A FISCAL DECENTRALISATION STRATEGY FOR INNOVATIVE LOCAL GOVERNMENT FINANCIAL MANAGEMENT IN BOTSWANA

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DECLARATION

I, the undersigned, herby declare that the work contained in this thesis is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

Signature: **7 March 2007**

Abstract

Decentralisation is a growing phenomenon worldwide. However, the detail of its implementation determines whether desired objectives are achieved or not. The thesis extensively interrogates this concept from economic, philosophical and political theoretical perspectives, with emphasis on the economic rationale. An international perspective has also been utilised for informing the investigation. Reference is made, in this regard, to both federal and unitary states of the developed and developing world.

Botswana, a unitary and developing African country, has been found to be facing more or less the same challenges that undermine the desired benefits of fiscal decentralisation in all developing countries. However, political maturity (which is a prerequisite for decentralisation reforms) – a predictably stable commodity in Botswana – sets it apart from most other developing, if not all, African countries.

With regards to decentralisation, a number of considerations framed the analysis. Firstly, the established consecutive approach to Botswana's centralised economic planning and management has been found to be counter-productive to the financial decentralisation process. This has resulted in an over-regulated local public sector that is not conducive for taking stock of local initiative and being innovative in local affairs, mainly due to an ambiguous institutional framework. Secondly, an ad hoc financial transfer mechanism, that is neither stable nor predictable, clearly undermines integrated financial management and strategic fiscal planning at municipal level. Thirdly, a one-size-fits-all approach to the assignment of expenditure responsibilities to all municipalities, small and large, as well as urban and rural, serves as another constraint. Finally, a lack of stable and buoyant sources of own revenues, as well as inadequate capacity to utilise fully the already existing internal revenues, has created grant economies that survive on a principle of beggar-thy-neighbour to actualise their mandates. This? in turn undermines their? significance for the electorates at local level who turn to the national government even for minor local issues that should be addressed within the areas of local jurisdiction.

The thesis concludes with recommendations regarding a redesign of the institutional framework, intergovernmental financial transfers, expenditure assignments and generation of internal revenue.

It is critically important that the Government of Botswana should develop a strong policy framework, build a strong consensus within the political and bureaucratic circles and coordinate and integrate these reforms through strong capacity-building mechanisms at local governments. Finally, the capacity of the national government to monitor the process cannot be overemphasised. That is, the decentralisation process should initially be centralised with gradual decentralisation processes to allow for flexibility well aware of the fact that decentralisation structures are always in transition.

Opsomming

Desentralisasie is wel 'n wêreldwye verskynsel, maar suksesvolle implementering vereis aandag aan detail. Die desentralisasiekonsep word in hierdie tesis grondig ondersoek vanuit 'n ekonomiese, filosofiese, sowel as politieke perspektief. Die rol van ekonomiese beginsels in die desentralisasieproses geniet spesiale verwysing. Om die ondersoek so omvattend moontlik te maak is internasionale bronne geraadpleeg, afkomstig vanuit sowel federale as unitêre state asook uit ontwikkelde en ontwikkelende lande.

Botswana, 'n ontwikkelende Afrika land met 'n unitêre staatsvorm, ondervind uitdagings wat, soos in enige ander ontwikkelende land, die voordele van fiskale desentralisasie ondermyn. Politieke volwassenheid en stabiliteit is van die voorvereistes waaraan 'n staatsbestel moet voldoen om desentralisasie suksesvol toe te pas. Gelukkig skiet Botswana in dié opsig geensins tekort nie, inteendeel, dit is juis hierdie eienskap wat hom van die meeste – indien nie alle ander – Afrikalande onderskei.

Heelwat oorweging is geskenk aan die bepalende faktore rondom desentralisasie. Botswana se gevestigde gesentraliseerde ekonomiese beplanning- en bestuurstelsel is geïdentifiseer as die belangrikste teenproduktiewe struikelblok wat die finansiële desentralisasieproses ontspoor. Kenmerkend van 'n sentralistiese institusionele raamwerk is 'n oorgereguleerde plaaslike openbare sektor wat nie die skep van eie inisiatief en ondernemende bestuur bevorder of ag op die belangrikheid daarvan slaan nie. Tweede in belangrikheid is 'n onstabiele, ad hoc finansiële oordragmeganisme waarop daar nie peil getrek kan word nie en wat pogings om geïntegreerde finansiële bestuurspraktyke en strategiese fiskale beplanning op munisipale vlak te vestig, belemmer. Die derde hindernis is die owerhede se onwilligheid om te besef dat daar geen pasklare benadering bestaan wat by al die uiteenlopende tipes (in terme van grootte en ligging, plattelands tot stedelik) plaaslike besture verantwoordelik bestedingspraktyke sal vestig nie. Laastens is 'n wydlopende gebrek aan stabiele en lewenskragtige, eie inkomstebronne, sowel as onvoldoende kapasiteit om reeds beskikbare, interne belastinginkomste doeltreffend aan te wend,

nadelig vir plaaslike regering. Pogings om te verseker dat 'n eie plaaslike raad so 'n groot as moontlike toekenning uit die staatskas ontvang, veroorsaak dat aanliggende rade dan nie hulle regmatige deel ontvang nie. Plaaslike rade se oormatige afhanklikheid van die sentrale regering vir finansiële oorlewing, ondermyn die legitimiteit van plaaslike politici. Laasgenoemde soek gewoon te maklik die oplossing vir 'n plaaslike probleem by die sentrale regering, eerder as om dit self aan te durf.

