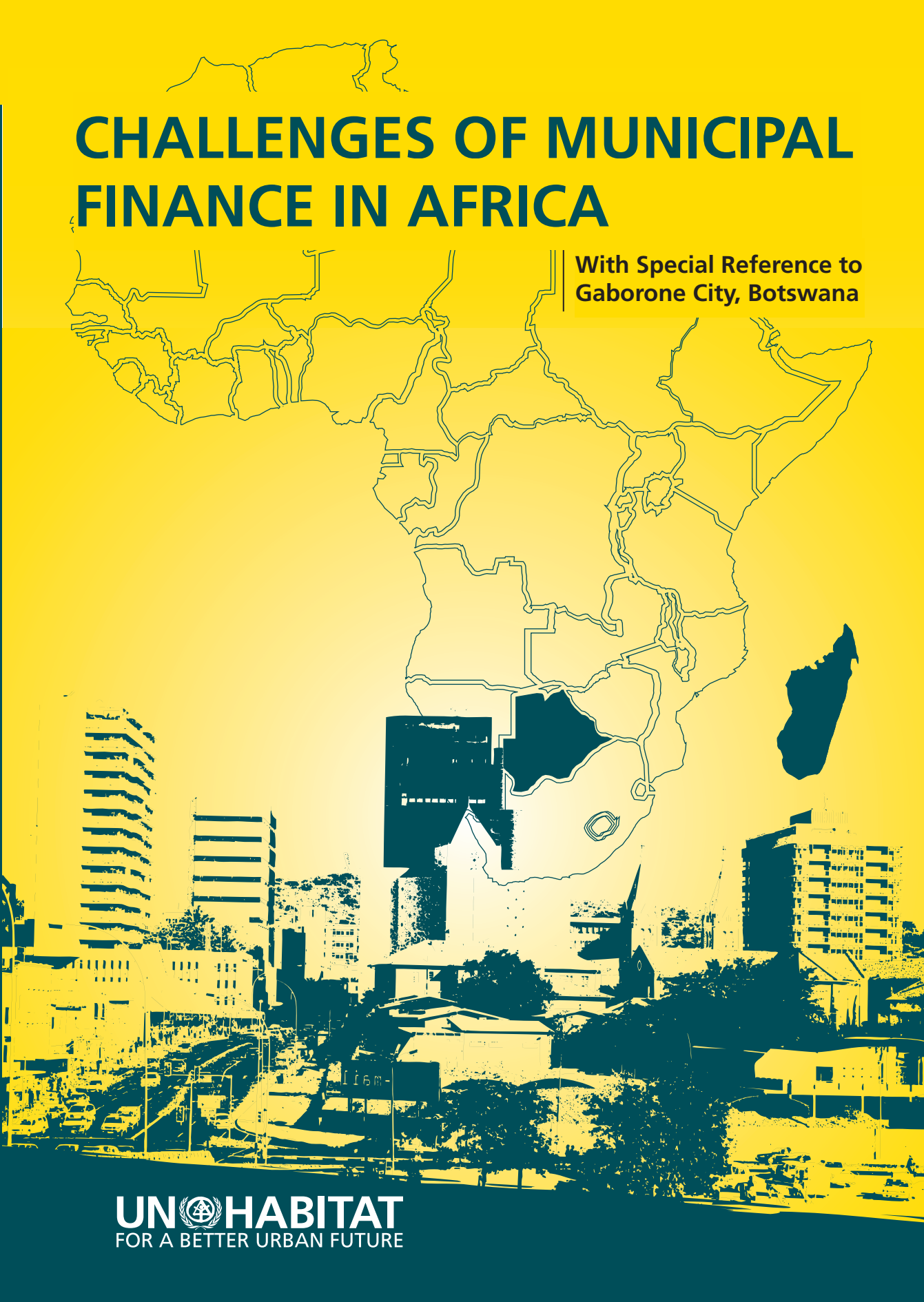


CHALLENGES OF MUNICIPAL FINANCE IN AFRICA

With Special Reference to
Gaborone City, Botswana



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Challenges of Municipal Finance in Africa

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FOREWORD



At the dawn of this new urban era, UN-HABITAT research shows that by 2030, two-thirds of humanity will be living in towns and cities. We thus live at a time of unprecedented,

rapid, irreversible urbanisation. The cities growing fastest are those of the developing world. And the fastest growing neighbourhoods are the slums. Indeed, the global number of slum dwellers is now at or close to the 1 billion mark. Excessive levels of urbanization in relation to the economic growth have resulted in high levels of urban poverty and rapid expansion of unplanned urban settlements and slums, which are characterized by a lack of basic infrastructure and services, overcrowding and substandard housing conditions.

Yet housing and the services that should be provided with it are one of the most basic human needs. It is enshrined in various international instruments, including the Habitat Agenda. And reducing the number of slum dwellers around the world is a cornerstone of the Millennium Development Goals set to fight poverty around the world. So if we fail to achieve the Goals in towns and cities, we will simply fail to achieve them at all.

It was with this crisis in mind that the United Nations General Assembly decided in its resolution of 26 February 2002 to transform United Nations Commission on Human Settlements into a fully pledged programme. The General Assembly in its resolution called on UN-HABITAT to take “urgent steps to ensure a better mobilization of financial resources at all levels, to enhance the implementation of

the Habitat Agenda, particularly in developing countries.” It also stressed “the commitments of member states to promote broad access to appropriate housing financing, increasing the supply of affordable housing and creating an enabling environment for sustainable development that will attract investment”.

The Habitat Agenda recognizes that housing finance systems do not always respond adequately to the different needs of large segments of the population, particularly the vulnerable and disadvantaged groups living in poverty and low income people. It calls UN-HABITAT to assist member states to improve the effectiveness, efficiency and accessibility of the existing housing finance systems and to create and devise innovative housing finance mechanisms and instruments and to promote equal and affordable access to housing finance for all people.

In our quest to reach as many people as possible, a cornerstone of our agency’s new Medium-term Strategic and Institutional Plan is partnerships. We have no choice but to catalyze new partnerships between government and the private sector. This is the only way to finance housing and infrastructure at the required scale – the scale needed to stabilize the rate of slum formation, and subsequently reduce and ultimately reverse the number of people living in life-threatening slum conditions.

It is clear that in the coming 20 years, conventional sources of funds will simply be unavailable for investment at the scale required to meet the projected demand for housing and urban infrastructure. Many countries around the world continue to face deficits in public budgets and weak financial sectors. Local governments have started to seek finance in national and global markets, but this is only in its initial phase.

New mortgage providers have emerged, including commercial financial institutions and mortgage companies. But only middle and upper income households have access to such finance, while the poor are generally excluded. Although social housing is becoming less important in Europe and in countries with economies in transition, the need to provide shelter that is affordable to low income households still exists, including in developing countries.

This is why the exchange of information and knowledge on human settlements finance systems is so important. It is why it receives increased recognition in facilitating the development of human settlements finance systems and in turning knowledge into action for developing practical human settlements finance methods and systems for these pressing problems.

Our Human Settlements Finance Systems series documents the state, evolution and trends of human settlements finance in member states, and examines the factors and forces which drive the development of human settlements finance systems and the roles of different institutions and actors in shaping the systems and trends, and reviews human settlements finance systems. It presents an interesting review of policies, instruments, processes and practices. It examines the strengths and weakness of these systems and practices, their relations to the housing sector and the broad economic and social sectors, and lessons learned from practices.

Indeed, the country review studies we present are a valuable resource for member States because it is a body of work that also shows how human settlements finance systems and models can be applied to local use and thus provide a wider range of options for human settlements finance. The series also serves as guidebooks for policy makers, practitioners and researchers who have to grapple daily with human settlements finance systems, policies and strategies.



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Executive Director, UN-HABITAT

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ABBREVIATIONS AND ACRONYMS

ANC -African National Congress
BCGIR –Building Control Regulations –Grade II Regulations
BCR –Building Control Regulations
BOOT-Build Own Operate Transfer
BOT - Build Own Transfer
COR - Certificate of Rights
CSO- Central Statistical Office
FPSG -Fixed Period State Grant
GCC - Gaborone City Council
GoB - Government of Botswana
LA - Local Authority
LADC –Local Authority Development Committee
LAIT- Local Authority
LAPAC- Local Authority Public Accounts Committee
LGA - Local Government Authority
MLGLH - Ministry of Local Government Lands and Housing
NDDC -National District Development Committee
NDP - National Development Plan
NGO- Non Governmental Organization
NHP- National Housing Policy
P = Pula (Botswana Currency); 6.5Pula = 1US\$
PAYE - Pay as You Earn
RSA- Republic of South Africa
RSG-Revenue Support Grants
SHHA -Self Help Housing Agency
SOS –Save Our Soul
UDP –Urban Development Plan
UN-HABITAT - United Nations Human Settlements Programme
VIP -Ventilated Pit Latrine

01. INTRODUCTION

Urbanization in the last 20 years has become one of the most important trends in human settlement development and the prospects of all developing countries continue to be deeply affected by rapid urban population growth. While Africa was 80% rural in the 1950s and 1960s, its rate of urbanization now stands on average at 50% and the trend is expected to continue over the coming years (UN-HABITAT, 1996). In West Africa for example, 50 million people are expected to migrate to cities over the next twenty years and it will take 80,000 hectares of land to accommodate them. It is projected that by 2020, 63% of the people will be living in cities. In Eastern Africa the figure will be 55 % (UN-HABITAT, 1998).

A case of concern is the manner in which the urbanization process is taking place in the continent. There are a number of integrated forces in operation. Firstly the urban population and those moving to live in urban areas consist largely of unskilled labor. Secondly, municipal authorities, which were originally instituted as colonial administrative institutions, have not been structured to cope with the fast growing urban population (Beall, 2000). Thirdly the existing revenue collection administration is generally inefficient and what is collected has, in some cases, been inappropriately managed. Finally, as municipalities are in general, financially weak, they must rely on financial assistance from the central government, which only increases the leverage of the latter over them (Slater, 1997).

Policies towards urbanization appear to be changing, from a desire to control the growth of cities by curbing rural-to-urban migration, towards the acceptance of urbanization as

an inevitable and even desirable process. Cities are now seen as the engines of national development, offering job opportunities and a higher quality of life to new urban dwellers. A few countries in Africa, including Uganda, have begun to encourage faster urbanization as a way of inducing faster national development. This means that they have to be managed properly and funds provided to run them adequately otherwise chaos will reign.

The last few years have also witnessed acceptance of the concept of sustainable development, which was adopted in Rio de Janeiro in May 1992 at the UN Conference on Environment and Development. As indicated in *An Urbanizing World: Global Report on Human Settlements 1996* (p421), sustainable development brings together two major concerns: “meeting the needs of the present... without compromising the ability of future generations to meet their own needs”. The first concern is about socio-economic development, while the second is about global ecological life supporting systems. Within the urban context the needs of the present include: firstly, access to an adequate livelihood or productive assets, as well as economic security for the vulnerable; secondly, access to healthy and affordable shelter and related services, including water, sanitation and domestic energy, as well as access to adequate health care and to education; and thirdly, freedom to participate in national and local decision-making processes.

As a result of rapid urbanization, pressure on urban services and facilities (the “present needs” as defined in sustainable development) has become a serious problem in many urban centres and job opportunities offered by cities are too few for the large numbers

of new urban dwellers. Consequently, the numbers of poor people within urban areas are rapidly increasing. In many parts of Africa, a physical manifestation of this is the growing slums and squatter settlements, sometimes accommodating more than 50% of the urban population. At the same time, rapid urbanization is also leading to serious environmental degradation, particularly within and around large cities. This is exacerbated by inappropriate consumption patterns, as well as inadequate management of natural resources.

Due to this fast urbanization, many African cities are thus now faced with a governance crisis at all levels which is a result of the progressive weakening of public sector capacity brought about by a combination of state over extension, ineffectual adjustment of external economic effects, natural events and poor management. Most countries have chronic budget deficits and cannot provide city services. It is the composite effect of these failures, which has necessitated significant emphasis on issues surrounding capability and capacity of local government (McCluskey, *ibid.* 4).

