autonomy of local governments (regional and city governments in Ethiopia) is the delegation of powers and the submission of federal government affairs to the local government in the context of democracy and national development, considering the aspirations and participation of local people (Isufaj, 2014; FDRE, 1995, Constitution Art. 49, 51 & 52). One of the responsibilities of local government bodies is to handle their own funds, which necessitates fiscal decentralization. Fiscal decentralization is the process of transferring financial responsibility from higher to lower levels of government in order to facilitate delegation of authority and the transfer of some of the higher-level government's responsibilities to lower-level governments (Falleti, 2005; Taiclet et al., 2015). As a result, the local governing and management bodies are responsible for implementing development programmes and judiciously managing the locality's resources in order to attain the ultimate goal (FDRE, 1995, Constitution Art. 94-97).

Autonomous authority is given to local governments to design their own policies to achieve local goals in line with national goals under the framework of local government autonomy (FDRE, 1995, Constitution Art 50). The federal government provides basic principles, directions, and strategies for local governments to manage their budgets. Consequently, each local government has its own unique set of programmes and activities based on the general circumstances of the community and the needs and preferences of its citizens. Because each local government has different programmes and activities, the implementation of such programmes and activities is financed through the local government budget. Local governments got the right to receive financial resources in the form of subsidies from the federal government to support their social and economic development operations as a result of fiscal decentralization. The federal government transferred to local governments the responsibility of collecting and managing taxes and levies, as well as managing jurisdictional assets, in order to secure legal revenue and funding sources (FDRE, 1995, Constitution Art. 94 & 97).

The 2003 amended charter of Addis Ababa City Government was formed within the framework of the federal constitution in 1995, and it gave the city government the mandate and duty of managing overall financial affairs, revenues and expenditures, and maintaining financial condition health (FDRE, 2003, 2009). As required by the charter, the City government has enacted a financial management law that must be implemented by all public bodies involved in public financial management affairs (AACG, 2017). Financial condition analysis requires assessing a local government's financial health in order to determine its ability to meet its obligations (Singla & Stone, 2018). Accordingly, the Addis Ababa City government needs and should have a formally well-developed financial condition analysis system, as well as a periodic financial condition analysis, in order to fully understand the true state of financial condition, make decisions, and, if necessary, correct negative financial trends.

2. Statement of the Problem

Public financial management is concerned with the efficient and effective mobilization of financial resources and the prudent and responsible use of these resources in accordance with appropriately articulated priorities in line with approved and demanding programmes to achieve publicly identified goals (Spearman, 2013). Jin and Zhang (2011) discovered that poor management has a statistically significant negative impact on the financial condition of local governments. Likewise, according to Kloha (2005), poor management can cause fiscal stress on local governments, which affects the soundness of their financial condition, and an unhealthy financial condition impairs the provision of required goods and services to residents at the required level and quality.

The requirement of a strong in-place financial condition at the local government level is a fundamental prerequisite for funding of public goods and services because it influences several important socioeconomic decisions related to the delivery of goods and services, as well as the quality and reliability of those goods and services (Honadle et al., 2004).As such, it requires periodic analysis and monitoring of the government's financial condition to continue promising trends and address adverse financial trends that impede the achievement of the ultimate goal (Nollenberger et al., 2003; Ritonga et al., 2012).

Assessing financial condition periodically enable tomaintain financial health and provides valuable information about local governments' long-term financial health. (DiNapoli, 2008). Moreover, it points out current or potential fiscal problems that may force local governments to take timely corrective actions (Hevesi, 2003). Taking actions to address the weaknesses and strengthen and maintain financial solvency can help local governments' managers better ensure the sources that they have to fund the services (Reed & Swain, 1997). Unless formal financial assessment activity is undertaken properly, policymakers and financial administrators are unlikely to understand the financial condition of local governments (McMaster, 1994). As a result, analyzing financial condition assists local governments in determining whether their financial condition is in fiscal health or stress and in taking corrective action on negative trends.

According to the Kansas City Department of Finance, Missouri (2007), assessing and evaluating financial condition of local governments and measure trends over time through the use of fiscal indicators and ratios is crucial. To conduct a compressive investigation, the development and implementation of a financial trend monitoring system is an indispensable tool (Cozad, 2008), which helps to strengthen financial resource management efforts with a focus on revenue and expenditure management efforts.

A properly structured cash management system with accelerated cash collection mechanisms, adequate own source revenue generation and mobilization, efficient and effective management of limited resources, and a proper method of assessing and evaluating financial condition and management allow a local government to be in good financial condition (Hevesi, 2003).Unless a local government has the ability to maintain solvency in one or more of the following: cash solvency, budgetary solvency, long-term solvency, or service level solvency, it will be in fiscal distress (DiNapoli, 2008; 2016). Whereas, if a local government is in sound financial condition, it will be able to provide adequate, uninterrupted services to its citizens (Costa & Cigler, 2004). Hence, while fiscal health may not be the final measure of success for a local government, the level and quality of public services will suffer if the local government is not in healthy financial condition.

Based on the issues of financial condition of the local governmentraised above, this study poses the following question: what is the status of the Addis Ababa City Government financial condition? As a result, the study sought to analyze the financial condition of the Addis Ababa City Government based on the existing literature on financial condition dimension and indicators of local governments.