Die tesis sluit met aanbevelings oor 'n herontwerpte institusionele raamwerk wat kan lei tot sinvoller finansiële tussenregeringsoordragte, taakgedrewe uitgawes en die skepping van eie, interne belastingbron.

Dit is van kritieke belang dat die regering van Botswana 'n stewige beleidsraamwerk ontwikkel en dan konsensus daaroor verkry tussen die politici en burokrasie. Die integrasie en ko-ordinasie van hierdie hervormings kan slegs geskied indien dit gepaard gaan met lewenskragtige kapasiteitsontwikkeling op plaaslike bestuursvlak. Die sentrale regering sal egter eweneens eie kundigheid moet ontwikkel om die proses te monitor, want die desentralisasieproses sal aanvanklik vanaf die middelpunt geskied en geleidelik uitkring. Dit sal buigsaamheid en begrip verg omdat desentralisasie in wese voortdurende oorgang impliseer.

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Table of Contents

List of Tables

List of Figures

List of Diagrams

List of Abbreviations

BALA:	Botswana Association of Local Authorities
BIDPA:	Botswana Institute for Development of Policy Analysis
BMU:	Building Materials Loan
BOCONGO:	Botswana Council of Non- Governmental Organisations
CBOs:	Community Based Organisations
CDC:	Central District Council
CPO:	Council Planning Officer
DC:	District Commissioner
DDC:	District Development Committee
DDP:	District Development Plan
DGLSM:	Department of Local Government Service Management
DOD:	District Officer Development
DWA:	Department of Water Affairs
ECC:	Economic Committee of Cabinet
FCC:	Francistown City Council
GCC:	Gaborone City Council
GDP:	Gross Domestic Product
GoB:	Government of Botswana
GUDP:	Gaborone Urban Development Plan
KDC:	Kweneng District Council
KDDP:	Kweneng District Development Plan
KgDC:	Kgalagadi District Council
KgDDP:	Kgalagadi District Development Plan
LIPWP:	Labour Intensive Public Works Programme
LAPAC:	Local Authorities Public Accounts Committee
MFDP:	Ministry of Finance and Development Planning
MLG:	Ministry of Local Government
NDP:	National Development Plan
NPM:	New Public Management
PS:	Permanent Secretary
PSP:	Permanent Secretary to the President

P:	Pula
RADP:	Remote Area Development Programme
RSGs:	Revenue Support Grants
SACU:	Southern African Customs Union
S&CD:	Social and Community Development
SEDC:	South East District Council
SHHA:	Self Help Housing Agency
SPCLGSB:	Second Presidential Commission on Local Government Structure in Botswana
UDP:	Urban Development Plan
UNMDG:	United Nations Millennium Development Goals
UTS:	Unified Teaching Service
VDCs:	Village Development Committees
WDCs:	Ward Development Committees
WUC:	Water Utilities Corporation

List of Appendices

Chapter 1

1. INTRODUCTION

1.1 Background

The perceived role of the public sector and its reciprocal relationship with other sectors in meeting the needs of the society have changed in recent years. These changes were brought about by shifts in emphasis from government to governance, as well as external environmental developments, such as economic and technological development. In developing countries these shifts, and especially the shift from agriculture to industry and services and the accompanying trends in urbanisation, have overstretched the ability and efforts of central governments to serve from the centre. Hence, the prominence of local governments as service providers of choice is a logical consequence. As such, they should have the ability to meet their peculiar constituents' highly individualised and specialised service requirements of quantity, quality and time correctly. It is for this reason that decentralisation has become synonymous with a new thinking in the public sector: efficient, effective, responsive and politically accountable service delivery.

It is, however, worth mentioning that the fiscal decentralisation debate among academics, local government experts and practitioners is premised on the notion that the "... devolution of taxing and spending powers to lower levels of government" (Fjeldstad, 2003:133) is a sine qua non for sustainable democratic governance that flourishes on a nourished, broader participation of voters-cum-tax-payers in government decision-making. Advocates of this notion are of the view that decentralisation brings government (local government) closer to the people and thus it becomes relatively feasible for local authorities to identify people's needs and respond to their needs effectively, timeously and more responsively. The decisions are more likely to be appropriate and acceptable (for example tax increases) because of the direct relationship between them and the services received (Fjeldstad, 2003:133). The service/cost interplays that are characteristically the preferred modes of service delivery today (ostensibly referred to as the cost-recovery/cost-sharing or public-sector pricing) identify, in general, with the New Public Management theory and philosophy, major components of decentralisation and governance reforms.