In this report we explore how one country in Africa, Botswana, has fared in financing

urban development and see what lessons other countries can learn from it. However, to put the report in perspective, we start off first by looking at what other African countries have done in financing sustainable municipal development. In this report we first, examine the main sources of municipal finance; then look at the experience of sustainable service provision; financial management and innovative financial practices. The report then will look at the case study of Gaborone, Botswana. It will conclude by putting forward suggestions on the way forward as far as municipal financing in the African continent is concerned.

02. THE SOURCES OF MUNICIPAL FINANCE IN AFRICA

INTRODUCTION

The fundamental problem of municipal finance in Africa is simply stated as the gap between financial resources and municipal expenditure needs coupled with inadequate financial systems. This fiscal gap is widening as urban populations expand, increasing the demand for infrastructure and urban services. The fact that the growth of municipal revenue does not match the increase in urban economic activity is technically referred to as the lack of (municipal) income elasticity.

Experience shows that in many countries, the taxing powers of local authorities are simply not wide enough and the yield from existing sources is often far inadequate to meet their expenditures. Many cities in Africa are largely dependent upon income derived from property taxation and other service charges, while other and more lucrative sources, such as income tax, sales tax and business tax are monopolized by central governments. Thus, many cities have to depend on central government allocations, which are themselves generally inadequate and often erratic in terms of timing.

For example, in South Africa, Pieterse, et. al.(1999) indicate that local government derives its revenue from rates on property(19.89%) and trading services such as electricity(41.4%), water (11.8%) and sewage and refuse removal (8.22%) In addition, municipalities receive intergovernmental transfers in the form of agency payments, transfers to fund operational costs and capital transfers (averaging only 10%). While municipalities continue to receive income from these sources, national figures point to a crisis in municipal finance. "Project Viability", a national cash-flow

monitoring system indicates that one third of municipalities are financially unsound. Over R9 billion is tied up in outstanding debt to municipalities, and municipalities' ability to pay major creditors is decreasing. However, while there is a serious question as to whether local government is adequately funded, many urban municipalities have substantive income and are in a position to redirect expenditure to poverty-targeted programmes.

Most value added taxes are exclusively reserved to central governments and few municipalities levy an income tax, or a surcharge on income related taxes that would capture a proportion of the economic growth for public purposes. Because local taxes lack buoyancy, revenues fall behind the growth of the local tax base. In property taxation, often a main source of municipal revenue, a rise in property values may not be captured immediately with a tax increase because properties are usually revalued every few years rather than on an annual basis.

Another reason for the municipal finance gap is that most municipalities lack the autonomy to establish their tax base, rate structure, and enforcement procedures, and therefore, cannot raise revenues commensurate with their expenditure requirements.

Finally, poor financial management is contributing to municipal finance shortages. There are shortfalls in the capacity and technical expertise of local government to handle expenditure responsibilities and to generate revenue. An example often cited is inadequate administration of local property taxation. Studies in many cities have shown that urban administrators are often unable to

update property valuation for tax purposes, mainly because of a lack of qualified staff and insufficient, poorly maintained records. One may add to this various corrupt financial management practices – intentional under-valuation and over-allocation-leading to the inequitable generation and distribution of public revenue and to gaps where there should be none.

Local governments may get much of their annual operating cash from land-based revenues, usually local real estate taxes, and non-land based revenues such as taxes on vehicles, license fees for various businesses and occupations and utility charges. A common source of revenue in most countries is inter-governmental transfers. Cities in the developed world may also obtain revenue for large capital projects through borrowing against project income streams (revenue bonds) and general tax flows (obligation bonds). This, however, is not common in developing countries like Africa because of the higher levels of risk perceived by investors.

The extent of control over municipal income varies. Only a few sources of revenue –some fees and user charges-are completely under the control of local authorities.

Financial transfers from higher government authorities sometimes lack transparency and predictability. At times, central governments fail to notify local governments of grants until well into the fiscal year, or central governments may effect sudden reductions. Regular formula-based transfers (like in Botswana) would be preferable to ad hoc grants for better long-term capital planning and budgeting by local governments.

A number of countries have set up specialised public finance institutions, which lend to local authorities for infrastructure investment. Most local governments are not independent enough to borrow long-term funding from capital markets for urban development. That

is, they do not have authority to use their taxation powers to guarantee payback. Still, private capital markets appear to be developing rapidly (as in South Africa) and, as conditions change, local governments in the future may tap these.

Where local authorities are able to derive revenues from property taxes and service charges, meaningful tariff increases are sometimes refused or delayed by central governments for fear of eroding political support among the urban populace. In short, many governments continue to refuse to pay the political and financial costs of decentralization, that is, granting of more financial and decision-making powers to local authorities. To resolve these problems requires reconfiguration of central-local government relations, either towards more decentralized systems or more effective revenue sharing, and this can only be done if there is enough political will on the part of central governments.

A different set of reasons for the failure of urban local authorities to cope with increasing demands is to do with the characteristics of their existing sources of revenue and the inadequacy of the financial regulations and procedures employed. In addition to their inadequacy, many of the key sources of local revenues are generally inelastic, i.e. they do not have the capacity to yield additional revenue in proportional response to inflation, growth of personal incomes and population growth. This, for a variety of reasons, is often the case with urban property taxes, the cornerstone of the urban finances of many developing country cities, particularly those, which inherited their systems from the British. A second reason, which affects the acceptability of some urban taxes and their long-term suitability, is that they are often regressive, thus failing to be effective instruments for redistribution and attainment of equity. The third reason is that many cities are lacking in administrative capacity and cannot, therefore, fully benefit from the existing sources of revenue. This is quite often

the case with regards to property taxes, largely as a result of the absence of proper financial cadastres???? and the inability to carry out accurate real estate valuation and the necessary periodic revaluations. Collection of charges for urban services rendered may also be inefficient and many cities are owed large amounts of money by consumers, including central government and parastatal consumers. Finally, some urban taxes are politically sensitive, thus affecting the willingness of local authorities to assess and collect such taxes effectively and to enforce sanctions on defaulters.

All of these problems affect cities in Africa, in varying combinations and to different extents. Yet, there are also some cities, which have made some progress in improving their financing systems, in terms of their revenue sources, collection systems, yield and financial management. A number of cities and towns have in recent years embarked on wide-ranging reforms of their governance systems, including the enhancement of financial mobilization and management capacity, from which useful lessons could be learnt. In Dar es Salaam, for example, the City Commission quickly realized that it had inherited from the elected City Council massive debts accumulated over many years due to poor collection levels and general financial mismanagement. To assist in raising the level of revenue collection, the Commission engaged the services of consultants to review the whole city financing system, assess the yield potential of existing sources of revenue and rationally determine new levels of rates, charges and fees (ibid).

SOURCES OF MUNICIPAL REVENUE

Municipal governments derive their revenues mostly from both internal and external sources. Of the internal sources, some are land based in the form of property taxes and land fees and the others are non land-based, like taxes on households and license fees of

all sorts; whereas external sources are mostly revenue from intergovernmental transfers, grants, money from borrowing etc. In this section we examine these sources, highlighting on their value and adequacy to meet the ever rising municipal needs of social and line infrastructure.

INTERNAL SOURCES OF REVENUE

(a) Land-based Sources of Revenue.

The property or real estate tax is one of the most common taxes levied at local level, but its potential is seldom exploited to the fullest extent. In most cases valuation rolls are incomplete and out of date as in the case of Kenya, Uganda, Tanzania and Zambia; in most countries, central governments, which own many properties and use the services within the jurisdiction of urban local authorities, are supposed to either pay rates in full or, more often provide grants to local authorities in lieu of rates, however, most do not pay, thus depriving the municipal governments of substantial revenue and lastly, a potentially serious problem in most cities in Africa is the growing feeling, among city residents, that the money paid for rates and other local taxes is being poured into a bottomless pit, as it seems to have no impact at all in improving the quality of physical infrastructure and services. For example, in parts of Nairobi or Johannesburg, there have been suggestions that residents should suspend payment of rates and the service charge until such time as roads, water and sanitation begin to improve. It is likely that, increasingly, residents will demand to see results from the rates that they pay. This trend is likely to be encouraged by the political openness and democratic governance, which is increasingly characterizing African countries.

Property taxes are levied because the benefits of infrastructure and services provided by municipalities accrue foremost to the owners of property or their tenants. To raise more

TABLE 1: SOURCES OF LOCAL GOVERNMENT REVENUES

| LOCAL GOVERNMENT REVENUES | | | | |
|---------------------------|---|--|---|---|
| INTERNAL SOURCES | | | EXTERNAL SOURCES | |
| Land-Based Revenues | Non-Land-Based Revenues | User Charges | Inter-governmental transfers | Borrowing |
| Property Taxes | Taxes on households, vehicles, animals etc. | Service charges (water, parking, sewerage etc) | General purpose grants; Regular transfers or formula-based shared taxes | From governmental sources |
| Land Fees | License fees for various businesses and occupations | Administrative fees, such as building permits, registration etc. | Grants for specified purposes | From private capital markets (including inter-national markets) |

revenue from property tax in a way that is equitable, both technical expertise, the application of Geographical Information Systems, and institutional tax administration must be improved.

Land development and betterment fees can recover capital outlays for development work. However, very few countries in the continent have such fees. For equity and distributive reasons, it is logical that landowners provide returns on rising land values. Costs of providing new community services, or fees in lieu of services, may be recovered from large-scale developers at the time of development. These will, in turn, be recovered from resident beneficiaries through a higher purchase price or the creation of dues paying association of residents.

The legal formation of local improvement districts for financing community infrastructure is another common tool in some countries in the continent. In developing countries, a process that allows quick recovery of investment costs is land readjustment. Local governments, acting as developers, assemble public and privately held land for infrastructure provision.

(b) Non-Land based Revenues.

There are large differences in the fiscal jurisdiction of municipal bodies. These reflect the degree of fiscal decentralization and help explain the state of municipal finances.

Across local governments there are also significant differences in how much municipalities earn from non-land sources of income. These sources are examined below:-

Tax on Income

Income tax, as a source of revenue, currently exists in a few countries such as Uganda and Tanzania. But even in these countries' cities, there are poor records of both employees and employers; even in the informal sector and so the yield is low. Partly because of poor records keeping pointed out above, local authorities resort to charging flat rates for self-employed persons, thus introducing a significant element of inequality.

User Charges

Service or user charges are today a much-discussed source of municipal revenue in Africa. Charging immediate users of infrastructure and services has become a common principle, and user charges are growing in importance. User charges are designed to generate revenue to cover operating and investment costs. The

system provides for more efficient municipal services and infrastructure and enables rates to be set and adjusted at levels, which reflect real capital costs, finance charges and inflation. Where independent institutions, such as independent public or private water, sewerage and electricity utilities, establish fee levels and handle revenues, financial self-sufficiency can be achieved, as has been shown, in some countries. Cost sharing has been introduced in services provided by municipal governments such as education, health etc. However, experience shows that the charges are too low and inadequate for the effective provision of such services.

A general problem affecting a number of services provided by local authorities in most countries is under charging. Further, charge rates are infrequently revised, rendering charging services, as a source of local income, inelastic. Inefficient billing in some cities, for example, Nairobi, where water billing is often behind, exacerbates this.

The successful application of user fees requires a convenient way to measure individual consumption. Increasing user fees to economically efficient levels should be the first priority of an infrastructure strategy. Care must also be taken to avoid excluding the poor from services because of their inability to pay. Cross-subsidies (as used in Botswana) are often used in several countries in the continent to create a more progressive schedule of fees.

Tax on Provision of Goods and Services (license fees)

Tax on provision of goods and services, which is generally in the form of trade licenses and fees, is an important source in most countries. However, in some instances, increasing license fees has proved to be very difficult and politically sensitive. Collection and follow up of defaulters has also proved to be problematic.