3. Review of Related Literature
3.1. Definition of Financial Condition of Local Government
Local government plays a vital role in enabling growth and improving living conditions around the world today (Delanoë, 2010). They have become important partners in addressing a variety of public policy issues and functions in recent years, including building more efficient and equitable social service systems and providing significant portions of essential infrastructure that support economic development and improve quality of life (Kapidani, 2018). According to Martnez-Vázquez & Liu (2011), the potential importance of local government finances is based on the fact that local governments are well positioned to improve how public resources are used and citizen needs are met, as well as the role that local governments could potentially play in dealing with several contemporary global challenges that affect all countries, though in different ways. As a result, to secure the financial ability of the local government, analysis of the financial condition is an important aspect of local government studies (Nollenberger et al., 2003).

Various researchers and institutions have developed various definitions for the financial condition of a local government, even though the definitions focus on the financial ability of a local government to provide goods and services to citizens (Kloha et al., 2005; Jones and Walker, 2007; Hendrick, 2004; Nollenberger et al., 2003; Kamnikar et al., 2006; Wang et al., 2007; Rivenbark et al., 2009). However, comprehensively, the financial condition of the local government is defined as the government's ability to meet short-term, long-term, operational, and public-service obligations, as well as to foresee and execute financial rights efficiently and effectively (Ritonga et al., 2014). According to the definition stated above, short-term solvency, budgetary solvency, long-run solvency, service level solvency, anticipating unforeseen events, and efficiently and effectively implementing financial rights are the basic elements that make up a local government's financial condition (Higgins et al., 2016; Ritonga et al., 2012).

3.2. Financial Indicators and Ratios
Much academic research has focused on developing financial condition measurements to assess the financial condition of local governments (Civic Federation, 2013). Although there is little universal agreement on financial condition measurement indicators for local governments, there is agreement that local governments' financial condition is critical to the effective, efficient, and cost-effective delivery of public

goods and services (Wang et al., 2007), and thus the financial condition of a local government has to be measured with the aid of financial indicators to identify whether the local government is in fiscal health or stress. Financial indicators indicate the extent to which changes in a local government's financial situation have occurred over time (ICMA, 2003; Ritonga et al., 2012). As a result, they are seen as a useful tool for evaluating a local government's overall financial performance and focusing on areas that need to be addressed. Using the results of financial indicators over a period of time can effectively reveal the direction in which a local government is heading and where it will end up if the government pursues various financial strategy options (Ritonga, 2014). Having more financial indicator results over time can help decision-makers, stakeholders, and others with a stake in local government operations gain a better understanding of the financial situation, as well as the need for, affordability, and implications of various alternative revenue-raising and expenditure options (DiNapoli, 2008).An early-warning system based on a comprehensive, conceptualized local government financial management system with financial performance indicators enables the local government to identify trends or practices that may have a negative impact on a local government's long-term and short-term solvency (Wilson et al., 2010). When financial indicator results are tracked over time and compared to targeted goals, they will allow local governments to avoid financial problems.

3.3. Cash solvency

A proper system for managing obligations, processes, and procedures is required for sound cash management, which is a crucial and integral aspect of the efficient and effective use and administration of limited financial resources (Storkey and Co, 2001). Cash solvency is defined as the ability of a local government to generate sufficient financial resources to meet its current liabilities, as indicated by liquidity and effective cash management (Wang et al., 2007). As a result, short-term solvency reveals a local government's ability to meet payments due in the next 30 to 60 days (Nollenberger et al., 2003). However, because the disclosure in financial reports for current liabilities is within 12 months, this study uses a term of within 12 months rather than 30 to 60 days.

The current liabilities section of the statement of financial position shows the financial information of local government obligations that will mature within one year, whereas the current assets section shows the financial information of local government resources that are available and intended to be used within one year (GASB, 2004). As a result, in this study, the following ratios are used to assess a local government's short-term solvency:

Cash ratio   =   Cash and Cash equivalent   ÷   Current liabilities
Quick ratio   =   (Cash and cash equivalent + Receivable)   ÷   Current liabilities

The more current assets are available to cover current liabilities, the higher the value of these indicators. So, the higher these indicators' values are, the higher the level of short-term solvency. However, excessive current assets (i.e., idle capacity) in these ratios suggest that a local government has extra current assets that could be better used to provide services to the community (Ritonga et al., 2012). Excessive current assets, therefore, lead to not being at the best possible level of community service delivery.

3.4. Budgetary solvency

Budgetary solvency entails a local government's ability to generate adequate revenue over the course of a fiscal year to fund current or desired service levels as well as mandatory expenditure requirements (Hevesi, 2003; Eugene, 2006; Wang et al., 2007). The following budgetary solvency ratios are used to assess this capability:

Capital outlay ratio	= Capital expenditure	÷	Gross expenditure
Operating ratio	= Total revenue	÷	Total expenditure
Own revenue ratio	= (Total revenue – Subsidy – Loans - Assistance)	÷	Operating expenditure

| Fixed costs ratio | = | Salaries and fringe benefits | ÷ | Gross expenditure |
| Operating Surplus/Deficit ratio | = | (Gross revenue – Gross expenditure) | ÷ | Gross expenditure |

The less flexibility local officials have to respond to economic changes, the higher the relative level of personal service spending because these expenses are often set, and it is more difficult to modify service levels if resources fall (DiNapoli, 2008).