This rationale for fiscal decentralisation, amid high expectations from the public and general scarcity of financial resources, is forcing governments in general, and local governments in particular, to contemplate and adhere to good governance in financial management. Innovative financial management, in an effort to meet the expectations of parsimonious taxpayers, has thus become the rule through such measures as performance measurement and integrated financial management. It is nevertheless important to note that good financial management is not a process in itself. It is rather a product of carefully crafted measures, processes and – in particular for this discussion – the result of a comprehensive multi-government system. The system must be compatible with the objectives pursued within the framework of the overall national and, specifically, local government policy content, policy context, capacity and constraints in policy implementation. There should be commitment and the ability to blend government views with those of other stakeholders, such as the business community and civil society, commonly referred to as the social capital (Putman, 1993:167).

These broad theoretical and practical developments have very particular manifestations in circumstances typically found in developing countries, and this thesis serves the purpose of exploring the situation in Botswana, taking its specific context into consideration.

1.2 Botswana at a glance

Botswana is at the epicentre of the Southern Africa sub-continent. Despite measuring some 581 730 square kilometres (about 220 000 square miles), more or less the size of France or the state of Texas in the United States of America, it is scarcely populated by only 1.7 million people. Although scholars such as Mangcu (2003) generally regard Botswana's population as homogeneous, it is in fact comprised of several ethnic groups. These include the Tswana (60 per cent) and other non-Tswana-speaking minorities such as the BaKalanga, San, Whites, Indians and Coloureds (Botswana Tourism, 2001:1-6).

The country attained independence in 1966, following 81 years of colonial rule by the British. It is therefore not coincidental that an inherited British Westminster system designates the national Parliament as the supreme law making body in the country. For this same reason, a unitary system of state was also adopted from the British. The two-tier government system is comprised of the central and local governments. The former is the higher level, whilst the latter is the government at grassroots level, closest to the people – an ideal world in terms of fiscal decentralisation theory.

The multi-level government system in Botswana is inextricably linked to the pre- and post-independence developments that largely and in many ways shaped the present setting of government at all levels. According to Mfundisi in Edge and Lekorwe (1998:163), Botswana blended the Westminster and the executive presidential systems. The executive powers in Botswana are vested in the President as the head of state and government. The President heads a Cabinet made up of the Vice-President (VP) and the Ministers who are the political heads of their assigned ministries.

Information about Botswana's economic growth and development, associated with its democratic credentials as well as its natural-resource driven economy (more especially the sale of rough diamonds), abounds (Mogae, 2003; Clover, 2003; (Reuss, 2002; Johnson, 2003:2; Standard and Poor's, 2001-2005; Lamb, 2005; Freedom House, 2002). Socio-economic and political information about Botswana can fairly be summarised as follows:

- the economy narrowly relies on the revenue from rough diamonds sales which account for 35 percent of Gross Domestic Product, 80 percent of exports and about 45 percent of government revenues. In fact, the economy is better described as a two-sector economy with the public sector as the main employer, whilst the mineral sector is the primary generator of government revenues (Standard and Poor's, 2004:2-3);
- economic development in Botswana has been remarkable since independence in 1966, characterized by: improved life expectancy, improved health care, reduced mortality rates, improved personal income, rapid infrastructural development and rapid growth of GDP per capita income, among others, until

the HIV/AIDS epidemic eclipsed these achievements in the late 1990s (Botswana Millennium Development Goals Status Report, 2004:14; Botswana Human Development Report, 1997:1&2; Clover, 2003:3);

- an agriculture-based economy was transferred into a mineral-based economy. The fruits of the structural changes of the economy triggered an expansion of the non-agriculture-based workforce concentrated within the periphery of the towns and cities, attributable to rapid urbanisation in Botswana (NDP 9, 2003:16; Campbell in Edge and Lekorwe, 1998:262-267);
- despite rapid economic growth and development over three decades, Botswana's economy is characterised by affluence in the midst of poverty[1]. An analysis of the patterns of poverty in Botswana indicates that poverty directly correlates with the rural-urban village dichotomy, township-town dichotomy and town-city differentials (Mosha in Edge and Lekorwe, 1998:292-3) (See Section 4.2.3);
- economic planning[2] had been highly centralised (top down) until in 1997 when District Development Plans (DDPs) were introduced to run concurrently with NDPs. Yet, Nordas, Sekgoma and Somolakae (1998:6&36) still maintain that top-down planning remains the cornerstone of Botswana's successive six multi-year budgeting system;
- arable farming has been declining over time since independence, due to lack of investment in agriculture, lack of agricultural diversity too heavily dependent on beef exports, and persistent droughts coupled to the fact that it is largely a semi-desert country (Donaldson, 2003:1; Clover, 2003:10; Standard and Poor's, 2002:3&11; Lamb, 2005:1-5-6; Freedom house, 2002:1-2);
- this Southern African country has the reputation of being the longest-lasting multi-party democracy on the continent. Furthermore, it is rated the least corrupt country on the continent and number 24 in the world by Transparency International;

