

# CHALLENGES OF MUNICIPAL FINANCE IN AFRICA:

## GABORONE CITY - BOTSWANA

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SECOND WORLD URBAN FORUM-  
"CITIES: CROSS ROADS OF  
CULTURE, INCLUSIVENESS AND  
INTEGRATION"

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## URBANIZATION & ITS PROBLEMS

1. Urbanization and its impact on resources  
-1950/60s- 80% Rural  
-1990/2000 – 50% Urban and rising
2. Pressure on urban services and facilities
3. Municipalities fail to cope with demand due to inadequate financing systems
4. Resistance by central government – fear of eroding political support.
5. Characteristics of existing sources of revenues :- inelastic; regressive and lack of administrative capacity.

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## EMERGING PROBLEMS

Municipal governments have failed to cope with increasing demands on line and social services due to lack of Financial resources.

### Result?

Poor living environments, deteriorating infrastructure; poor housing, squatter settlements, informal sector activities, unemployment and poverty.  
"UNSUSTAINABLE CITIES"

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## OBJECTIVES OF THE PAPER

1. Identify Gaborone's local and external revenue sources
2. Examine characteristics of existing financial resources.
3. Assess the adequacy of the above sources of finance.
4. Assess the city's capacity to provide line and social services- Equity?.
5. Assess administrative matters
6. Make recommendations on how to improve the city's financial resources.
7. Lessons learnt!!

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## MUNICIPAL FINANCE : AFRICA EXPERIENCE

1. There is a Gap between Financial Resources and Expenditure needs.
2. Inadequate Financial Systems –most countries
3. Tax Powers not wide enough and yield from current sources far inadequate.
4. Municipalities lack autonomy to raise tax base, rate structure and enforcement procedures – So cannot raise revenues commensurate with their expenditure **requirements**.
5. Poor financial management

\* Some countries are doing better than others.

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## SOURCES OF MUNICIPAL FINANCE

### INTERNAL SOURCES

Land Based – Property Taxes + Land Fees

Non land based - Taxes and licence Fees

### External Sources

Inter-governmental Transfers – general purpose grants; regular transfers or formula based shared taxes

Grants – For specific purposes

Borrowing – Government sources; private capital markets

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## INTERNAL SOURCES OF REVENUE LAND BASED SOURCES

1. **Property Tax**- Common in most countries in Africa, but seldom exploited to the fullest – incomplete valuation rolls; out of date rates etc. Sometimes government owns a lot of property but does not pay rates, denying municipalities a lot of money
2. **Land Fees** – These vary, but income from these is rather low and collection is poor.

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## INTERNAL SOURCES OF REVENUE NON-LAND BASED REVENUES

1. Tax on Income – Uganda, Tanzania –Low due to poor record keeping
2. User Charges for Infrastructure Services – water, sewer, power etc. Problems with undercharging; infrequent revision of rates; infrequent billing; Cross-subsidy – e.g. Botswana.
3. Tax on provision of goods and services  
Poor collection and follow up of defaulters
4. Revenue from income generating enterprises – Nigeria, Zimbabwe, RSA.

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## EXTERNAL SOURCES OF REVENUE

1. **Inter-governmental Transfers**  
Formula based and Non-Formula Based  
Kenya, Botswana, Nigeria – *Main Source* – *Problem of uncertainty; control by the centre.*
2. **Intergovernmental Tax Sharing**  
Kenya – 20% of road tax and 5% annual income shared by local authorities  
Uganda – 35% revenue transferred to districts  
Nigeria – LA share Federal Funds
3. **Municipal Borrowing** – common in Zimbabwe, RSA, Uganda; Uncommon in Botswana, Kenya, Tanzania etc.

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## MAJOR CHALLENGES OF MUNICIPAL FINANCE IN AFRICA.

1. **Problems of collection at local level** – Municipalities limited by central government; property not regularly revalued; no capacity
2. **Lack of Autonomy** – Most decisions have to be approved by central government
3. **Slow Fiscal Decentralization**  
Namibia, Mozambique started with cities  
Uganda – started with 13 districts  
Tanzania 1980; Nigeria 1976; Ghana 1991
4. **Capacity Problems** –Managerial/technical
5. **Rising Poverty** – Africa-wide
6. **Innovative Attempts tried but facing problems** – *All is not lost however*

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## CASE STUDY: BOTSWANA CITY OF GABORONE

### Botswana: A background

- Pop. 1.7 mil;
- Rising economic development;
- Foreign reserves at US\$6.8 billion
- Full Democracy at all levels – Full Participation.
- Rising Urbanization – 45% Urban
- Towns doubling every 10 years.

### Structure of Local Authorities in Botswana:-

- District and Urban Councils
- Sharing of responsibilities between Central Government and Local Government.