An operating deficit occurs when government expenditures exceed revenues, whereas the government has an operating surplus if revenues exceed expenditures (Wang et al., 2007). A local government's financial condition could be jeopardized if it has operational deficits for several years in a row. When a local government is in financial difficulty, one of the first discretionary expenditures to be cut is capital spending (Hevesi, 2003). A high capital outlay ratio indicates that infrastructure is being well maintained if capital expenditures are a large part of total expenditures. In the case of the presence of deferred capital expenditure, increased capital expenditures are required in the future.Subsidies, assistance, and loan revenues were excluded from total revenues since they are irregular and out of the control of the local government. The higher the own revenue ratio, the better a local government's ability to generate enough revenue to meet operating costs (DiNapoli, 2008; Griesel & Leatherman, 2017).

3.5. Long-run solvency

Long-term solvency indicates the ability of a local government to meet its long-term obligations (Nollenberger et al., 2003; CICA, 1997). Long-term borrowing and the maintenance of capital assets are areas that have a major effect on future spending in local governments. Deferred maintenance causes wear and tear on municipal capital assets, and both the delay and the resulting wear and tear result in long-term cost increases (Hevesi, 2003).

Net asset ratio	=	Net asset/Equity	÷	Total asset
Long term liability ratio	=	Long term liabilities	÷	Total asset
Long term liability ratio	=	Long term liability	÷	Population

Increased debt levels can imply that local officials have less flexibility in how they allocate resources, which could make it difficult to sustain existing levels of service (Wang et al., 2007). When long-term debt per capita rises, it's critical to figure out what expenditures are being paid for with the extra debt (Ritonga, 2012. When a government borrows debt to fund expenditures that were previously paid for with recurring revenues, it may indicate that the government is having trouble raising the funds required to fund ongoing operations. On the other hand, an increase in this ratio will result in an increase in the debt service to expenditure ratio (Hevesi, 2003).

3.6. Service-level solvency

When local governments have adequate and stable financial resources, they can deliver the needed services as needed and they can supply and maintain a service level that constituents expect and demand (Wang et al., 2007; Allen et al., 2009). The importance of the own source revenue ratio reveals a financial stability issue. The revenue of local governments in relation to their population is a measure of the resources available to serve citizens throughout time (Eugene, 2006).Increased per capita revenue indicates that there are sufficient resources to maintain current service levels and maybe add new ones. On the other hand, the increase in local government per capita expenditure could be attributed to population growth and increased demand for services (Cretelle &Mah, 2009).

The higher the ratio of total expenditure to population, the more inefficient service delivery becomes, putting a local government's service level solvency at risk and indicating a more expensive government and lower service level solvency to maintain that level of expenditure (DiNapoli, 2008; Ritonga et al., 2012). A greater tax per capita means a heavier tax burden on citizens and a worse level of service solvency. Heavier

revenue per capita indicates a higher revenue burden for residents to bear and lower service level solvency. In this study, the following ratios for analyzing service level solvency were used:

Tax per capita	=	Total tax revenue	÷	Population
Revenue per capita	=	Total Revenue	÷	Population
Expenditure per capita	=	Total Expenditure	÷	Population

In general, because financial ratios are used to measure each dimension of the financial condition (Jones & Walker, 2007), they are used to analyze the financial condition of the Addis Ababa City government. The result will be better when more indicators are utilized to measure a dimension since the dimension can be thoroughly measured (Ritonga, 2019).

The ratios developed in this study are based on the Addis Ababa City Government Finance and Economic Development Bureau's IBEX financial report data. These financial reports are based on Ethiopian Financial Administration Laws and the Federal Government of Ethiopia Accounting System (FDRE, 2009; AACG, 2017; AACG-BOFED, 2008, 2012), which must be abided by and implemented by all Ethiopian state and city governments, as well as public organizations.