[1] Botswana recorded a drop of the human development index (HDI) during the period 1990-2001 with simultaneous rapid economic growth making her one of the only 21 countries that depicted such an economic paradox. (Clover, 2003:1).
[2] See NDP 7 (1991:79) Planning and budgeting is housed in the ministry of Finance and Development Planning. The involvement of the Cabinet and senior government officials (Economic Committee of Cabinet) in the plan preparation, policy formulation and implementation clearly indicates the significance and control that is vested in the aforementioned team in national economic planning.

- The majority of the people live in the south-eastern part of the country for climatic reasons. The region encompasses the southern region, home to the capital city, Gaborone, with the largest concentration of Botswana's urban population living within a radius of 100-200km from the city (NDP9, 2003:4 & 14);

The purpose of this short precursor about Botswana is not only to serve as an overview of the country, but also to explain the national framework of economic planning in Botswana. Economic planning is directly linked to the overall operations of the public service and has a profound influence on intergovernmental relations. The implication of these for local government financial administration and management is the purpose of the overview.

1.2.1 The institutional relationship between central and local government structures

The civil service in Botswana is hierarchically structured. The administrative heads of the ministries are called Permanent Secretaries (PS) and are the most senior civil servants. All the public service departments, in one way or another, report to them through established bureaucratic channels. The most senior civil servant is the Permanent Secretary to the President (PSP) who is also an ex-officio member of the cabinet. There are, however, notable factors dating back to the colonial period that better explain the current state of affairs in the public service (Mufundisi in Edge and Lekorwe, 1998:162-166).

Firstly, before independence both the executive and political powers were the preserve of the civil servants. Secondly, colonialism neglected local administration and institutions. In fact, local administration was entrusted to the tribal authorities/administrations under the respective Chiefs. Tribal administration(s) was (were) responsible for social services such as education, health and welfare, as well as road construction and maintenance. Thirdly, because the private sector was small and undeveloped, the colonial administration considered the participation of the state in the economy as fundamentally critical to the development and progress of the economy. This became even more evident during the 1970s after the discovery of diamonds, when the Government of Botswana (GoB) became aggressively involved in the development of infrastructures. Roads, electricity, telecommunications, water and industrial developments characterised the contours of Botswana's development policy (Mufundisi in Edge and Lekorwe, 1998:162-166).

It is for these reasons that government functions expanded qualitatively and quantitatively. Ministries established thereafter, partly reflected the "political and administrative needs and priorities of the government" (Mufundisi in Edge and Lekorwe, 1998:166). Among the first eight ministries established in 1966 was the Ministry of Local Government and Lands. The decentralisation of service delivery to the district administration (which was formed shortly after independence) was critical to ensure enhanced delivery of quality and better services to suit the heterogeneous geographical features of each locality. However, because of the precarious nature of the economy that was characteristically underdeveloped, owing to negligence by the colonial administration, Botswana carefully treaded according to the planning model which had been pragmatically designed to attract as much in donor grants and preferential treatment as possible. This augmented the limited resources that the government had and better explains the long-established tradition of development planning in Botswana that the country still maintains.

Planning still remains the most critical component of Botswana's economic development strategy. It is centred on six-year development planning, referred to as National Development Plans (NDPs). The overriding goal of NDPs is to ensure an equitable distribution of nationally-raised revenues (more particularly revenue accruing to state coffers (raised from the sale of minerals and taxable mineral royalties). This arrangement has been maintained/kept in place since independence, because the Government of Botswana (GoB) acknowledges that few regions are endowed with natural resources, more specifically/especially minerals. The national government was faced by an indispensable need to centralise such revenue sources and distribute them equitably in accordance with its political, economic and social policies.

According to Lekorwe in Edge and Lekorwe (1998:174), the over-centralisation of planning in Botswana was premised on the notion that "planning and bureaucratic centralisation complemented each other". The creation of a consultative body like the

Economic Committee of Cabinet (ECC) and the merging of the Ministries of Finance and Development Planning indicate the degree to which centralised planning was considered critical to coordinated development planning and effective implementation at national and district levels. The Ministry of Finance and Development Planning (MFDP), through the Division of Economic Affairs, coordinates development programmes across the entire spectrum of government structures. Staff from this division are seconded to ministerial planning units. They are responsible for project preparation and evaluation, plan preparation and policy advice at ministerial level (NDP7, 1991:81-89).