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## GABORONE: Administrative Set Up

Gaborone City Council – City Clerk + Mayor  
Political set-up

- \_Some Little autonomy- *Established by Statute*
- \_Financed and Controlled from the Centre
- \_Led by the Opposition –*source of problems*
- \_Decentralized Statutory responsibilities

**PLANNING PROCESS** – Economic and Physical Inclusion and Participation – Central Govt. +Public Involvement of Councilors  
NGOs and CBOs  
Ward Development **Committees**

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## FINANCING DEVELOPMENT Revenue Sources

1. **Capital Budget** – 100% Grant from Govt.
2. **Recurrent Budget.**  
1999/2000
 

* Revenue Support Grant	62.7%
* Own Revenue Sources	
1. Rates	27.3%
2. Interest	2.05%
3. Service Levy	0.95%
4. Rentals	0.90%
5. Other Sources	6.1%

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## EXTERNAL REVENUE SOURCES

1. REVENUE SUPPORT GRANT FROM CENTRAL GOVERNMENT
  - Figure rising from \$3.6 mil in 1994 to \$16.0 mil 2000
  - Formula Based
2. GENERAL FUND
  - Unspent Surplus Balances \$5.2million in 2000

\*This is composed of budgeted expenditure that was not spent due to lack of implementation capacity;

\*Some had accrued from the high vacancy rates in the Council.

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## OWN REVENUE SOURCES

1. Property Tax and Rates – Slowly Rising from 23 – 27% Between 1998 – 2001 Defaulting is high though.  
Attempts being done to collect more via:
  - Reminders to plot owners
  - Demand Notices
  - Debt Collectors employed
  - Attach property/ Court Action
  - Publish names in the press – Some results
2. Tax on Goods and Services – Licences
  - Little income but has potential to grow - elastic
  - Defaulters taken to customary courts
  - Evictions from premises

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## 3 Charging for Urban Services

- 3.1 Building Plan Perusal Fees – v.little
- 3.2 Service Levy + BML – Paid by Low Income
  - Low but could rise
  - Arrears in 2002 - \$500,000
  - Efforts to collect more include:-
    - House to house collections; stop orders; use of councilors; prosecutions of defaulters
- 3.3 Water – 100% access to potable water
  - 43.5% - Piped indoors/yard
  - 56.5% - Stand pipes – Soon to be phased out
- 3.4 Power – Full reticulation
- 3.5 Sanitation
  - 33.4% Private Flush; 60% private latrine – Policy and programme started for full reticulation
  - Element of cost recovery – Connection \$200-1000
- 3.6 Solid Waste
  - 98% collection ; introduced Privatization programme

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- 3.7 Public Health – Free medical service  
HIV/AIDS is a challenge to resources/ARV
- 3.8 Primary Education – Free Service  
For the poor the Council provides uniforms etc.
- 3.9 Housing Rentals – Little revenue
  - Subsidized plots for low income
  - Free Plans; Building Materials Loans +\$4000
  - Collection – problem; use of private companies
4. Income generating enterprises – miniscure  
Most run as social service

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## MANAGEMENT OF FINANCIAL RESOURCES.

### BUDGETING AND PLANNING – Annual

#### Compliance with management procedures

- Tenders
- Financial Controls
- Internal Control
- Quarterly Reports
- *Computerization of core processes – accounting, human resources and land management, rates, payroll accounts.*

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## HUMAN RESOURCES MANAGEMENT

Personnel appointment and administration.- **ULGSM**  
Shortage of qualified staff  
Transfers and problems thereof.  
High staff turnover  
Capacity Problems.

Solution?

1. Council introduced Performance Management System to increase productivity
2. Recruiting and vigorous Training

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## POVERTY REDUCTION MEASURES

WELFARE INITIATIVES.

1. Destitute Programme – needy assessment  
Provide food, clothing, blankets, toiletries and cash payment \$20/month.
2. Needy Student programme
3. Access to land – Cross subsidy for land.  
High income – Market rates  
Medium income – Cost Recovery  
Low income – Subsidized
4. Security of Tenure

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## CONCLUSION: ISSUES.

1. Financing of municipal development in Botswana is in good shape –Good economy;
2. The municipality has adopted welfare programmes to alleviate poverty
3. Provision of services and facilities is enviable

However, facing challenges:

**Lack of Autonomy, Power, Decision Making and political Low level of Own Resources - rates, fees, taxes**

**Limited Legal Powers**—by-laws requiring approval by MLG. 21

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## MUNICIPAL FINANCE : WAY AHEAD

Urbanization is sure to continue and hence Municipal governments need substantial help and guidance in developing adequate local revenues

Advocated Strategies:-

1. Better collection from current sources – Reduction of financial gap at the local level.
  - \* User Charges – Have clear systems of charging
  - \* Maximize yield from services taxes
  - \* Privatization and partnerships
2. Better Administration and Management/Governance
  - \* Strengthen Financial Management
  - \* More autonomy, less control by Central Government
  - \* More Fiscal Decentralization –Regular/Consistent allocations. Dialogue-policy and budgeting process. 22
  - \* Stamp out Corrupt practices

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3. Innovative solutions of Municipal Finance  
(a) Municipal Credit – Opening up new frontiers – Short Term Borrowing!

Cities should guard against debt trap by practicing money management and proper budgeting.

Instruments include:-

- Bank overdrafts; Commercial Paper; Bankers' Acceptances and Trade Creditors or Revenue Anticipation Notes

(b) Long Term Borrowing

- Revolving Funds; More Partnerships
- Central Government soft loans
- Private loans: e.g. from pension funds 23
- Municipal Bonds or stock; Donations

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## ACTION PROGRAMME.

Need to outline an  
Action Plan.

1. Municipalities
2. Stakeholders
3. Researchers.



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# THANK YOU



For Sustainable  
Municipal Finance  
cities

Need More :  
Autonomy, Power,  
Capacity & Funds.

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