4. Conceptual Framework

The conceptualized framework developed based on literature regarding a local government's financial condition reveals the relationship between financial condition and cash, budget, long-run, and service level solvencies, as well as the linkage to the delivery of public goods and services.
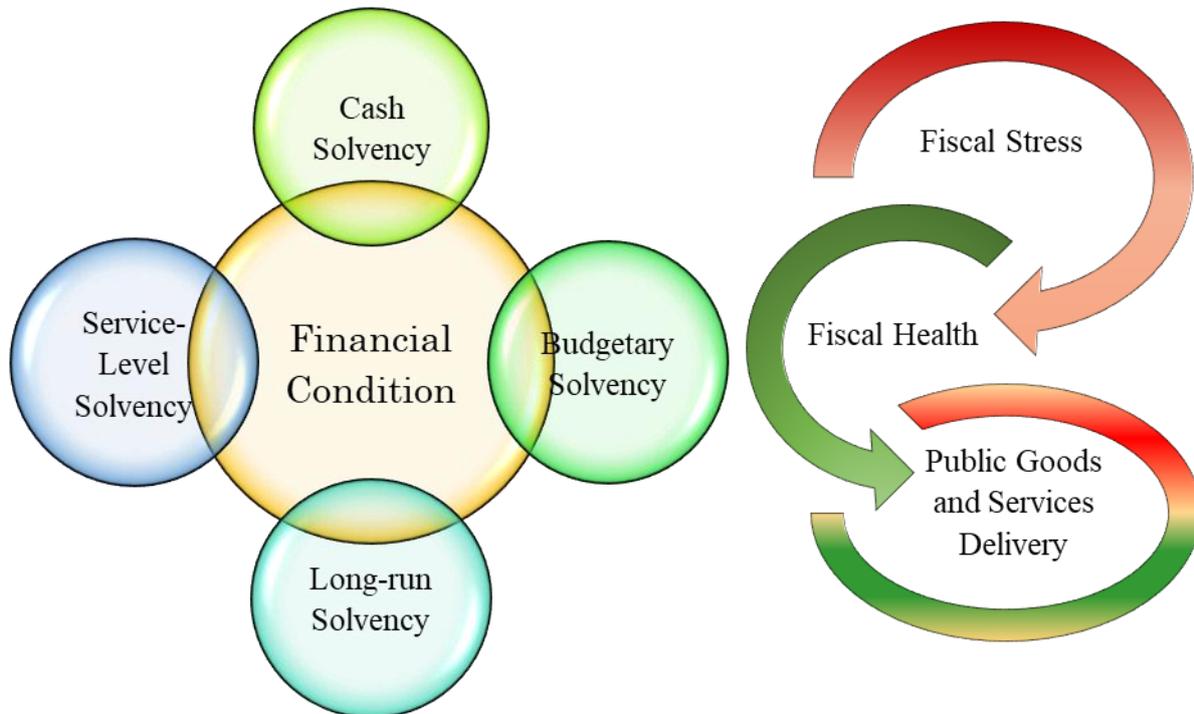
The framework conceptualizes the basic financial solvencies of the financial condition of a local government and the outcome. The financial condition of a local government involves the ability to provide required public goods and services to its residents at the required level of quality. To meet this requirement, a local government needs to have sustainable financial conditions tied to financial solvency and effective financial resource management. Sound financial health is essential to effectively meeting obligations in the short-run as well as the long-run. Unless the local government is in fiscal health, it is unable to deliver the required goods and services as required and will be in fiscal stress. Fiscal stress requires a remedy through identifying

financial solvency problems and taking remedial action through sound public financial management systems and practices on the spot.

5. Research Method

5.1. Research Design and Procedure

A descriptive research design method (Kothari, 2004) was employed to describe the existing financial condition of the Addis Abba city government based on the financial dimension indicators. The level of financial condition, which encompasses aspects of cash, budget, long-run, and service-level solvencies, and trend analysis of financial conditions,were exhaustively discussed regarding the financial condition of the local government in the study.

To guide the selection of financial indicators used in this study, 13 financial indicators were identified based on existing financial condition literature that were compatible with the Ethiopian local government accounting system to analyze the financial condition of Addis Ababa City Government.The study was designed to analyze the financial condition of the Addis Ababa City Government. Data was collected from the Addis Ababa City Government Finance and Economic Development Bureau.

Using specified financial indicators, the ratio values for each dimension were calculated after compiling the audited IBEX Results financial report data. After all ratio values were determined,the standard score for each dimension was computed using SPSS Version 26, and then composite results for financial dimensions were computed based on the standard score to arrive at the correlation analysis and obtain results.
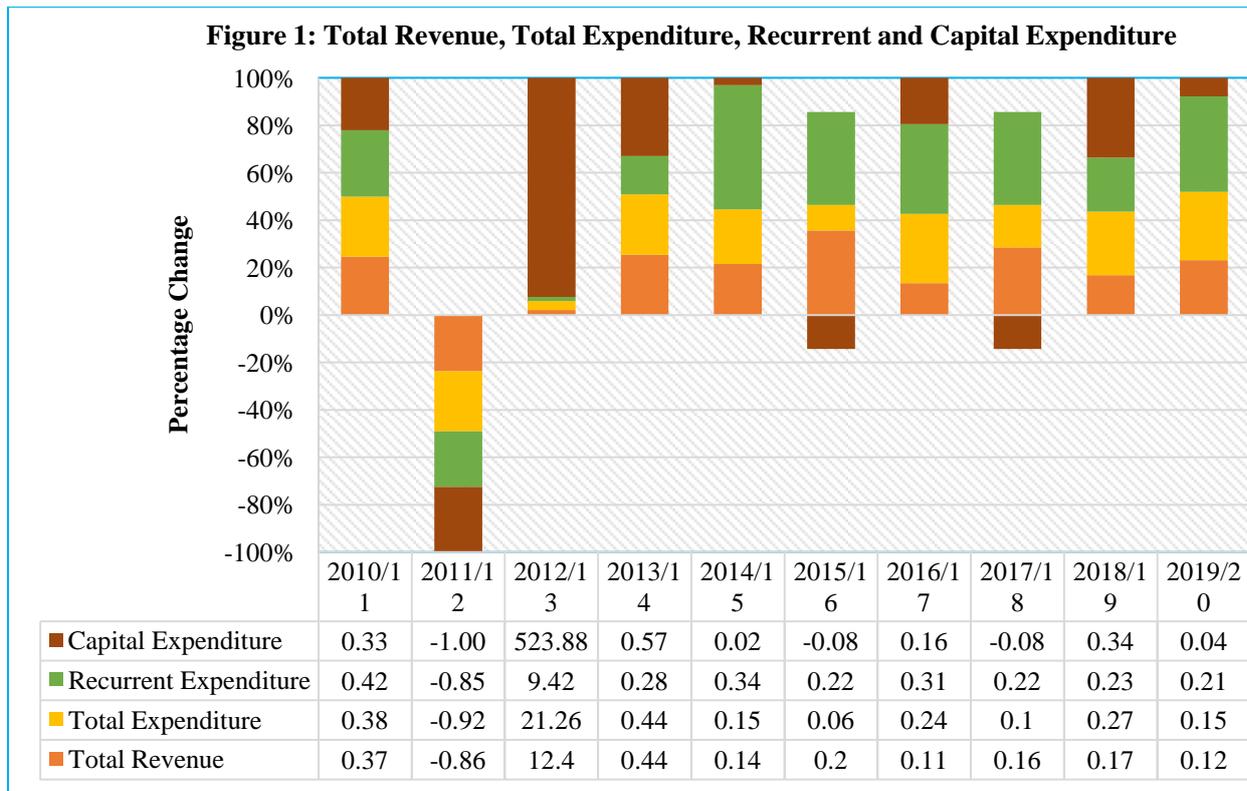
5.2. Data Source and Collection