Through the District Development Plans (DDPs), multi-year planning was also introduced at district level in the late 1960s with the aim of placing local authorities in a strategic position in the economic and social development of their areas (districts) (NDP 7, 1991:80). This did not in any way compromise the centralised approach to development planning that characterised the preparation of the NDPs. The District Commissioners' (DCs) offices have an upper hand in the preparation of the DDPs. This appears to be undermining the basic thrust of decentralising local financial decision making to local governments without undue interference from the centre. The DC is the government agent at district level. In the words of Mfundisi in Edge and Lekorwe (1998:164) the DC is the "ears and eyes" of central government at local level. The DC is the head of the District Administration and thus, has a staff complement, including the District Officer Development (DOD), to ensure that there is better coordination and leadership from the DC at local government level.

There is, however, growing concern that the role of the offices of DCs retards own initiative at local government level. The dominant role of the DOD and Councils' Planning Officers (CPOs) in preparing development plans for councils, undermines the consultative processes between the constituents and local politicians (councillors). An analysis carried out by Lekorwe in Edge and Lekorwe (1998:177-179) and findings by SPCLGSB (2001:35-41) indicate that:

- previously programmes at local government level were biased towards social services and infrastructural projects;

- social services were mostly provided at no cost to recipients by both tiers of governments. This practice, more often than not, confined the consultative processes between the communities and ward councillors to the provision of social services and infrastructural projects by the latter. Public expectations and demands have thus been heightened to an unsustainable level because communities expect their local political representatives to continue providing durable services at no cost;
- contents of the DDPs were so similar that they failed to capture the priorities pertaining to the peculiarities of each council . The contents of the DDPs in most cases reflect the nationally-determined policies and priorities rather than those of individual local authorities; and
- the council Chief Executive Officers (CEOs) are said to decide the direction of the councils. This inhibits the political heads of councils to take adequate control of the overall direction and vision of their councils.

As the institutional framework defines the level of interaction and relations between both tiers of government, its significance in facilitating proper planning, informed budgeting and own initiatives at local government level cannot be underestimated. The essence of fiscal decentralisation is achieving economic efficiency through the application of innovative measures. Thus the institutional framework may facilitate the achievement of own initiatives and affairs but at its worst, may create an enabling environment for poor planning and budgeting, as well as an ambiguous intergovernmental financial transfer mechanism – both recipes for financial improbity at local government level. Thus a properly administered institutional framework is a necessary ingredient for the successful design and implementation of a fiscal intergovernmental strategy.

1.2.2 Local government administration in Botswana

Local government[3] is a creation of Parliament's statute. It can therefore theoretically be dismantled at the discretion of the latter without resort to public consent. (The Report of the Second Presidential Commission on the Local Government Structure in

[3] Local governments, municipalities, district or urban councils and subnational governments will be used interchangeably. However, the commonly used words in Botswana are district or urban councils.

Botswana (2001:46) (Latter referred to as second SPCLGSB). Councils (district and towns/cities) were established under the Local Government (District Councils) Act Chapter 40:01 of 1966 and the Township Act Chapter 40:02 of 1955 respectively. They (Councils) are statutory bodies democratically elected for a five-year period. Local political representatives are elected every five years or whenever general elections are held (Lekorwe in Edge and Lekorwe, 1998:176). Despite the fact that councils are statutory bodies, elected by people to carry out their mandates, they are not necessarily autonomous. Both Acts that established councils give the President extensive powers such as establishing a council in any area that the aforementioned finds or thinks fit, as long as the designation is published in the Gazette.[4]

Nevertheless, councils have permanent staff that are appointed, developed and promoted by the Unified Local Government Service (ULGS) under the Department of Local Government Service Management (DLGSM) as well as the Unified Teaching Service (UTS) for primary school teachers (Lekorwe in Edge and Lekorwe, 1998:176; Wunsch, 2004). DLGSM falls within the Ministry of Local Government (MLG) at central level. This arrangement has been credited for building a highly-qualified pool of officers within the municipals establishments. Municipalities in Botswana have a wide array of statutory responsibilities, but they also have a wide pool of professionals in their employ to help them carry out their statutory and permissive assignments. These include medical doctors, engineers, economic planners, physical planners, chiefs of staff and others (Wunsch, 2004).

It is nevertheless relevant to point out that the administrative challenges that local authorities are faced with in Botswana restrict the extent to which decision-making powers could be devolved to them. This includes the extent to which decision-making powers to generate own revenues and determine own expenditure priorities is decided by the financial and human resources capacity In fact, the report by the SPCLGSB (2001:55) stated that the positions where the DLGSM is still the employing agent constitute the highest vacancy rates at municipal level.