Income-Generating Enterprises

Income generating enterprises is not a significant source of local government revenues in Africa and appears to be getting less and less popular with the increasing preference for privatisation. It is practiced in Tanzania, Kenya, South Africa, Zimbabwe and Nigeria among others.

EXTERNAL SOURCES

Central Allocations or Inter-governmental Transfers

Several systems exist for transferring funds to local authorities. In Botswana, for example, urban authorities get 100% of the development budget and between 40-60% formulas based on their recurrent budget from the central government (Mosha 2001). In other countries the situation is as follows: In Kenya, there are also formula based block transfers to local authorities; in Malawi, there are general purpose, block transfers or specific purpose formula based transfers; in Nigeria, federal transfers are formula based whereas transfer programmes to the LGAs have been historically highly unpredictable, in Malawi, the situation is not clear and lastly in Uganda the 1995 constitution certifies unconditional, conditional and equalization grants (New York University, 2000).

A major problem in some countries is the uncertainty characterizing central government allocations. Local authorities are never certain about when they are going to receive their allocations from central government, or about how much they are going to get. Another problem is the central government's distrust of the competence of local authorities. They do this to cling to the financial muscle.

Intergovernmental Tax Sharing

Most African local authorities including municipalities get revenue from tax money

collected by central government. In Kenya, 20% of the tax levies on road fees and 5% of the annual income is normally shared; in Uganda, according to the Local Government Act of 1997, 35% of the total collections have to be transferred to districts. A formula based revenue sharing scheme is also available in the Local Government Act for the distribution to division councils for revenue collected by the municipalities and cities; in Nigeria there is general revenue sharing of national revenues in the Federal Account and in countries like Rwanda the system is not clear and lastly, in Malawi, there is no inter-governmental tax sharing system in operation (NY University, 2001).

Sub-National Borrowing

In some countries in the African region sub-national governments can borrow to finance their development programmes. A few examples where this is practiced are in countries such as Zimbabwe, South Africa and Uganda. In Zimbabwe this has been a great success. In the case of Uganda, local authorities are allowed to borrow from the banking system within the constraints imposed by the Local Government Act of 1977, although there has been little borrowing thus far. In Kenya and Botswana, there is virtually no borrowing due to past heavy debts and problems with repayments.

03. CHALLENGES OF MUNICIPAL FINANCE IN AFRICA

Problems of Revenue Collection at the Local Level

Municipal governments' ability to generate revenue through taxation is severely limited because central governments insist on the prerogative of imposing taxes and determining tax rates. The only substantial revenue source, which is almost universally at the disposal of local authorities, is property taxation. Although this is the most important single source of human settlements financing accessible to local authorities, it has shortcomings in its potential to increase revenues. Since the tax base - the amount of land - does not grow automatically with real income growth or inflation, there must be periodic reassessments to update property values. This is an administrative problem, because local governments fall behind in carrying out reassessments owing to lack of suitably qualified staff. Thus, old property values remain on the tax rolls, and revenue losses are substantial (UN-HABITAT 1986).

Another problem is the notoriously low rate of tax collection. Evidence on this is not readily available, since local government records on revenue-collection performance are not reliable, and the specific reasons for poor revenue-collection performance differ among local authorities. However, common elements can be found, the most important being the absence of effectively enforced penalty measures for non-payment or unduly delayed payment. Collection problems may stem from inadequacy of staff as well as from the structure of the tax. Wide variations in the equity of property tax assessments (i.e. in the ratio of the assessed value to the market value) are a typical obstacle in this respect.

Another frequently cited problem is that many tax delinquents simply do not have the capacity to pay. Some governments in the continent have begun to deal with these problems with a variety of reform measures. The most effective one, however, appears to be strict enforcement, including prompt identification of delinquent payers, rapid legal procedures, and automatic tax liens on delinquent property.

Other forms of taxation, for instance on the use of cars, although well suited to urban areas, have been little used by African countries. Car ownership has increased significantly in most developing countries and is largely concentrated among high-income groups, but taxes on cars do not cover costs of road networks, parking space, and traffic regulation, let alone generate surplus revenues for the development of urban services. Car taxation has the advantage of being made progressive and used to promote public transport, an investment of particular benefit to the poor.

Central governments should encourage local authority efforts to generate income - especially since such actions can enhance equitable income distribution at the local level - and to strengthen local management capabilities. Appropriate methods would include inter alia, incentives to improve local authorities' revenue generation through performance-linked grant systems, and assistance in organizing borrowing from financial institutions. Such support could help secure the capital required for investments in fixed infrastructure as well as reduce the demand for grant and loan funds from central government.

This approach transforms the traditional system of transfers from central to local government

from one of annual handouts covering deficits and centrally planned and funded investments into one of reliably sourced finance for locally planned and managed services and infrastructure.

Sub-national Government Autonomy

For local authorities to succeed, they need autonomy and this means that central governments have to decentralize their activities to municipalities. However, there seems to be limited autonomy in sub-national governments. In Kenya, for example, there is some autonomy, but ministerial approval is required for most of the decisions made by councils. In Malawi, Botswana and Rwanda autonomy has historically been weak due to capacity constraints. On the other hand autonomy has been strong in Nigeria, Uganda and Tanzania.

Fiscal Decentralization and Municipal Finance: Slow Decentralization

Fiscal decentralization, which can help municipalities finance their social and physical infrastructure programmes is relatively slow in the African sub-continent and this has posed a challenge to most authorities.

The concept of Municipal Finance in most developing countries is predicated on the practice of decentralization and fiscal decentralization in particular as local governments are almost wholly dependent on the centre for a great part of their recurrent and capital budgets. The last decade has witnessed an extraordinary proliferation of local government reforms around the world, including in Africa. Rapid political, economic and technological changes have fuelled the trend to rely more heavily on lower levels of government. Fiscal decentralization has not accompanied the decentralization of responsibilities. Although the local authorities are increasingly being charged with service and infrastructure provision

responsibilities, they still have to revert to the central government for funding. They are still subjected to the tendering and asset disposal procedures practiced at central government. This inevitably does not give local authorities the latitude to deal with their finances and revenue generating practices as they see fit.

Fiscal decentralization may appear to be the “easiest” aspect of decentralization because it is not difficult to assign additional powers and revenues to sub national governments, like municipalities. The reality, however, is far more complex. Even if a formal decision is made to decentralize, reluctant central agencies may slow the progress. In addition, giving additional resources to sub-national governments politically, managerially and technically unprepared to use them responsibly can create enormous problems. Finally, the degree to which fiscal decentralization should be pursued is unclear. Empirical evidence to justify or discredit fiscal decentralization is scant and mixed. None of the claims on either extreme—that fiscal decentralization retards economic development and has undesirable macroeconomic effects; or that it improves local service delivery and enhances local government accountability – has been adequately tested. (T. Ter-Minassian, ed. (1979).

Fiscal decentralization may be more effective if it is approached in an experimental, phased version rather than adopted in one fell swoop. Namibia and Mozambique are starting with the cities while Uganda started with the fiscal component of its decentralization programme in 13 districts. Tanzania did the same in the early 1980s. Nigeria started in 1976 and Ghana in 1991.

In a study by Smoke (2001) of four countries in the Eastern Africa sub-region (Ethiopia, Kenya, South Africa and Uganda) an insight into local government finance and decentralization was exposed. Some key differences are summarized in table 2. Public expenditure-to-GDP ratios for Ethiopia, Kenya, South Africa and Uganda

are respectively, 29 % (2000), 30.5% (1996), 25.3% (2000) and 21.9% (2000). Their respective deficits in these years were -22.4%, -7.5%, 2.4% and -10.1%. Thus, the overall size of the public sector is moderate in all cases. All run deficits, with Ethiopia having the largest and South Africa smallest.

The relative importance and fiscal independence of decentralized governments varies considerably across the four countries. Ethiopia's decentralized governments (primarily the states) accounted for 31.2% of total public expenditures (2000) and raised 18.9% of total expenditure revenues, while Kenyan local governments accounted for only 4.2% of expenditures and 5.6% of revenues (1996). In Uganda, local governments accounted for 28% of expenditures (2000), but they raised less than 8% of revenues. South Africa has two sub-national levels of importance. Provincial governments accounted for 46% of total expenditures (2000), but they raised an average of only 4% of their revenues, while local governments accounted for 25% of public expenditures, but they raised on average 92% of their revenues (more in larger urban, less in small rural).

Functional responsibilities are quite different in the four cases. In the Ethiopia and South Africa cases, decentralized levels of government (primarily state/provincial) have dominant responsibility for social services (health, education and in South Africa, welfare). In contrast, only a few large colonial era municipalities are involved in health and education in Kenya—social service expenditures are almost entirely funded and provided by the central government and NGOs. In Uganda, local governments legally have significant responsibilities for health and education, but many have not been able to deliver these services adequately since decentralisation due to capacity constraints.

The four countries also have dissimilar local revenue structures. Ethiopian states rely on

shared percentages of central taxes (personal income, business, excise, sales) and have only a few modest independence sources, especially enterprise profits and various charges and fees. Kenyan local governments have relied heavily since independence on a property tax, and since the late 1980s on local authority service charge, a combination payroll and business tax. The LADC was abolished in 2000 and replaced by a transfer system. South African provincial government main sources of revenue are motor vehicle fees, gambling revenue and hospital user charges. Local governments rely very heavily on surpluses from trading services (mainly electricity and water), with urban areas also using property rates and large metropolitan councils and districts using the Regional Service Council levy, a productive but problematic combination payroll levy and turnover tax. In Uganda, the most important source of local revenue is the graduated personal tax, an unusual and complex hybrid of PAYE income tax, a presumptive income tax, a wealth tax and poll tax. Local governments have access to the property tax, but in practice few use it, and it is significant only in the large cities. Sub-national governments in all of the countries use various types of fees, licenses and other minor revenues.

Finally, the three countries have significantly varied approaches to intergovernmental transfers, both in terms of relative importance and structure. In Ethiopia there is a single block transfer program based on a complex formula that accounts for more than 400% of the national budget (2000). Kenya for many years had no transfers except for teacher's salary grants to a few municipalities that provide primary education and a very small grant to needy councils. A transfer system to distribute 5% of central income tax revenues to local governments was adopted in fiscal year 2000. South Africa provides to provinces and municipalities an "equitable share" of national resources for recurrent expenditures. This transfer funds more than 95% of provincial

expenditures, but less than 10% of municipal expenditures on average. They also have access to a variety of conditional transfers primarily for capital expenditures, some of which are off budget. Uganda's transfer system is designed to provide three types of grants, block, equalization and conditional.

From the above it can be seen that the level of autonomy, responsibility and power depends on the political set up of the sub-national governments. It shows that local governments do get financed in different forms depending on the level and scale of fiscal decentralization. Intergovernmental transfers come in different forms and amounts. Efforts to raise their own funds vary and depend on various factors.

TABLE 2: LOCAL GOVERNMENT FINANCE: SELECTED COUNTRIES

| | South Africa | Ethiopia | Kenya | Uganda |
|---|---|---|---|--|
| Structure of sub-national Government | -Provincial -Municipal (Type A, B, C) | - State - Administrative tiers of state - Municipal | - Local (Municipal, Town, Urban, County) | - Local (Districts and four levels below) |
| Size of sub-national government | Provincial and Municipal >60% expenditures <15% revenues | 31% expenditure 19% revenue | 5% expenditure 6% revenue (prior to recent reforms) | 28% expenditure 8% revenue |
| Sub-national Government Expenditures | Social services (Provincial) Local Services (Municipal) | Social services, infrastructure (state) Local services | Local services and some infrastructure | Social services. Some infrastructure. Local services |
| Sub-national Revenues | Road tax/fees, Gambling (Provincial) User charges, Property rates and RSC (local) | Enterprise Tax (state) Fees/charges Property tax (urban) | Property rates, User charges Agricultural fees (rural) | Graduated personal tax, Property rates, User charges |
| Inter-governmental tax sharing | Provided for provinces, not yet used | Income, sales, Business, Excise | Income (newly instituted fiscal year 2000) | None |
| Inter-governmental Transfer Programmes | Equitable share (formula based distribution of an annual ad hoc allocation) Various capital transfer programmes | Block transfers (formula-based distribution of the proceeds of certain taxes) | Block transfers (formula based distribution of income tax share, but reform conditions placed on a portion. | Unconditional, Equalization, Conditional (separate formula) |
| Sub-national borrowing | Once substantial in metros, then declined, new framework in development | None, except some at state level for short term cash flow management | Once substantial, now virtually gone | None |
| Central Government Oversight | National Treasury, Department of Provincial and Local Government | PM Office, Ministry of Finance, Ministry of Works(Municipal) | Ministry of Local Government, Ministry of Finance | Ministry of Local Government, Ministry of Finance, Planning and Economic Development |

| | | | | |
|--|---|--|---------------------------------------|---|
| Sub-national Autonomy | Relatively strong legally and in practice | Strong legally but weak in practice | Relatively strong but some control | Strong legally, but weaker in practice |
| Sub-National Government Capacity | Mixed(stronger metropolitan) | Weak, but some better than others | Mixed across urban and rural | Mixed, generally better in urban |

Source: Smoke (2001:7).