Secondary data was used in this studyand collected from the audited financial reports of the Addis Ababa City Government of Ethiopia. The financial reports of the Integrated Budget and Expenditure Management (IBEX) Software of the City Government were prepared based on the Ethiopia Government Accounting System. An effort was made to collect data from Addis Ababa City Government for the 10 fiscal years of 2010/11-2019/20 from the IBEX results audited financial reports.

5.3. Data Analysis and Presentation

After refining, organizing, and arranging the data, a trend analysis of revenue, expenditure, and the difference therein, as well as cash and cash equivalents, accounts receivable, and payables, was made. The results of the data were presented using tables and figures. Both descriptive statistics and correlation analysis were used to analyze the results of the data, and the results of the analysis were interpreted in line with existing literature.

6. Results and Discussions

The results of the Addis Abba City Government's financial condition analysis based on trend and financial indicator studies for the fiscal years 2010/11–2019/20 are shown and discussed below.

Figure 1: Total Revenue, Total Expenditure, Recurrent and Capital Expenditure

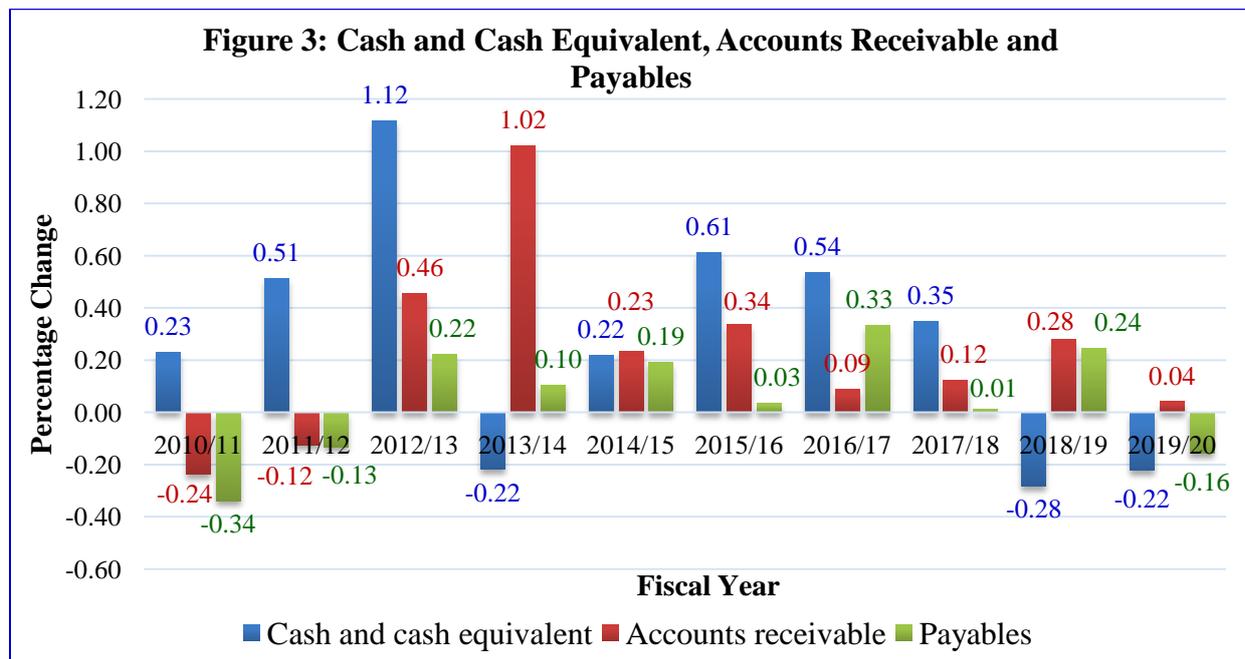|	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
■ Capital Expenditure	0.33	-1.00	523.88	0.57	0.02	-0.08	0.16	-0.08	0.34	0.04
■ Recurrent Expenditure	0.42	-0.85	9.42	0.28	0.34	0.22	0.31	0.22	0.23	0.21
■ Total Expenditure	0.38	-0.92	21.26	0.44	0.15	0.06	0.24	0.1	0.27	0.15
■ Total Revenue	0.37	-0.86	12.4	0.44	0.14	0.2	0.11	0.16	0.17	0.12