[4] See Section 4 Part II of Local Government (District Councils) Act.

It is critical to note that the main purpose for adopting fiscal decentralisation reforms is to achieve and increase allocative efficiency in the provision of local public services, through the devolution of expenditure responsibilities from the higher tier of government to local authorities (see section 2.4.3). Therefore it should, as a matter of course, be ensured that the implementing capacity of the local authorities is not in doubt. Inadequate capacity would not only prevent local authorities to carry out their functional responsibilities diligently but, because of lack of administrative human resources, technical and managerial capacity, undermine their revenue-generating initiatives. Hence, lack of institutional capacity would certainly have a double-barrelled constraining impact on the implementation of fiscal decentralisation (See section 2.5.5).

1.2.3 Local government finances

Due to the heavy reliance of local governments on central government for their recurrent and development budgets, .the notion that local authorities in Botswana exist at the mercy of Parliament seems even more real. This reverses the very basic thrusts of decentralisation: accountability and a responsiveness of the local authorities to their constituents (National Development Plan 8, 1997:467; Sharma in Reddy, Sing and Moodley, 2003:233). Findings by the Botswana Institute for Development of Policy Analysis (Salkin, 2004) overwhelmingly point to ambiguous vertical intergovernmental financial relations, poor financial management and poor uncoordinated service delivery, not fine-tuned to local priorities, as the outcomes of a weak management system. Lack of programmatic focus at local level in various sectors in Botswana (Oluwu and Wunsch, 2004:100), failure by the local authorities to timeously and accurately account for the funds allocated them, poor standards of financial management and their incapacity to manage finances compounded the state of financial management (SPCLGSB, 2001:46).

Inadequate political accountability to the electorate, arising from the vertical intergovernmental funding mechanisms and internal revenue generating measures, contribute to poor financial management in, as follows:

- local governments do not have access to tax revenue, except urban councils that levy property taxes. Taxation still remains the prerogative of the national government (Olowu and Wunsch, 2004:93);
- line ministries set fees on behalf of local authorities . This erodes their (local authorities) authority within their areas of jurisdictions to own up for any financial misdeeds. Local personnel have thus developed a tendency to expect that the national government will cover their financial shortfalls whenever they fail to plan and execute within their resources constraints. (Peters-Berries, 1995 referred to by Olowu and Wunsch, 2004:93);
- high default rates and arrears in service levies, indicative of ineffective administration, exacerbate the already limited revenue sources (Sharma in Reddy *et al,* 2003:234);
- the absence of clear, transparent and predictable criteria to guide the allocation of funds budgeted for both recurrent and capital budgets for local governments by the Ministries of Local Government as well as Finance and Development Planning respectively. The criteria are supposed to indicate the methodologies that guide the distribution of nationally raised revenues for both recurrent and development expenditures among all councils. The current arrangement is indicative of a (SPCLGSB, 2001:60), top-down decentralisation strategy for the following reasons: (a) no effort is made to build the capacity of local authorities to run their affairs according to the peculiar needs of their constituents (SPCLGSB, 2001:48); (b) Poor planning and budgeting, as a result of unpredictable and uncertainty of revenue availability, are provided.

The annual accumulation of unspent and substantial balances at the end of municipal financial years exemplifies a centralised approach to decentralisation. The tremendous growth of financial transfers (support grants), at 31.7 per cent during the period 1994/5 and 2001/2, (bumper years of diamond boom in Botswana) clearly indicates an ad hoc-dominated transfer mechanism that does not augur well for local finance planning and administration (SPCLGSB, 2001:54).

Based on the informative points mentioned above, it is therefore suggested that the sustainability of local governance, and in particular decentralised governance, is threatened. Sustainable governance here refers to the " *availability of finances to provide the services needed but refers to the overall capacity of the organisation to deliver such services and adapt to changing circumstances over extended periods of time, maintaining and improving the service concerned*" as conceptualised by Cloete, Merrifield and Masiteng (2003:3). The likely threat in Botswana emanates from the fact that the main source of revenues for the national government is diamonds mining which is vulnerable to the fluctuations of the global natural resources prices that depreciate in value over time (Nordas and Gergis, 2000:9). This will have a direct bearing on the district/urban council economies, as the financial transfers will be reduced drastically. It will be especially severe when there is an extraordinary economic slowdown, ultimately resulting in centralisation that will further worsen the top-down economic planning (multi-year budgeting) that is still prevalent at the expense of local government (Nordas, Sekgoma and Somolakae, 1998:6 &36).

Olowu and Wunsch (2004:97) in their research found that the top-down tendency of decision-making on local government affairs is so established that the Ministry of Finance and Development Planning (MFDP) determines the amount of capital development and retains final authority to approve or disapprove of any specific project, and that local governments are/remain subject to decisions made at the central level through complex and cumbersome processes.