Sub-national Government Capacity

One of the major problems that face local governments is lack of capacity to run projects and programmes in their areas of jurisdiction. The UN-HABITAT explains the concept of “capacity” as comprising a combination of knowledge, skills and aptitudes that individuals need to carry out what they consider to be their ‘mission’ in their particular circumstances. Capacity, therefore, is the quality of ‘doing and acting’ as a function of expected aims, proposals and results. Capacity building also means strengthening all the agencies that take part in the implementation of plans and programmes, including legal instruments. Capacity building is a generic concept that is used interchangeably with terms such as institutional strengthening; institutional development and organizational development. Capacity development is preferred by UN-HABITAT as capacity building implies that there is no capacity at all, which is hardly ever the case.

Most municipalities do not have the right caliber of both managerial and technical staff to plan and implement projects successfully. Professionals like engineers, architects, and quantity surveyors are hard to come by. Even where countries do have such cadres, the municipal councils cannot employ them as salaries offered are not attractive enough.

In Kenya, the level of capacity is mixed though the Kenya Local Government Reform Programme proposed developing capacity to deliver services, plan and implement projects using community-based participatory planning. In Uganda, most decentralization

projects that have been undertaken have included capacity building components. In Nigeria the situation is highly variable. In Malawi, Botswana and Rwanda the system has been weak due to historical central government control.

Mismanagement and Corruption

In most municipalities in Africa, the problem of finance has been due to mismanagement of the resources allocated for development and from corrupt practices. Many projects either do not get started at all or those that are started get stalled due to funds having been siphoned off by corrupt officials acting alone or in collusion with people in the private sector. In other instances projects are poorly managed due to lack of managerial skills among council administrative officials.

Rising Poverty Levels

In all African countries, urban poverty as well as rural poverty is growing as a result of declining economic performance, political instability and growing marginalization of the region in the global economy. Until the beginning of the 1980s, poverty was largely rural, but now it has moved to urban areas at high speed, forcing municipal governments to tackle the problem head on.

Virtually all local governments have been involved in one way or another in dealing with poverty, through Poverty Reduction Strategies. Such strategies have been prepared in Tanzania, Uganda, Botswana, Kenya, Rwanda, South Africa and many other countries. However, due to lack of resources,

success has been eluding the majority of them. More direct action is needed if this problem is to be stemmed or at least reduced.

Privatization and Partnership Attempts

Privatisation of the provision of municipal services is one avenue of saving money but the general public resists this approach.

Inefficient and economically unfeasible provision of services is where the privatisation debate, sometimes heavily loaded with ideology, comes in. The financial and service delivery records of state-owned enterprises around the world are not particularly impressive and the transfer of such services to private ownership is usually an integral part of any structural adjustment programme. Political interference, transferring income to the general fund and packing the staffing rolls with unneeded workers can lead to poor performance and productivity. This reflects the fact that public organizations are often free of the discipline of financing their own operations or responding to market demand. One immediate fallout from privatisation is usually the layoff of redundant workers with all the social welfare implications that it entails.

An important aspect of privatisation is the fact that investment in infrastructure development can be taken over by the private sector. Urban growth requires large capital investment in infrastructure such as transport, water supply, sanitation and other network systems attractive to private companies.

Two types of privatisation of urban services of urban services have emerged over the last decade. The first type is what might be called "spontaneous privatisation". This has arisen in an attempt to fill-in the increasing gaps left by local governments. Because of the deterioration of existing services and the lack of expansion to cater for increasing urban populations, private providers of services have emerged without any initial prompting from

either central or local governments. This has been particularly so in the case of water supply, mainly in the form of private water kiosks in many low-income areas or the running of the entire service like in Tanzania. This has also extended to solid waste removal in high-income and even in low income areas as adopted in Tanzania, Botswana, Kenya etc. A second type of privatisation of urban services is more formal and organised in most cities in the continent.

Some serious misgivings about privatisation of social services are emerging. There is evidence suggesting that many urban poor people are unable to pay even the minimum charges required for basic education and health services.

A crucial privatisation issue is ensuring that access to essential urban services is open to everybody and that low-income groups are not discriminated against. Therefore there is no doubt that the public sector should retain an important role in controlling and supervising the provision of infrastructure and services by private enterprises. Private sector management of operations with close control by local governments, including mandatory cross-subsidization, is a widely accepted solution.

CONCLUSIONS

From the foregoing and as amply demonstrated by various studies, urban local government revenues in many African states are generally not enough to develop and provide adequate urban services to the region's fast growing urban populations. This is reflected in the poor physical state and operational inefficiencies characterising many of the services, especially water and sanitation, waste management, roads and education, as well as in the low levels of access to these basic services. Most cities have chronic budget deficits.

It is also apparent that, while there is a need for greater sharing of revenue sources between

central and local government, the yield potential of sources currently available to local authorities is far from being fully exploited. Thus, significant results could be achieved through improvements in collection from currently available revenue sources, especially property rates, business licenses and service charges. An imperative towards the attainment of this is the improvement of data on revenue sources and payers, especially with respect to the ubiquitous informal sector.

It is worth noting that some positive and interesting developments have been noted in the African region, including privatisation of revenue collection (Tanzania, Uganda, South Africa, and Zimbabwe etc). Another interesting development is the sharing of national taxes (Tanzania, Kenya, South Africa, and Uganda etc).

This leads us now to the second part of the report, which examines the situation in Botswana to see how the country has fared in financing municipal infrastructure and services. Lessons learnt from this experience could be shared with other countries.

04. MUNICIPAL FINANCE: THE CASE OF GABORONE CITY IN BOTSWANA

INTRODUCTION

The National Context of Botswana – Prosperity and Good Governance

Botswana, with a population of 1.7 million in 2001 can and should feel proud of its achievements over the last 37 years. Since its independence in 1966, the country has had a record of successful economic development, a fairly well articulated programme and a democratic regime – a recipe for what one could call a “proper state”. The country does have a high level of crucial indicators showing a steady move to a middle-income country with reasonable per capita GDP – amounting in US\$2,700 in 1997 (GoB, 1997).

The country has had steady economic growth over the years. Following 7.7% growth in real GDP during the year 1999/2000, the economy grew to 9% during 2000/2001 due mainly to income from mining. The total foreign exchange reserves stood at US\$6.8 billion (Pula 33.9 billion) at the end of 2000, representing an increase of 17% over the December 1999 figure. At this level, the foreign exchange reserves are sufficient to finance about 36 months of imports and services (GoB 2001).

The machinery of local government in Botswana has been designed to facilitate people's participation in development. It reflects a long tradition of democratic consultation and devolved decision-making. Local authorities are responsible for constructing and managing a large percentage of the country's social infrastructure at the local level (e.g. clinics, primary schools etc) and for providing a wide range of services. Local authorities also play

a crucial role in the development process in both urban and rural areas.

Government has decentralised responsibilities to Local Authorities and communities followed recently by comprehensive Local Authority reforms, largely based on the recommendations of the Second Local Government Structure Commission (2002) and the Performance Management System. However, effective decentralisation requires that the transfer of responsibilities be accompanied by a commensurate transfer of resources, as well as improved revenue generating capacity. It also requires the development of an appropriate enabling legal framework for the generation and management of these resources.

Gaborone: Administrative Set Up and Statutory Responsibilities

Gaborone, the capital of Botswana, has a population that has grown from 133,500 in 1991 to 224,000 in 2001 (GoB 2002). As an administrative, commercial and industrial hub of the country, the city is growing very fast, doubling every ten years. This unprecedented economic and population growth has been accompanied by constraints such as the need for land, housing and increased demand for social and infrastructural services in the city. This has put a severe strain on the resources available to the Gaborone City Council (GCC) to cope with service demands which have quadrupled over the years. Resources have become insufficient to meet the demands amid various competing needs and it has become imperative for the GCC to forge partnerships with the private sector in the delivery of some services.

The city is governed by a Council headed by an elected Mayor and a City Clerk. The city has elected councilors heading various Committees in the Council. GCC, like all Local Authorities in Botswana is not an autonomous body. Local authorities in the country are nowhere mentioned in the constitution and have no inherent competence derived from the constitution. The country is a unitary state and Parliament is the sovereign power with full competence in all areas of jurisdiction. The Council exists by virtue of ordinary Acts of Parliament (The Township Act, Chapter 40:02 of 1965 and the Local Government (District Council) Act; Chapter 40:01).

These acts describe inter alia the powers and duties of councils, their regulatory instruments and byelaws as well as their sources of revenue and accounting/auditing procedures. The general duties of councils can be summarised as to "...exercise its powers so as to secure and promote the health, order and good government of the area for which it has been established". (Cap 40:01/02; 29).

Councils also have power to make byelaws in these areas prescribing what licenses and permits are required and what fees must be paid for acquiring them. However, "No byelaw made by a council shall be of any force and effect unless it is approved by the Minister and published in the Gazette (Cap 40:01/02; 31)"

The main duties of the GCC are to provide the following services: - Primary education, public health and sanitation, roads, social welfare and community development and primary health care.

FINANCING URBAN DEVELOPMENT IN THE CITY

Planning and Budgeting

In this section, the report looks into how the city is financing its developments. In general,

Municipal local authorities are funded through the Revenue Support Grant, known as Deficit Grants, Own Revenue Sources and Development Grants. Currently the Deficit Grant accounts for 64% of Urban Councils revenue. In addition, Councils receive 100% of their development funds in form of grants from the Central Government.

Councils have legal powers to collect certain taxes, levies and fees in order to defray their operating expenses. With a few exceptions (e.g. local abattoirs, wholesale traditional beer outlets), they are discouraged from trying to raise revenue by embarking upon potentially profit making businesses, e.g. provision of rental housing or public transport due to potential problems.

Successful municipal finance in the city is as a result of proper planning and budgeting. The city, like all other local authorities, prepares a 6-year development plan which runs concurrently with the 6-year National Plan. The plan is further broken into annual plans. Once a plan is approved, funds are guaranteed by central government and as such a plan would be part of the national plan. This enables projects to be carried out without the fear of such projects not having funds. This can only be possible in Botswana because the country has enough financial resources, unlike other countries in Africa which have limited resources.

MAIN SOURCES OF MUNICIPAL REVENUE

Botswana's Local Government Act (Cap 40.01.) defines the duties, functions and responsibilities of the local authorities. It also stipulates the sources of their finances by making approvals for each authority, depending on sources identified (from the wide range of sources they have as options). Revenue finance is raised to meet the local authorities' recurrent expenditures while capital finances

are raised to carry out capital works, such as roads, water and sewerage expansion, housing, street lighting etc.

Until recently, the GCC, like all other municipal authorities, used to be funded through four mechanisms, namely Own Revenue sources; Revenue Support Grants (sometimes known as Deficit Grants); loans from the Public Debt Service Fund; and Development Grants. However, loans have been frozen for now. The deficit grant is the difference between the Authorities' agreed estimates of expenditure and anticipated revenue from local sources and government subsidies. This grant is subject to a high degree of control from the centre.