As total revenue increases, budget solvency will increase as well, and that will lead to a budget surplus increase, which in turn results in short-term solvency and long-term solvency increases.When interperiod equity of the Addis Ababa city government is investigated, the city government lives within its available revenue to fund current operational needs. That is, the total revenue to total expenditure ratio on average is 1.06, except in fiscal year 2011/12, where total actual revenue was ETB 987,357,953.90 but total actual expenditure was ETB 202,609,670.51, which means the ratio is 4.87, which indicates the presence of effectively unutilized financial resources in that period. The case for being in interperiod equity is not having adequate revenue, but the financial administration law of the country forces every public body not to incur expenditure beyond its available financial resources. Nevertheless, when expenditure and revenue growth rates for the past 10 fiscal years (FY2010/11–2019/20) are checked, the expenditure growth rate is faster than the revenue growth rate (Figure 1). Moreover, there are unfavourable ups and downs in the revenue growth rate, and thus the expenditure growth rate has the same fashion, though the need for public goods and services consistently grows year after year due to growth in the population and changes in the environment. In fiscal year 2011/12, there was a high revenue decrease and, thus, a high level of expenditure cuts (Figure 1). Furthermore, on average, the growth rate of capital expenditure fluctuates year after year, and even the amount of financial resources allocated for that purpose is obtained from intergovernmental transfers and external loans, as the financial reports of the city government reveal. This may have a negative effect on the construction and maintenance of infrastructure and, thereby, the availability and good condition of infrastructure in the city. This indicates that the city government is financially in warning condition since, on average, the growth rate of expenditure is greater than that of revenue. This will affect the service level solvency and thus the ability of the city government to provide the required public goods and services will be jeopardized.

Figure 2: Domestic Revenue, External Assistance and External Loan

|	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
■ External Loan	14	-1.00	0	3.45	-0.65	0.56	-0.39	-0.31	-0.67	1.4
■ External Assistance	-0.21	-0.99	59.89	3.33	0.06	-0.86	-0.28	-0.37	0.46	0.87
■ Domestic Revenue	0.37	-0.86	12	0.35	0.21	0.2	0.12	0.17	0.18	0.12
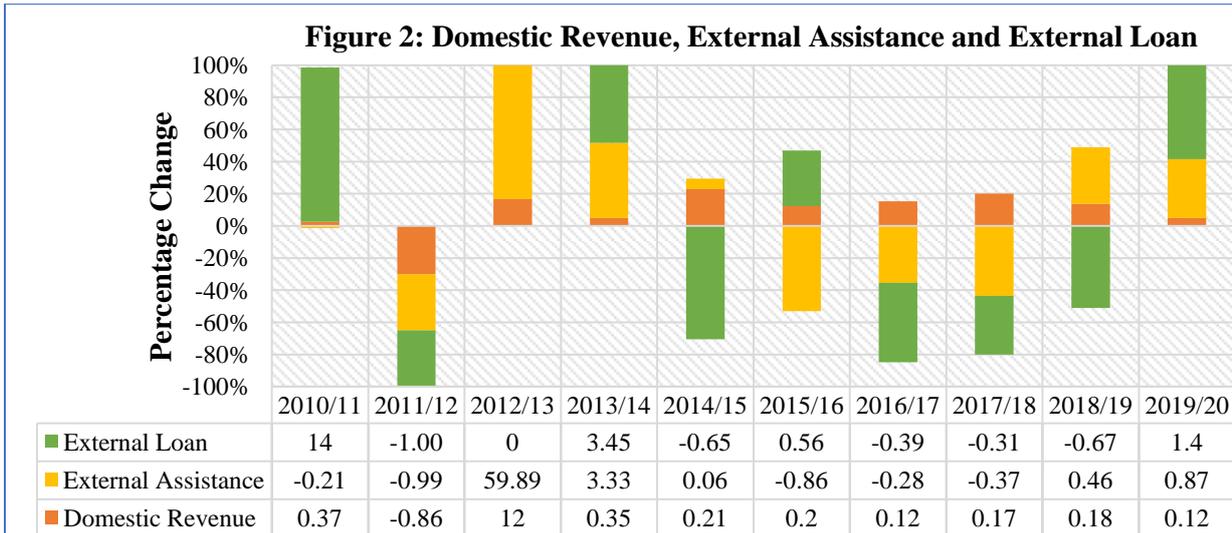
According to the Addis Ababa city government chart of accounts, domestic revenue constitutes tax revenue, non-tax revenue, subsidy revenue-transfer from the federal government, capital revenue, and municipality revenue. When the growth rate of domestic revenues, in general, for fiscal years 2010/11–2019/20 is considered, there is a high up-and-downward growth rate fluctuation (Figure 2). When fiscal year 2010/11's actual domestic revenue collection is compared with fiscal year 2011/12, there is an 86% decrease. Since both external assistance and loan revenue sources are beyond the control of the city government, the growth rate is inconsistent (Figure 2). This overall unfavourable revenue situation will have a negative effect on budgetary solvency.

Figure 3: Cash and Cash Equivalent, Accounts Receivable and Payables

■ Cash and cash equivalent ■ Accounts receivable ■ Payables

Cash and cash equivalent assets are liquid assets available for settling payables when they come due. According to the Addis Ababa city government chart of accounts (AACG, 2008), cash represents cash on hand, cash at the bank, and cash equivalents represent short-term, highly liquid investments which are readily convertible to known amounts of cash. Accounts receivables represent amounts due from government entities and staff; suppliers, contractors, and consultants; and peasant associations, cooperatives, individuals, private organizations, and others. Whereas, payables represent amounts due to

grace period payables, sundry creditors, pension contributions payable, salary payable and other payroll deductions; government entities and staff; and customs, court, hospital bid bond, VAT and other deposits.