Whereas there is general concern that local authorities cannot account accurately for funds allocated them, it is essential to indicate that in accordance with section 124(2) of the Constitution of the Republic of Botswana LN 83 of 1966; section 38 of Finance and Audit Act Chapter 54:01 of 1970 and the Local Government (District Councils) (Amendment Act 10 of 1999) section 3, municipal councils are required to submit their accounts to the Auditor General within three months from the end of each financial year upon which the latter completes the audit of accounts within the 12 months of their submission.

However, local authorities fail to account for funds allocated them, as indicated in Appendix 7. Their books of accounts, as at the end of 2005, were at least two to four years in arrears. Yet, the local government (District Councils) (Amendment) Act No. 10 of 1999, section 48, established the Local Authorities Public Accounts Committee

(LAPAC) in order to examine, among others, the accounts of every district/urban council and examine the reports of the Auditor General and audited financial statements.

It is essential at the end of this section to indicate that the implications of centralised planning, centralised local revenue generation, and centralised allocation of financial resources, mainly from the centre to local authorities, cannot be underestimated. These factors have a direct bearing on the extent to which the objectives of a fiscal decentralisation strategy can achieve financial probity and innovation.

1.3 Rationale for the study

As explained in the previous section, local government in Botswana is characterised by centralised administrative structures, expenditure priorities and revenue generation. The result of such centralisation has been weakness in planning and local initiative, as well as poor service delivery at unaccounted for, exorbitantly high cost (Oluwu and Wunsch, 2004:104). It is therefore fitting to state that the justification for this study emanates from a number of factors in Botswana that are not necessarily unique to the country. The experiences of many other countries that have had to review their intergovernmental fiscal relations resemble the following development characteristics that Botswana is currently experiencing:

- global economic pressures resulting in reduced government revenues (Bennett, 1990:3). Indeed, Botswana is experiencing an economic slow-down because of the current plateau in diamond production. Economic growth declined from as high as 13.9 per cent per annum in 1999 to just over five percent in the years 2003/2004. The trend was expected to continue in the financial year 2005/2006. Projected growth was between four and five per cent (Budget Speech, 2005:4 &21);
- welfarism; when the rapid rise of public expectations outpaces the available financial resources ("the principle of entitlement"), often from a stagnant and narrowing financial base (Bennett, 1990:6). Botswana has a reputation of substantial annual budget surpluses, yet there has been a consistent reversal of

the status quo over the past few years. During the NDP8, there were substantial budget deficits despite forecasted surpluses (Draft National Development Plan 9, 2002:3; Salkin, 2005). Welfarism, coupled to sustained and unplanned budget deficits, constitutes what in this discussion is referred to as fiscal stress[5];

- the "grant economy", where decisions taken by local authorities do not necessarily reflect the needs of the constituents within a given jurisdiction, but those of the revenue sources (national government) (Bennett, 1990:6). For example, local authorities in Botswana during the economic boom in the late 1990s and early years of 2000, enjoyed substantial growth of financial transfers from the national government (Oluwu and Wunsch, 2004:92), growing tremendously at 31.7 per cent during the periods 1994/95 and 2001/2. The accumulation of substantial unspent resources (PCLGSB, 2001:48 & 54) clearly indicates that there is an established top-down grant economy that reflects the financial capacity of national government, as opposed to the economic state and financial and administrative capacities of local economies, to adjust to the changing needs and expectations of their constituents. The usual undesirables of a grant economy are: (i) lack of political ownership of the council's financial decisions or projects, (ii) endemic corruption in the tendering and procurement processes, and (iii) soft budget constraint that often results in excessive financial mismanagement;
- inaccurate budget projections: the difference between estimated income and actual income is as high as over 200% in some district councils (Olowu and Wunsch, 2004:100; Wunsch, 2004; Peters-Berries, 1994:19)
- poor cost-recovery system for local services (Olowu and Wunsch, 2004:100; Peters-Berries, 1994:14/15);
- most district councils made frequent applications for supplementary budgets (Olowu and Wunsch, 2004:100; Peters-Berries, 1994);
- The central government covers their capital/development and recurrent expenditures (Sharma, in Reddy *et al*, 2003:233). For example, NDP 8 (1997:467) states that the councils receive 100 per cent of their development funds in the form of grants from central government, whilst revenue support

[5] Fiscal stress is "the coincidence of an unusual concentration of expenditure needs and a diminishing resource base" (Bailey, 1999:109).

grants for local authorities stand at 70 per cent for town and city councils and 90 percent for district councils (SPCLGSB, 2001:46);

- Local government tax: an income tax revoked at the height of the diamond-mining boom jeopardised the financial independence of local authorities. (Olowu and Wunsch, 2004:93). In short, local authorities in Botswana do not have access to tax revenues, except urban councils (in the form of property tax); taxation still remains the prerogative of the national government; and
- line ministries set the fees on behalf of the local authorities. The role of the "parent ministry" (Ministry of Local Government (MLG)) in the financial affairs of local authorities undermines local governance. This has resulted in service-costs mismatch, borne out of service fees levied at below service costs; ultimately an ineffective system to determine the actual costs of services has become the norm rather than the exception within the local governments (Olowu and Wunsch, 2004:93). A 'paternal-like relationship' between the national and local governments seems to restrict the development of sustainable local governance, resulting in the agentification of municipalities (views municipalities as extensions of the national government departments' 'physical decentralisation').