A breakdown of GCC's actual revenue sources in Percentage form in the 1998/99 and 1999/2000 financial years shows that the main own and Revenue Support Grants sources of revenue were as follows: -

TABLE 3: DETAILED SOURCES OF MUNICIPAL FINANCE - PERCENTAGE

| SOURCE | 1998/99 | 1999/2000 |
|-------------------------------|-------------|-------------|
| 1 Rates - which accounted for | 23.6% | 27.3% |
| 2 Interest | 5% | 2.05% |
| 3 Service levy | 1.2% | 0.95% |
| 4 Rentals | 1% | 0.9% |
| 5 Other sources | 3.6% | 6.1% |
| 6 Revenue Support Grant | 65.6% | 62.7% |
| TOTAL | 100% | 100% |

Source: GCC, 2001

revenue from local sources and government subsidies. This grant is subject to a high degree of control from the centre. The grant has been rising over the years due to increased demand to operate and maintain the huge infrastructure that had been put up under this fund. The whole city is a huge construction camp. It was also due to the increase in the number of social security and welfare programmes such as orphan care, destitution and also to militate against disasters such as drought relief, HIV/AIDS, floods etc.

Further, the city has in the past 17 years grown physically to incorporate the suburbs of Phakalane, Gaborone North and Kgalehill within its borders. This fact has caused the resources of the city council to be spread more thinly in both human and financial terms. Gaborone City Council receives approximately 60% of its recurrent budget in the form of government grants. The revenue support grant has been rising over the years, e.g. from P18, 194,630 (US\$3.6 mil) in 1994/95 to P78,456,250 (US\$16 mil) in 2001/02. Percentage-wise, actual figures show that in 1998/99 financial years these grants were 65.6% and these fell slightly to 62% in the year 1999/2000 (Department of Local Government and Development, Ministry of Local Government). This situation is not healthy for political accountability to the electorate. The role of central government finance is also significant in that it finances the bulk of the Council's expenditure on capital account. This is partly due to the fact that the Council is not permitted to borrow on the open market.

EXTERNAL REVENUE SOURCES

(1) Revenue support grant from central government

The Revenue Support Grants or deficit grant is the difference between the local authority's agreed estimates of expenditure and anticipated

(2) General Fund

Like most local authorities, the GCC has over the years accumulated substantial unspent or surplus balances which have accumulated in its General Fund Account. For example, at the cut off date of 31st. 03 2000 for the 1999/2000 Financial Year, the GCC had accumulated the sum of US\$5.2 mil (Pula 20,960,157.05).

This unspent balance is made up of budgeted expenditure that was not spent due to the lack of implementation capacity or inflexible financial rules imposed by the ministry. Some of it had accrued from the high vacancy rates in the GCC establishment.

It is understood that local authorities are required to seek authority from the Minister to spend any amount exceeding 10% of the balance in their General Fund. The GCC and also other local authorities argue that this affects its capacity to initiate and influence decisions relating to the spending of the money in the General Fund to improve service delivery.

It has also been learnt that there is a lack of guidelines on the use of the General Fund balances, which has led to the accumulation of funds. While the GCC may be enjoying interest income from monies kept in deposit accounts or Bank of Botswana certificates, it is felt that the funds could be better used for the provision of services, where the need is critical.

OWN MUNICIPAL REVENUE SOURCES

Property Tax and Rates

These are composed of land rents on property owned by individuals, companies or the government, including parastatals and rates on buildings (i.e. developed property). Other property taxes levied by the municipality also include a levy on transfer of property and some betterment taxes.

Rates are a property tax and all those who own property or plots in the city area, whether developed or undeveloped, have to pay. Rates on undeveloped plots, are levied at four times of the rates for developed plots. Higher rates are charged due to the government policy of discouraging speculation in land and encouraging plot owners to develop them as quickly as possible.

The revenue from rates and property tax accounted for around 23 -27% of the revenue of the Council in 1998-2001. Unfortunately, the source is inelastic as sometimes the valuation rolls are incomplete, hence depriving the municipality a major source of income. Further, central government and parastatal organisations are supposed to pay rates to the municipality, but they do not do so hence denying the city substantial sums of money.

There has also been the problem of ratepayers not receiving their bills, as the Department of Lands had not updated their records. It is gratifying to see that the department had engaged consultants to update property records.

Rates Debtors/ Defaulters

Rates debtors owe the Council vast sums of money. The sums involved have been rising year by year. For example, in the year 1998/99 rates debtors owed US\$2.4 mil(P12.96 million) and the sum rose to US\$6.4 mil (P32.48 million) plus a further US\$0.7 mil(P3.13 million), Interest Debtors in the following year. This is not a good picture. (GCC, Annual Report 2001).

The procedure for collection and recovery of late payment/arrears is generally poor. Enforcement is both time consuming and cumbersome, as follow up measures are not clearly defined. However, efforts are being made to recover rates arrears. Written notices have been sent to all defaulting ratepayers. Reminders are issued to all plot owners who have not paid their full rates within the allowed period of four months from the date of the invoice, reminding them that they will be liable to pay interest. After issue of another reminder, a Demand Notice is then sent. If rates still remain unpaid, then the case is referred to Debt Collector/Attorney for further legal action of collection of rates. In such an event the defaulter has to pay legal costs in addition to the rates. For long outstanding

debts, provision is normally made to attach property to recover the debt. Recently, the Council adopted yet another innovative idea of collecting debts by publishing the names of defaulters in the national press. Within a week, the Council raked in over one million dollars of arrears money as companies, individuals and government departments rushed to avoid further embarrassment. The collection of rates is not administratively difficult and it merely requires a highly determined administration to achieve low default rates.

The elasticity of property taxes in Gaborone, as in the rest of the local authorities is generally poor. They do not respond quickly to price, population and income changes. There are long delays in revising the valuation rolls. It is also evident that when valuation rolls have been revised, there is still a lag in the implementation of new rates. By the time they are implemented, they are already outdated.

Tax on Provision of Goods and Services (Business Licences and Fees)

The GCC derives some income from institutions (commercial premises) involved in trade and supply of goods in their jurisdiction. The most important forms of taxes in this category are licences, market and food vendor charges, and entertainment taxes. The justification for licensing is to prohibit, control and regulate trade and occupations, as necessary. General schedules of all current tariffs and charges for services in the municipality are published, while legal notices are used to cover new cases or inclusions.

Taxes in this category are either annual flat rate taxes, such as licences, or payable on use of services, such as market levies paid by traders on entry to markets, some entertainment and those in sports related activities.

However, incomes are low, for example in the 1999/2000-year trade licences only brought in US\$ 22,000 (P110, 293). This is a pittance.

Default rates are also common. With market stalls, the Council evicted some defaulters while the remaining ones were taken to the Customary Court for legal action. The GCC was then able to reduce the rent arrears figure from US\$ 33,331 (P168, 768.00) to US\$ 3,921 (P19, 624.00) by December 1998 (GoB/LAPAC Report 2001, pp15)

Because of sustained expansion of business, this source of revenue is elastic and has a high potential of raising resources of increasing magnitude. The large numbers of informal, unregistered businesses, including pirate taxis, combined with the absence of adequate data/information bases in the GCC deprives the local government of a lot of potential income. In some instances, increasing the level of licence fees has proved to be very difficult and politically sensitive. To-date for example, the city has 675,188 registered street vendors, of which 358,422 are hawkers and 310,766 are vendors. The number may be less as some individuals may have two permits. This is a source which can be tapped.

Charging for Urban Services

This section analyses the revenues that the Council gets from charging for urban services rendered by the Council. We also examine the strategies and systems adopted for the provision and management of key public services, including mechanisms (such as subsidisation) adopted to improve access of the poor to each service.

The charges payable for urban services in Botswana are in two forms. The first is a general charge, which is more of a tax, paid to the local authorities regardless of whether the resident uses the service immediately or what proportion of available services he/she utilizes. The service charge represents this form of tax in Gaborone. All other charges are linked directly to service consumption, and sometimes to the extent of consumption. In the latter category are sanitation charges,

refuse removal charges, education fees and cost sharing charges in health. There are also some charges in housing development (such as site and service schemes and plot sales for Self Help Housing Areas recipients), which are more of betterment tax charges. They are ad hoc in nature and they are only levied at specific stages during the implementation of projects. (Maendeleo, 1992).

Building Plan Perusal Fees

Some of the fees currently charged by the Council are ridiculously low, examples include building plan perusal fees which range from US\$0.05-13(Pula 2 – P64); sub-division plan fees of US\$2(P10) and plan application perusal fee which ranges from US\$2-7(P8 – P32). Even then, these fees once collected are passed onto the government through the Secretary of the Town and Country Planning Board.

Service Levy and Housing Loans

The service levy is one of the several sources of funds for the municipality. Currently the income from this source is a mere 1.2-3% of total revenue. This is quite low compared to other cities in the sub-region.

However, nearly half of the plot holders are in arrears of payment for the service levy in Self Help Housing Areas and the default rates are rising every year. Default rates are highest in upgrading areas where people are often poorer and standard of services is lower.

As of July 2002 the total arrears for service levy stood at US\$500,000(P2410554.79) and for Building Material Loan, given to low income persons for housing construction, it was US\$ 83,000 (P 418618.35). For both, the Council managed to collect only US\$ 18750 (P93558.87)

Specific efforts were however made in the year 2000-2001 with the assistance of Councillors

to collect the arrears of Service Levy and Building Materials Loans. (GCC, 2002 pp3). The measures have been embarked upon to improve on the collection rate of 3% per month on average, house-to-house collections and stop order/direct deductions. These measures seem to be bearing fruits because in the month of December 2000 the collection rate was 10%.

Efforts to collect arrears take a great deal of time of Self Help Housing Areas staff. These are often frustrated by the cumbersome system of prosecuting defaulters and because the staff is often opposed by Councilors who seem to be more concerned with their popularity among the constituents than enforcement of council byelaws.

Although the GCC has mounted periodic campaigns to collect arrears, it has only been able to recover a modest proportion of the arrears, have taken an inordinate amount of staff time and have not prevented the problem from recurring subsequently. An alternative for those in regular employment might be to deduct the service levy at source of income as was done for Local Government tax. This would offer prospects of a modest improvement in collection rates.

At the root of the problem of high payment default rates is the Council's lack of effective enforcement capacity. An attempt to prosecute a defaulter involves a tortuous sequence of procedures, which can be derailed by councilors who are more concerned about ensuring their prospects for re-election than enforcing their own byelaws and policies, and are reluctant to support the eviction of their constituents. In practice, few such cases are brought to the courts and few defaulters are prosecuted or evicted. Self Help Housing Areas staff that are blocked by councilors in prosecuting defaulters feel powerless and as a result become reluctant to initiate prosecution procedures. There is consequently no effective deterrent to discourage defaulters and the threat of

eviction is generally not taken seriously. This is rather different to the situation regarding rates defaulters, who can be prosecuted more easily and, possibly as a result, are more inclined to pay their rates on time.

There is a need for more automatic access to prosecute defaulters through the courts and more political support for the payment of service levy and the Building Material Loan. Housing is a basic need, as is the provision of services such as refuse collection and sanitation. The provision and maintenance of these services cost money. Politicians at whatever level and of whatever political persuasion have a responsibility, once consultation has taken place and decisions have been reached by full council, to ensure that residents understand the basis for periodic service charges and the need for these to be paid. Unfortunately, at present this is often not the case.

Water

In Gaborone, access to potable water is 100%, with 43.5% having water piped indoors/yard and 56.5% to standpipes in low-income areas. In the past, low-income areas were served by a free communal water service: 1 standpipe per 20 plots with no plot more than 200 metres walk from a standpipe. From 1992 to-date, however, water has to be reticulated to every plot and this also helps the waterborne sewerage system. The Water Utilities Corporation undertakes installations, billing and collection charges in the city. The GCC was until recently, only responsible for standpipes in Self Help Housing Areas areas where it was providing free water to low-income residents in the Self Help Housing Areas areas. The uprooting of standpipes in Self Help Housing Areas areas has caused untold problems, as most cannot afford the on-plot connection. But this is the price of income sharing. On the other hand the Council has saved a lot of money it was paying to the Water Utilities for the free water.