As a general rule, to be liquid, the cash and cash equivalent to payable ratio must be 1 to 1 and the growth rate of both must be at least balanced; otherwise, the cash and cash equivalent growth rate must be greater than that of payables. But in the case of Addis Ababa city for fiscal years 2010/11–2019/20, specifically for 2013/14, 2017/18, and 2019/20, the ratio is in unfavourable condition (Figure 3). In addition, except in fiscal years 2010/11 and 2011/12, there is a high amount of receivable to be collected even though it is reduced in fiscal years 2016/17, 2017/18, and 2019/20, which will result in an actual cash shortage for payment of obligations when they come due. The accumulation of payables is reduced in fiscal years 2010/11, 2011/12, and 2019/20, but it is increasing year after year in other fiscal years, though the expected one is decreasing year after year. The cumulative effect of these will result in a problem of short-term solvency, and when this faces the city government, it will be unable to settle short-term obligations when they come due.

Figure 4: Operating Surplus/Deficit and Net Asset/Equity
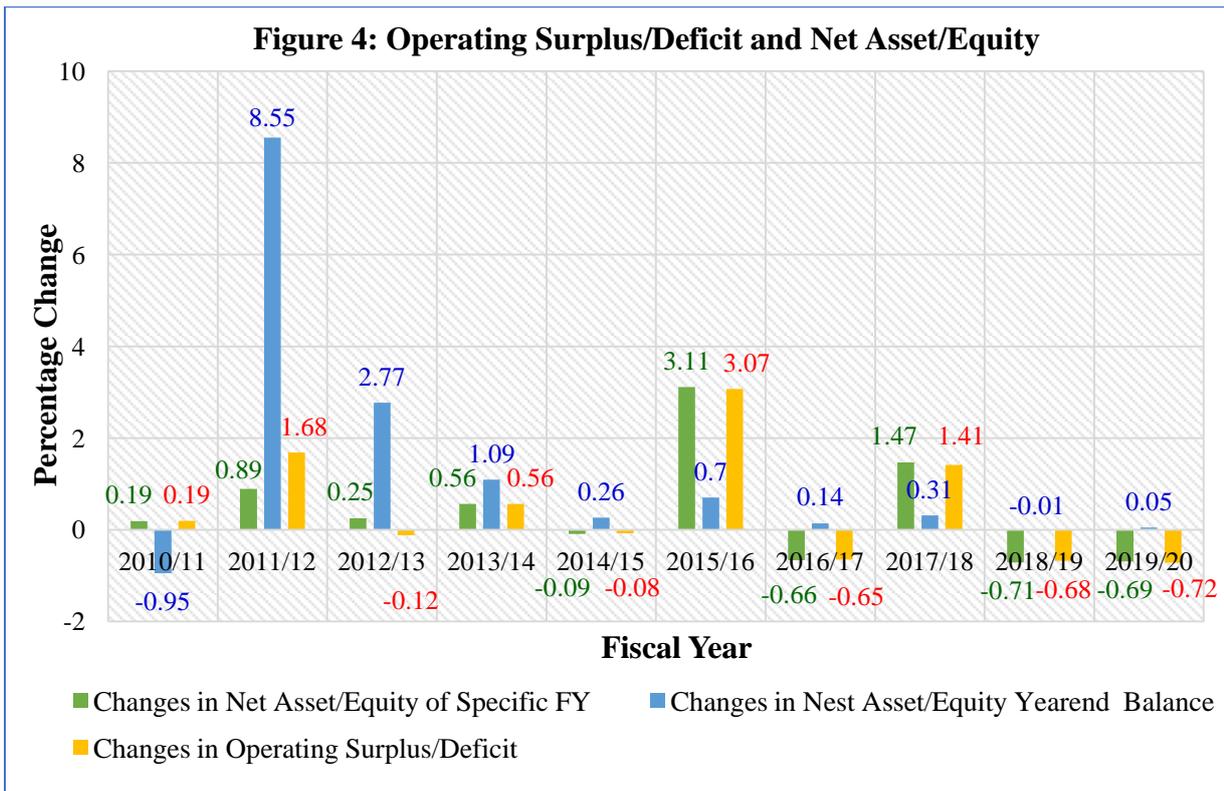
The net asset/equity account is the residual interest in the assets of a government after deducting all liabilities. According to the Ethiopian as well as Addis Ababa City government accounting system chart of accounts (MOFED, 2007; AACG-BOFED, 2008), there are two net asset/equity balances: one is the specific fiscal year closing balance of nominal accounts; and the other is the ending balance of the fiscal year, which is the cumulative value of the specific fiscal year and the beginning of the fiscal year balances that can be used for payment of additional and unexpected commitments.Operating surplus or deficit is the difference between total revenue and total expenditure, and it will have an effect on the net asset/equity balance. From the fiscal years 2010/11–2019/20, the Addis Ababa city government has shown an operating surplus, but the growth rate from year to year is not consistently upward growth, but rather ups and downs with negative trends, especially in fiscal years 2012/13, 2014/15, 2016/17, 2018/19, and 2019/20 (Figure 4). Also, the specific fiscal year net asset/equity changes are ups and downs, especially in fiscal years 2014/15, 2016/17, 2018/19, and 2019/20, with a negative trend. The end of the fiscal year net asset/equity followed the same pattern, i.e., in fiscal years 2010/11, 2018/19, and 2019/20, it showed a decreasing trend, with a

high decrease in 2010/11. The decrease in the value of net asset/equity from year to year will have a negative effect on long-run solvency since it is highly linked to long-run solvency.