Electricity Supply

All electricity power is supplied and billed by the Botswana Power Corporation. Council only pays for street lighting. Although electricity is abundant in the city, the majority of the poor households still use other sources of power for cooking, lighting and heating, due to high unit costs.

Sanitation

Gaborone is served by a combination of sanitation systems. Of the total households, 33.4% have private flush toilets, 60% private pit latrines (VIPs) and the rest a combination of communal and movable systems (CSO, 1991). Since the beginning of Self Help Housing Areas and squatter upgrading till 1992, the means of sanitation in low-income housing areas was pit latrines. However, time and again there have been several criticisms levelled against them. As a consequence, the Government has now opted for a water-borne sanitation system for all low-income areas. The GCC is busy implementing the programme now at a cost of over US\$20 mil in the current financial year.

In order to try and recover more money for sanitation, recently sewer connection rates have gone up steeply and the city hopes to get more money from this source. New sewage connection fees have now gone up from the current US\$3.7(P18) flat rate to US\$1,000(P5, 000) for industrial, hotel and hospital plots. Low income Self Help Housing Areas plots will now be charged US\$20(P100), medium size plots up to 700 m² US\$60(P300) and residential plots above 700m² the charge will be US\$200(P1, 000). Civic and community plots as well as commercial plots will be charged US\$500(P2, 500).

Solid Waste collection

The city of Gaborone enjoys a 98% regular solid waste collection, two times a week for high income areas; once a week for low income

areas and daily for commercial areas. The solid waste generated per person is 10m³ or 0.1 tonnes per annum or 85 tons a day. Waste generation is estimated to increase at a rate of 7% per year (Khupe, AMBIO, 1996).

The Council employs litter pickers, street sweepers and refuse collectors, most of whom are the low income. Refuse bins and skips are provided in all areas including the low-income areas and waste collection is done at least once a week. However, a person who arranges with the Council for the collection of waste other than household waste has to pay a prescribed fee. To-date the Council does have arrangements with the private sector for waste management in almost half of the city and the progress is encouraging. Eventually, the entire city's waste will be collected by the private sector.

Individuals who carry their waste individually to the GCC landfill site are required to pay landfill user charges only when their waste exceeds 1 ton. Waste over 1 ton is charged US\$10(P50). The system was introduced as a cost recovery measure to augment landfill costs that amount to over half a million Pula a year. GCC charges are three times lower than those of the private sector in the provision of services such as rubble/demolition waste and garden refuse removal, which are charged US7 (P36)/load, and US\$2(P10)/load respectively.

Public Health and Primary Health Care

Improving the access of the poor to health services is important for increasing the poor's income-to the extent that illness reduces the people's capacity to work- and for raising living standards even if income remains at poverty levels (WB, 1993). In the city a lot of progress has been made in the provision of health care and this has led to the decline of mortality particularly infant and child mortality. Gaborone has an estimated total of 3373 hospital beds, which gives an average of 20 persons per bed. The child mortality is

relatively low - 40 deaths per 1000 children. Life expectancy at birth is currently estimated at 67.7 years (CSO 1991), which may be attributed to government's expenditure on social services - estimated at US\$127.51 per person in 1994.

The GCC is responsible for health clinics, cleaning of streets abattoirs and public markets. The city is served with 11 Council clinics plus an extra 20 private clinics; a Government referral hospital with 426 beds and a private referral hospital opened in 1991. In both the Council clinics and the government referral hospital service is virtually free to everybody as payments per visit is less than one US dollar(Pula2) and thus even the poor do get adequate medical attention.

Right now, two brand new clinics, one in Block 6 and the other in Block 8 have never operated since completion due to lack of nurses and doctors. Further, due to a shortage of staff the GCC is unable to provide 24 hours service in other facilities except in Extension 2 clinics.

HIV & AIDS

The AIDS scourge in the city as in the rest of the country has reached pandemic proportions and it is still rising. Statistics show that one in five of the city's expectant mothers and those diagnosed of STD are HIV positive. Estimates show that in Gaborone 22,917 people were HIV positive in 1994 as compared to a country total of 125,644. In 2004 the number is estimated to have risen to over 55,000. With such a high incidence, the Council has to spend money on this group of people. Single parents, orphans and home-based care for the sick will bring tremendous pressure on the family. Already, the GCC's department of Social Welfare is spending a lot of energy and time counselling and taking care of HIV/AIDS patients in the city. For government and the GCC some of the heavy investment undertaken in human development will be lost

through AIDS, thus jeopardising Sustainable Economic Diversification. Providing for the care of the sick and orphans, and maintaining a fair balance in resource allocation between curative and preventive health care, will become major development challenges that have to be addressed in future plans.

Council and Self Help Housing Areas Housing

The council derives rents from the houses occupied by its employees. Unfortunately the figures are not market related, so the income is not that high. Some of those who default in rent payment were handed by the GCC to Interest Research Bureau to trace and demand payment. In some cases rent arrears have been deducted from their salaries.

Self-Help Housing

The GCC also runs a squatter upgrading and low-income housing programme, which accounts for 53% of the total housing stock in the city, and gets service levies from the owners. The qualifying income category has been raised from US\$1,000 to 7,000 (P4, 400 to P36, 400) per annum (NHP, Paper no. 2, 2000).

To enable the poor to build their shelter, a building materials loan is given. The Building Material Loan has been increased over the years from US\$80(P400) in the late 1980s to US\$4,000(P20, 000) in terms of the new National Housing Policy. The loan can now be used to purchase building materials and payment of labour costs. The loan is deemed adequate for the construction of a basic core-housing unit of 25 sq metres comprising two rooms and a wet area. The GCC also provides technical assistance in the form of the provision of standard plans and supervision during the construction process.

At first all Self Help Housing Areas plots were free, but following a policy of cost recovery in

1992, beneficiaries had to pay for them but at subsidized prices. Current prices range from US\$2,000-5,000(P10, 000-25,000). This is possible through a policy of cross subsidy whereby the rich pay market prices, the average people pay cost recovery rates and the poor pay subsidized rates. This is a noble attempt at targeting a subsidy to ensure that the poor get what they need.

Efforts are being made to strengthen the GCC's administrative capacity in running the Self Help Housing Areas programme e.g. by computerizing of accounts and records, training and recruitment of personnel with building skills. Due to the lack of capacity by the Council to collect arrears, the government is now considering hiving off the management of the loans to either financial institutions or private companies. A pilot experiment is already underway.

Education

In Botswana, basic education is considered a right for all Botswana children. Great strides have been made in the provision of basic education with close to a quarter of the national recurrent budget being allocated to education. The city runs all government primary schools. Currently, school enrolments are quite high among both males and females. At primary school level, 83% of eligible boys and girls are attending school. At secondary level, 77% of eligible males are attending schools compared to 73% females. The proportion of tertiary graduates in the adult population in 1991 was 12.8% and 9.5% among males and females respectively.

Apart from the private run schools, which charge exorbitant fees, education in the city for all is free and the students also get free meals up to university. For the poor children, the Council or NGOs even provide school uniforms so affordability is not a major cause of school dropouts. However, the government is soon to introduce cost sharing for all schools

as a sustainable means of providing education, but the poor communities in the city have not enthusiastically received this.

Income Generating Enterprises

Income generating enterprises are not a significant source of the GCC revenues, in spite of their attractiveness. Most income comes from sale and hire of shrubs and beer halls and hiring of classrooms or halls. In general terms, managerial capacity appears to be lacking. In some instances there have been complaints to the effect that such enterprises are sometimes run as a social service and very often the objective of making a profit is forgotten. Even where such enterprises are profitable, as in the case of sale of shrubs, the enterprises tend to be run as fiefdoms, with little connection to the council. This implies that the real benefit from such enterprises is the creation of employment, rather than the augmentation of municipal revenues.

However, with privatisation this problem may soon be over.

In its efforts at helping the low income residents to improve their quality of life, the GCC has helped in developing micro entrepreneurial activities in many parts of the city. Several groups engage in micro enterprises, which besides being survival strategies, contribute to economic development in a small way. Among these groups are: craftsmen, hawkers, and daily labourers on building sites or in households, street children and food vendors. In 1994, it was estimated that 1901 persons were employed, 8 out of 10 of which were women (Toteng, 1995). Instead of chasing illegal traders, the municipality has decided to help them.

Borrowing

At times the GCC is forced to borrow money to meet its obligations. At the moment it can only borrow from the central government

through the Capital Account, and not from the commercial banks. For example, at the end of 1998 the Gaborone City Council owed US\$9 mil (P43.68 mil) to government for various loans. Most of these loans were payable over a period of 25 years at an interest rate of 14.6%. However, by the end of the financial year 1999/2000 the Council had decreased the loan amount to US\$7 mil (P35.04 mil). (GCC, 2002 pp.2)

Overall Assessment

In general, the report has shown that the financial strength of the GCC is fairly sound, compared to other councils in the region, in that it nearly meets most of its needs either through its own resources or from the central government from where it gets most of its recurrent and capital funds. In some extreme cases, there have been some instances where money was returned to the Treasury due to lack of capacity to spend the money. This is in contrast to a number of municipalities in various parts of Africa, which are reeling under heavy debt burdens.

However, while there is a need for greater sharing of revenue sources between central and local government, the yield potential of sources currently available to the GCC is far from being fully exploited. Thus, significant results could be achieved through improvements in collection from currently available revenue sources, especially property rates, business licences and service charges. Is it possible to privatise revenue collection as has happened in Tanzania, and Uganda; or sharing of taxes and privatisation of the provision of services? These are questions the GCC should ponder and come up with appropriate solutions if the current impasse is to be broken.

In conclusion, it can be stated that in order for the GCC to improve its own internal revenue, it is not just enough to introduce some new taxes, but that it is necessary to introduce structural changes to the current system of

TABLE 4: A SUMMARY: GABORONE CITY COUNCIL: REVENUE AS AT END OF 2000 – PULA (1 US\$=5 PULA)

| Source of Income | Amount - 1999/2000 | % of Income |
|--|-----------------------|-------------|
| Abattoir Fees | 807,169.50 | |
| Advertising Signs | 458,568.00 | |
| Beer Halls/Garden Rent | 22,555.10 | |
| Building Material Loan | 235,435.54 | |
| Cemetery fees | 5,458.18 | |
| Clinic Fees | 253,015.01 | |
| Community and Civic Centres Fees | 52,595.59 | |
| Day Care Centre Fees | 45,938.00 | |
| Dog Licences | 981.60 | |
| Fines- Bye-Laws | 9,332.39 | |
| Hiring of Classrooms | 5,952.90 | |
| Home Economics | 228.50 | |
| Interest on Investment | 2,144,288.04 | |
| Interest on Rate Arrears | 3,835.09 | |
| Market Rent | 149,816.60 | |
| Miscellaneous Income | 42,274.04 | |
| Plan Perusal Fees/Sale | 76,464.72 | |
| Pound Fees | 2,990.53 | |
| Rate Clearance Certificate | 981.00 | |
| Road Reinstatements | 360.00 | |
| Sale and Hire of Shrubs | 71,869.85 | |
| Sale of Sundry Items | - | |
| Sales tax on Beer | - | |
| Sanitation Fees | 120,633.57 | |
| School work Sales | - | |
| Sewerage Connection Fees | 8,709.00 | |
| Sewerage Fees | 20,787.50 | |
| Self Help Housing Areas Service Levies | 1,001,802.47 | |
| Staff Housing Rents | 975,382.90 | |
| Trade Licences | 110,293.34 | |
| Total Revenue Income | 10,439,734.96 | 10.0% |
| Rates | 28,408,920.50 | 27.3% |
| REVENUE SUPPORT GRANT | 65,509,417.15 | 62.7% |
| INCOME GRAND TOTAL | 104,358,072.61 | 100% |

Source: GCC Annual Report 1999/2000.

raising internal revenue. However the council should be careful with any involvement in commercial business operations because of its lack of entrepreneurial experience.