Table 1: Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation
Cash ratio	10	.99	.23	1.22	.6640	.27842
Quick ratio	10	2.23	.98	3.21	2.2970	.81981
Operating ratio	10	3.86	1.01	4.87	1.4460	1.20402
Own revenue ratio	10	.84	1.51	2.35	1.9120	.27551
Capital outlay ratio	10	.53	.06	.59	.4110	.14881
Fixed costs ratio	10	.61	.18	.79	.3230	.17538
Operating surplus/deficit ratio	10	3.86	.01	3.87	.4460	1.20402
Net asset/Equity ratio	10	.78	-.11	.67	.3700	.25725
Long-term liability ratio	10	.19	.00	.19	.0450	.05523
Long-term liability per capita	10	442.31	.00	442.31	123.5410	129.96278
Tax per capita	10	7390.92	247.55	7638.47	4553.1610	2387.88817
Revenue per capita	10	9278.99	302.60	9581.59	5797.7340	2939.50676
Expenditure per capita	10	9451.65	62.10	9513.75	5433.6290	2877.60428
Valid N (listwise)	10					

Except for long-term liability per capita, with a mean of 123.5410 and a standard deviation of 129.96278, which indicates high dispersion since the standard deviation is higher than the mean value, other ratios show consistence because the mean value is higher than the standard deviation (Table 1). On the one hand, the higher value indicates a higher level of solvency, and on the other hand, the lower ratio indicates a lower level of solvency. However, tax per capita with a mean of 4553.1610 and a standard deviation of 2387.88817 implies a higher tax burden. In addition, expenditure per capita with a mean of 5733.6290 and a standard deviation of 2877.60428 indicates the government is an expensive government with lower service-level solvency.

Table 2: Correlation Matrix of Financial Condition Dimensions

		Cash solvency	Budgetary solvency	Long-term solvency	Service-level solvency
Cash solvency	Pearson Correlation	1.00	.580**	.361	.819**
	Sig. (2-tailed)		.003	.305	.004
	N	10	10	10	10
Budgetary solvency	Pearson Correlation	.580**	1.00	-.167	.821**
	Sig. (2-tailed)	.003		.644	.004
	N	10	10	10	10
Long-term solvency	Pearson Correlation	.361	-.167	1.00	.425
	Sig. (2-tailed)	.305	.644		.220
	N	10	10	10	10
Service-level solvency	Pearson Correlation	.819**	.821**	.425	1.00
	Sig. (2-tailed)	.004	.004	.220	
	N	10	10	10	10

**Correlation is significant at the 0.01 level (2-tailed)

The indices are created using standardized scores of financial condition dimension indicators, which allows for equal weighing of indicators with greater or smaller values. According to bivariate analysis of the four-dimension indices of financial condition (Table 2), cash solvency is associated with budget solvency ($r = 0.580$, $p < 0.01$), indicating that having higher cash solvency will also have a higher budget solvency. Also notable is the link between budget solvency and service-level solvency ($r = 0.821$, $p < 0.01$). As a result, the higher the budget solvency, the higher the service-level solvency. Furthermore, cash solvency ($r = 0.819$, $p < 0.01$) is linked to service-level solvency. Budget solvency, in fact, appears to be linked to all other solvencies, while the link between long-run solvency and other dimensions is not statistically significant at the 0.01 level. This study indicates that higher cash solvency is associated with higher budgetary and service-level solvencies. The findings of this study reveal that the financial condition dimensions as well as the financial indicators used to measure financial condition are related to one another, and thus, the effect on one dimension has an effect on the other dimension.

7. Conclusion

The existence of financial dimensions and indicators that can be used to examine the financial condition of a local government will enhance public accountability. Financial dimensions and indicators provide information for public financial accountability that is more objective than the opinion on the financial reports issued by the Office of the Auditor General of the Addis Ababa City Government and will therefore enhance public accountability. As a result, developing and implementing financial dimensions and indicators is critical for measuring the state of the financial condition and revealing its strengths and weaknesses.

The definition and related issues of the local government's financial condition must be derived from the national as well as local goals since the local government's financial condition is the result of the local government's efforts to achieve the national and local goals. Furthermore, for a local government to maintain healthy financial condition and achieve strong accountability, a sound accounting system with a sound financial management system is required.

In general, to be in good fiscal health, the city government's cash, budget, long-run, and service-level solvencies have to be maintained since a deficiency in any one or more of these areas will result in fiscal stress. To maintainsound fiscal health, the city government needs to develop a financial condition trend monitoring and measurement system and identify and decide on financial dimensions with indicators to measure financial condition.Unless the city government is in sound fiscal health, the provision of the required public goods and services to residents at the required level and quality in the present as well as in the future, the welfare of the residents and the change and development of the jurisdiction will be jeopardized.

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