MANAGEMENT OF FINANCIAL RESOURCES BY GCC

Financial management of the Council includes:-

- The preparation of estimates
- The compliance with management procedures such as auditing and tendering; and
- The operation of bank accounts and bank deposits.

Budgeting and Estimates Preparation

The GCC has to prepare, on a yearly basis, budget estimates containing the required expenditure, the expected income from internal sources, and the required deficit grants to cover the shortfall. In a number of budget lines, estimated revenues versus actual incomes were not congruent. In general, it can be assumed that the GCC has the ability to put forward realistic estimates of income and expenditure with the uncertainties of expected support grants from the central government.

Various reviews of the Council's accounts show that the Council follows procedures of accountability and tendering quite well. All GCC projects are tendered using open and fair/transparent government procedures. Botswana has adopted a zero tolerance for corruption and its reputation has earned it the top spot in Africa for being the least corrupt. A number of the audit reports of the city's accounts auditors discovered that (a) there were substantial arrears in rates, (b) there were very few cases of theft, fraud and misappropriation of funds and resources; and (c) in a number of cases the council had overspent its authorised votes. This is in contrast to some municipalities in

Africa where corruption and mismanagement of funds is endemic – a cancer that never goes away.

Although these official findings of financial mismanagement in the city are probably not unique for local government authorities and are definitely a lot better than in other sub-Saharan African countries they nevertheless indicate the problems of councils in Botswana with procedural financial regulations.

Another interesting observation is that interest earned on bank deposits has developed into a lucrative source of internal income (between 2-3%). Maybe these high earnings from bank deposits are a reflection of the GCC being unable (for different reasons) to use funds allocated to it for development projects.

From the evidence available and discussions with city authorities, it can be asserted that the GCC is able to manage deposits with commercial banks and earn substantial amounts of money from these activities. This is a reflection of the ability and professionalism of the City Treasurer's department.

Financial Controls

Official discussions revealed that the City Treasurer's Department always uses normal accounting and financial control, plus restrictions of votes. It was evident that in almost all cases they always use the Guidelines on Financial Management as given by Ministry of Local Government. The Department also applies external management controls by central government that include among others; Accounting Instructions from central government e.g. cash inspections. They also make use of internal and external auditors. Finally, it has been observed that the GCC has had a clean audit report for some time now, and this augurs well with good urban governance and financial management.

Internal Auditing

Like most local authorities the GCC does internal auditing of its accounts. Recently the Council has created a post of Principal Internal Auditor who reports directly to the City Clerk. The GCC's accounts are scrutinised by the Local Authority Public Accounts Committee (LAPAC) of central government, and to-date the city has fared well so far.

Quarterly Reports

All local authorities in Botswana are required to report upon the progress of projects implementation each quarter to Ministries. It was nice to observe that this procedure was regularly followed by the GCC. The reports cover both financial and physical status. All in all, these reports cover seven sections:

- General information
- Physical status
- Financial status
- Project and programme implementation and follow up
- Recommendations for improvement of implementation and removal of constraints and
- Any other general remarks/observations/suggestions.

Such practices keep heads of departments on their toes to ensure that projects see the light of day. Once commented thus: "Any problems that surface are tackled immediately before they get out of hand, although sometimes extenuating circumstances do creep in and slow us down"

Computerization

The Ministry of Local Government commissioned a Local Authority Information Technology (LAIT) strategy in 1996, which amongst other things identified the need to computerize core processes, which include

accounting, human resources and land management. This has been extended to include the Rates and Payroll accounts. The LAIT project was allocated funds up to a ceiling of US\$14 mil (P70 mil). Under NDP8 plan period, and this has been extended into the current NDP9.

The computerization of local authority core accounts started in 1999. For Gaborone City, already rates and payroll accounts have been computerised. The next move is to computerise Supplies and Self Help Housing Areas accounts. As of now efforts are being made to get consultants to work on the remaining assignment.

The city authorities hope that these measures will also address the mismatch between the recurrent budget and the development budget. The mismatch is as a result of the pre-determined Revenue Support Grant, whilst the development expenditure is increasing rapidly.

PUBLIC/PRIVATE PARTNERSHIPS

Like other urban authorities, Gaborone has started implementation of the government's policy on privatization (approved by Parliament in April 2000) by way of out-sourcing certain activities to the private sector in order to provide essential services in the city. It is following the government's lead in which departments such as the Central Transport Organization are out-sourcing procurement of tyres and repairs of government vehicles (Mmegi 21-27 September 2001).

Among the services the Council has privatised in the past and at present is solid waste removal, collection of debts reported to be in the region of US\$3 mil (P15 mil.), employment of private security guards in a number of schools and leasing out of public transport routes to private operators. The types of partnerships with the private sector that the GCC is currently considering for

the future are Contracting-Out and Build, Own, Operate and Transfer systems (BOOT). They are also working mechanisms of forging partnerships with the private sectors in the areas of parking arrangements, development and running of markets and waste collection and management.

Secondly, the private sector plays a very important role in land delivery in the city. In 1994, government declared its intention to involve the private sector in property development especially in the provision of serviced residential land through the Presidential Directive Cab 9/94. Cabinet Memorandum No. 20 of 1996 embodies the private sector's participation in the provision of housing and serviced residential land. The National Housing Policy approved by white paper No.2 of 2000 emphasizes the role of government as a facilitator to promote involvement of all stakeholders in housing delivery.

The private sector's participation in urban land servicing is anchored around providing secondary and tertiary services to peripherally serviced blocks of plots at their own cost. The services are later handed over to the responsible authorities free of charge to facilitate future maintenance. Blocks of plots are allocated to developers through a competitive tender system. Successful developers are then required to pay for all infrastructure costs needed to develop land to the specified standard.

Blocks of plots have been allocated to private developers in several parts of the city starting with Block 5. Later several developers were allocated plots in Block 6, Maruapula and Tsholofelo. High-density plots were also allocated in block 5. The progress report for development of plots allocated to private developers indicates different stages of development. Some developers have serviced the land and developed residential units whereas some have not developed as yet. (GCC-Draft UDP2, pg.40)

Thirdly, it is also apparent that a number of jobs are done by the private sector (contractors employed in the field of building, civil, electrical, air-conditioning, street lighting, traffic lights).

Unemployed people (citizens only) from various wards in the city are employed on Labour Intensive Works, like cutting grass on road verges in the city. Lastly, Government policies in respect of citizen empowerment and incentives to citizen companies (advances, price preference etc) are observed 100% in respect of award of tenders and quotations.

POVERTY AND POVERTY REDUCTION MEASURES IN GABORONE CITY

Currently, it is estimated that around 40,000 people in Gaborone are now living below the National Poverty Datum Line, and that one third of these people (about 7% of the population) are very poor. That is to say, approximately 13-14,000 people are likely to suffer from a severe lack of food as well as other basic needs. However, in spite of the large numbers of the poor, nobody has suffered unduly due to the adoption and implementation of several poverty reduction initiatives by various institutions. It is rare to see street beggars and street boys in the city, in contrast to experiences in other African cities. Hardly are there people sleeping rough in the city too.

Poverty reduction initiatives to help the above groups of people have come from the Central Government, the City Council, NGOs, CBOs and the community at large. The city has limited scope for both social and economic policy making and in most cases, poverty reduction has been perceived in terms of providing basic welfare for socially disadvantaged groups and not as part of mainstream policy making.

In spite of the above hurdle, it is worth emphasizing that the Gaborone City Council has embarked on a number of its own and

government-led programmes and projects aimed at poverty alleviation with a measure of success. The programmes cover various sectors including: -social welfare activities, a destitutes programme, a street children programme, housing for the poor, supporting the informal sector etc. Much has been achieved and there is still a lot of room for improvement.

The bulk of the welfare activities are carried out by the Department of Social Welfare and Community Development. The department has been dealing with the problems of street children, destitute, poor women abandoned by their husbands and now burdened with the task of raising their kids, unmarried teenage mothers etc. They have been assisted with help from donor agencies and NGOs. The Department has also helped set up school youth groups, a Youth Advisory Team; it also runs a home economics course and even organises a Disabled Day to highlight the plight of the handicapped. As with some government departments, funding is not enough to cater for all the needs of the needy. Their activities and their successes and failures are examined in the following sections.

Welfare Initiatives

Destitute Programmes

Although the number of poor in the city runs into tens of thousands, using the Destitute Policy of 1980 classification only 57 destitute are registered in the city. Obviously, this leaves out a lot of needy people out there. This is due to a very strict system of needs assessment in which a number of non-needy people are regularly repatriated back to the villages or are forced to stay with their own relatives. The deserving destitutes are given help in the form of food, clothing, blankets and toiletries plus a cash payment of US\$17(P82) per month. Further, destitute families never pay service levies unless they have working children.

The Council also provides housing for the

destitute and, there are 10 houses in Naledi and 4 in Broadhurst low-income areas. In addition to this there is also a temporary shelter in Gaborone West provided by a Roman Catholic Church organisation. In as far as helping destitutes is concerned, it can be safely said that the destitute policy has been a success in the city. However, more could be achieved, if only the Department of Social Welfare was not facing various problems including: - lack of appropriate manpower like rehabilitation officers; there is little coordination with other aid agencies and lastly, although a need has been identified for a rehabilitation centre and a hostel where the poor could engage in economic activities, no appropriate plot is available.

Needy Student Programme

Help is also given to children of destitute or street children through a "Needy Student Programme". Children are sent to primary schools or brigade centres where they acquire survival skills. They are given school fees, boarding fees where necessary, school uniforms, travel fares to and from school etc. In recognition of the need to help needy children the GCC in its 1996/97 budget had given the following NGOs, SOS Children's Home, the Red Cross, Child Line and the Cheshire Foundation the sum of US\$1200(Pula 6,000) each.

A total of over 130 needy students have received help through this programme. In 1994, a total of 18 students were sent to Brigades; 28 street children were sent back to school and in 1996, 25 students were also sent to school. Further in 1996, 3 needy children managed to get admission to the university where help is given during the first term and from there on the government takes over with bursaries (Youth Officer, Old Naledi).

The Department of Social Welfare also provides meals to needy persons on a regular basis- at least two meals a day. If it cannot

cope, it seeks supplementary help from other agencies like the Roman Catholic Church. The Department also provides paupers burials where all costs are met by the Council.

Initiatives to Provide Access to Land and Housing by the Poor: Cross-Subsidy

In Gaborone, although land is somehow restricted due to high prices, confusing and expensive institutional framework, costly land registration process, and high standards associated with its development, some of the poor have possible access to land due to various initiatives that have been undertaken by government and the municipality. For example, in the case of the nation-wide Accelerated Land Serving Programme of the late 1980s/early 1990s, out of a total 26,881 serviced plots that were to be provided in the urban areas of Botswana, 15,097 (56%) were planned for Gaborone. Again, the Self Help Housing Agency provides a venue through which the low income people can access land on which they can build their own houses with plans prepared by the Agency. Plots are given on subsidized prices basis through a process of cross-subsidy. Allocation is by first come first served principle. Building materials loans are given and houses have to be built and completed in a period of four years. (Details have been given above under Housing).

Land Tenure and Security for the Poor

Low-income persons do also have security of the land they occupy in the city. All land in the city is state land and can only be owned under lease. Two types of leases are available, one of which is the Fixed Period State Grant introduced in 1972. The grant has 50 years for commercial and industrial concerns, and 99 years for residential purposes. There is no right of renewal. The second is the - The Certificate of Rights under which the city's low-income residents own land. The system was introduced in the 1970's as a means of

providing a secure tenure for urban squatters and new plot holders in Self Help Housing Agencies schemes. The intention was to provide the urban poor with secure tenure while avoiding complexities and cost of title registration. The state retains ownership and the plot-holder has the usufruct. It is perpetual, inheritable and transferable. It can be converted into 99 years Fixed Period State Grant. The only unfortunate thing is that, the Certificate of Rights does not provide adequate security for loans as lenders have not chosen to lend against it but moves are being made for the banks to accept it as collateral. In addition to the above, a person staying in a squatter area does get a Temporary Occupancy Permit, while awaiting the area to be upgraded, and once this is done, the permit can be upgraded to a Certificate of Rights. This permit is only for a year but can also be renewed. We found several such plots in Naledi.

Enabling Physical Planning Practices

Poor residents in the city are subject to a variety of enabling planning procedures and regulations that the government has adopted (urban development policies and standards, development control code) in planning their areas. As noted by Viking (1995), the planning policy has shown the following unique signs of proxy towards favouring the poor. In the city there is equitable spatial organisation with social-economically mixed residential neighbourhoods to avoid low-income slums. Hence all residential areas in the city, save the old part of the city, which was segregated by income, and the only squatter area of Naledi, are all planned in a mixed manner. This mixing is unique in the Africa region. At least two measurable benefits for the poor have resulted from the equitable spatial organisation in the city. The first is easy infrastructure upgrading of the majority's sites and services plots. For example, water connection to one of these plots in Gaborone West costs US\$60. The second is the result of the first; with an on-

plot water connection, the sites and services plot constitutes security for a loan from the Botswana Building Society, the country's own housing bank.

Secondly, the country's Development Code is enabling in that it attempts greater land use efficiency, set backs are reduced, plot coverage is increased and informal economic activities are allowed on residential plots where the low income can try to earn a living (Viking, *ibid*).

Building Control Regulations

Housing in the city is controlled and regulated by specific regulations, which are also favourable to the poor. The Building Control Act of 1981 contains two sets of building regulations: the Building Control Regulations, 1981 and the Building Control Grade II Dwelling Houses Regulations, 1981. The former applies to medium and high cost developments only. The latter apply to low cost and self-help dwelling houses in which development conditions are relaxed and low income people can use either temporary or permanent materials to build their houses so long as these are durable. The purpose of the regulations is essentially to enable the City Council (or Self Help Housing Agencies) to take action against structures, which are clearly unsafe or unsuitable, rather than to provide a textbook on how houses should be built.

Legalizing Informal Settlements and Squatter Upgrading Programmes

Hand in hand with the policy of self-help has been the policy of upgrading rather than demolishing Old Naledi, the only squatter settlement in the city. This settlement was established in the late 60's as a temporary camp for builders of the new capital, but soon it grew up to accommodate the bulk of the low income. By 1975 it was decided to upgrade it instead of demolition. After the upgrading, Naledi has an estimated population of 21,000 and the people have demonstrated a surprisingly high

degree of self-reliance and self-determination. Naledi has been in a constant state of change, mostly in the form of plot improvements undertaken by individual plot holders and new facilities built (shops, schools, clinic, hall, a police station) and tenure is guaranteed via a Certificate of Rights. The housing stock has increased through consolidation. Both modern and a few traditional rondavels can be seen in the settlement. More improvements are taking place in the area.

The road and pedestrian network has been rationalised with a hierarchy of roads, with the main ones tarred and the rest, of stabilised earth. Streetlights and storm water drains have also been provided. A water reticulation system has been installed with standpipes for every 15 plots and soon water will be reticulated to every compound. Sanitation is by the use of pit latrines (VIP) on each compound, though, following government adoption of new standards, these may soon be replaced by a sewerage system in the future. An average of one rubbish bin for every five plots has been provided and regular collection is by the City Council.

Those who have relocated due to upgrading did move to New Naledi and Broadhurst where they got serviced plots. Fortunately, due to strict development control regulations and a sound housing programme, no new squatter settlements have developed within the city boundaries, though a few are now seen on the peri-urban areas.

(b) Individual Coping Strategies.

In addition to the external support systems individuals have also come up with their own survival strategies. Most poor people perceive NGO, Church and Government contributions as being intended for the destitute and the disabled, but not for them. However, poor people are not passive victims of their adverse circumstances; they have developed innovative informal coping strategies. Several studies have

showed that different groups of poor people make ends meet through alternative sources of funding, support and income and through household economies. In one focus group meeting, it was stated that retaining links with rural areas is an important survival strategy for some of the urban poor, especially for food security. Any significant disruption to the pattern of coping developed by a household or individual may have a significant impact in times of shock.

CONCLUSIONS

From the above exposition, unlike other urban councils, the GCC has done quite well in financing city development. This is why the physical, social and economic development in the city is so impressive. This success could be copied by other municipalities to handle their financing tasks.

Most development projects get done on time and services are well provided. The roads are excellent, housing is provided to the extent that nobody lives rough in the city, land is serviced before allocation, sanitation is more than satisfactory and social welfare has come as a rescue for the poor segment of the population. Further social safety nets have helped to reduce poverty and other social ills.

However, there is evidence that some problems still face the council. These range from constrained budgets, lack of management capacity, existing bureaucracy within the central government, lack of accountability, inability to identify sources of funding and utilization of the same. It is also apparent that the GCC has not exploited its full potential in delivery of services due to among others, lack of financial independence. But financial independence without an improvement in its funding system will not solve the problem.

What is needed is a solution on how the identified financial bottlenecks can be addressed. Part of the answer lies in the

improvement of what the city already has. Maybe a more defined relationship between the GCC and central government where revenue accruing from all urban services are concerned, through international cooperation, mobilization of additional resources through existing financial mechanisms, improving methods of revenue collection and enhanced accountability and transparent, management of the same, implementation of appropriate policies, closer cooperation and collaboration with partners such as the private sector, the NGOs, CBOs and other relevant sectors including broad-based public participation. There is also need to strengthen the capacities of the GCC by recruiting adequate staff especially for the technical sections. This will no doubt be helpful in determining the implementation of appropriate socio-economic and environmental policies that will have direct positive impact on urban dwellers in the city. The GCC is looking at alternative financing sources like the following: hotel levy tax, petrol tax, car parking charges etc. All these will add to the meagre "Own Resources" and reduce the dependence on central government.

05. THE WAY FORWARD FOR MUNICIPAL FINANCE IN AFRICA

Given that the future of the world and indeed Africa will be urban and that economic growth will ultimately depend on how urban productivity can be sustained, more resources have to be mobilized and directed towards urban infrastructure and services. The problems identified above need addressing. It is essential that urbanisation is not seen as an optional matter to be addressed in the future, but as an urgent issue that must be treated now as a top priority for development – one that is shaping the very pattern of national economic growth, social relationships and political stability. Current population trends in Africa and rising expectations mean an increased demand for mass transport, water, and waste disposal systems, for better schools and health facilities and for amenities like parks, sports and cultural facilities.

It is now quite obvious that municipal governments in Africa need substantial help and guidance in developing adequate local revenue systems. Apart from searching for new sources of revenue, local governments need to institute better measures of collection of funds from current sources.

Reduction of the financial gap at the local level is essential if this demand is to be met. Good governance depends on it. The money that comes from “Own Sources” has to be increased if sustainable financing of municipalities is to be achieved.

Revenues from property tax can be increased by many actions among which are (a) carrying out valuations more frequently (b) train more values, (c) follow up defaulters more vigorously (d) simplifying administrative procedures (e) review property rates annually etc.

As far as tax on income is concerned the following is proposed: (a) The access of local authorities to a larger share of national taxes, including income tax, could be improved, (b) introduce graduated rates of tax, (c) need to improve city-wide enterprise and employee data bases in order to ensure that enterprises remit to government all contributions collected from their employees and that all eligible employees pay. Ways also have to be found of ensuring payment by informal sector employees and enterprises.

Municipal services User Charges: The following is proposed - (a) Clear systems of charging for all services provided by urban local authorities should be put in place to ensure adequate provision, operation and maintenance of the services. Such issues must be clear on key issues such as cost-recovery (full or partial) and subsidization of poor communities, (b) in order to overcome a growing feeling of despondency and resistance against paying municipal taxes and charges, local authorities should strive to ensure that services for which their citizens pay are adequately provided, efficiently operated and effectively maintained. Ways have to be found of dramatically improving the service delivery capacity of urban local authorities.; (c) market rents should be charged for houses owned by municipal local authorities; (d) Clearer and equitable policies on cost-sharing in the area of education and health should be worked out, ensuring improvement of quality in the provision of these services and guaranteeing universal access; (e) Privatisation efforts should be intensified in order to improve efficiency in the provision of services, while at the same time ensuring that the poor are not excluded in terms of access to those services.

Tax on provision of goods and services (business license fees): As a source with a lot of potential, greater effort should be put into thinking about ways of maximizing the yield from this source, including clearer and fairer sharing of the source between central and local governments. Also, ways must be found of ensuring compliance by most, if not all of the business enterprises operating in the informal sector.

As for borrowing, (a) governments should consider resuscitating local authority loan bodies; (b) public-private sector partnership avenues could also be explored in order to identify and put in place more sustainable local authority loan sources; (c) where borrowing is considered necessary as a source of revenue, specific provisions should be tailor-made for individual cities and these must be based on their level of credit worthiness.

Central allocations: Clear and consistent systems of central allocations to local authorities should be put in place, with transparent allocation formulae and timely disbursement and sharing of a wide range of taxes is another avenue through which resources accruing to the central government could be allocated to municipal local authorities.

Decentralization: As central government transfers power and responsibility to the municipal level, efforts to enhance the capacity of city governments to manage the delivery of vital urban services in an efficient, democratic and transparent manner are critical. Innovative ways of financing infrastructure are also vital to future development and economic growth. Overall improvements in the management, organization and capacities of these municipalities will lead to financially sustainable municipal governments. These governments will in turn be able to provide efficient and reliable services to the population. From a bottom up approach, community-based NGOs and community groups should be engaged in stimulating public participation

in local government activities and decision-making.

More innovative solutions of municipal finance can be through any of the following:

(a) Municipal Credit - Opening up New Frontiers.

One of the best ways out of the problem is borrowing money for operational purposes (working capital) or for asset creation (capital expenditure). Cities can never have enough of their own resources to meet the development needs they face daily and so they also have to learn to borrow. In doing so, cities should guard against debt trap by practicing good money management, which requires proper budgeting. The former is short term in that repayments are usually made within one financial year to meet financial deficits while the latter is expected to be repaid over longer periods.

The instruments available for short-term municipal borrowing may include any one or all of the following: Bank overdrafts, Commercial Paper, Banker's Acceptances, Trade Creditors or Revenue Anticipation Notes. While the other forms of short-term finance are relatively widely used, it is the Revenue Anticipation Notes which opens new frontiers for short-term municipal finance. Basically it is Municipal Commercial paper issued for periods from 30 - 270 days to address occasional mismatches on operating expenditure and current revenues. While this paper is widely used in the USA, it is a novelty in Africa (only used in the city of Gweru, Zimbabwe).

(b) Long Term Borrowing

For long-term borrowing, various options are available to a city. Capital expenditure can be financed through any or all of the following ways, which are used widely in Zimbabwe and South Africa (Mika, J. 2000):

- *Internal Capital Development Funds or Revolving Funds.*

These require seed capital or constant injections from current revenues and assume that the city has enough surpluses to make these subventions.

- *Central Government 'soft' loans.*

These are advanced at subsidized rates, which are way below the market. Experience has shown that they are unpredictable as Central Government priorities may shift and they are not sustainable as Central Governments strive to reduce budget deficits.

- *Private loans*

Most come from pension funds. They are usually at some premium above bank rates and dearer than Government loans.

- *Current Revenues*

These are usually insufficient and inappropriate for large infrastructure projects with a long lease of useful life.

- *Asset Disposals*

This source is finite and ephemeral in nature and, it is not sustainable.

- *Donations, grants and public Contributions*

This source depends on the whims of the donor and cannot be relied upon for sustainable infrastructure development.

- *Private/Public Partnerships - Equity, BOT, BOOT, Sweat Equity*

- *Municipal Bonds or stock*

These bonds have been extensively used in African cities in both Zimbabwe and South Africa and elsewhere, e.g. UK, USA, and Australia etc. For most of Africa this is a new window for financing infrastructure.

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