The seriousness of the economic downturn in Botswana cannot be overemphasised. The fact that government's main revenue source, the export of rough diamonds, is denominated in terms of United States of America dollars (US$) has many implications for government budgeting and economic planning. The depreciation of the US dollar and currencies of other major trading countries since 2002 has resulted in decreased foreign currency inflows, prompting the government to devalue the currency against a basket of currencies in February 2004 (by 7.5 percent), followed by another sharp devaluation of 12.5 per cent in 2005 that took the markets by surprise (Moody's Investors Service, 2004:3). In face of the looming budget deficits, the government of Botswana went as far as selling listed shares in the Anglo-American Conglomerate, introduced cost-recovery measures across the board for all the ministries, including the Ministry of Education (who subsequently introduced modest and negligible school fees at secondary and tertiary levels). However, the government is under fiscal stress that will take time to subsidise. The HIV/AIDS scourge cost over

P400 million in financial year 2004/5 against an original estimate cost of P183 million in 2003. In the financial year 2005/6 the fight against HIV/AIDS fiercely ballooned to over P600 million (Budget Speech, 2004:16,17,19; Budget Speech, 2005:2,4-5,19,21,23; Draft NDP9, 2002:3-4, 7-8).

The socio-economic developments in Botswana, as briefly discussed above, partly necessitated this study because of the profound and causal relationship between them and the comprehensive implementation of fiscal decentralisation. After thorough discussion and analysis of the issues, problems and opportunities that the current fiscal decentralisation system exhibit, the discussion was intended to highlight areas where it is necessary to initiate policy recommendations. Such recommendations should be instrumental in actualising genuine and economically feasible fiscal decentralisation strategy in Botswana, within the prevailing socio-economic environment.

1.4 Statement of the research problem

In order to address the study on a fiscal decentralisation strategy for innovative local government financial management in Botswana adequately, the research problem is formulated as follows:

The current framework of Botswana's fiscal intergovernmental relation system is premised on the historical demarcation of districts; as such the allocation of functional responsibilities and/or expenditure assignments, revenue assignments and intergovernmental fiscal transfer formula, is inconsistent with the prevailing socio-economic conditions in various districts, in the process creating an imbalance between the aforementioned three variables. Hence, the following common problems are identifiable in the current fiscal decentralisation strategy:

- the revenue base of both district and urban councils remains narrow and insignificant, despite measures taken to improve the revenue- generating capacity of local authorities;

- the assignment of functional responsibilities to district and urban councils is not aligned with the revenue-generating capacity of local authorities. As such a blanket or national approach to the allocation of expenditure assignments to local authorities has created vertical and horizontal gaps between the levels of governments; and
- finally, a fiscal intergovernmental transfer mechanism does not take into account the gap between expenditure assignments and revenue-generating capacity of local authorities, but the capacity of the national government to fund functional assignments on a yearly basis. This has resulted in an uninformed financial transfer mechanism that gives local authorities room to be imprudent in the management of their finances and budgeting, as well as be lackadaisical in their quest to increase their own revenue generation.

It is within the confines of this discussion to investigate the effect of the current fiscal intergovernmental relations system (more especially the fiscal transfers because they constitute major components of both recurrent and capital budgets of municipalities) on financial management at municipal level. That is, whether the current intergovernmental arrangements provide incentives for innovative revenue generation and spending or inhibits revenue generation whilst being conducive to wasteful spending. *The hypothesis therefore is, that lack of innovative financial management at local government level in Botswana is the outcome of an ambiguous, as well as homogeneous, limited and inflexible fiscal decentralisation system.*

Therefore the *independent variable* here is, "A fiscal decentralisation strategy" which outlines the expenditure and revenue assignments, the institutional framework between sub-national and national governments and the financial intergovernmental transfer mechanism.

The *dependent variables* or the *observed phenomena* are the financial probity and innovations that are influenced by 'a fiscal intergovernmental strategy'. Therefore, financial innovation is measured in terms of the following factors:

- alignment between planning and budgeting;

- robustness of marginal revenues through tax innovation that takes into account the economic developments that have taken place since 1966, alternative charging methodologies, as well as costs saving and costs-recovery mechanisms;
- flexibility of the local authorities to expend their financial resources in accordance with their specific pressing needs, rather than those articulated by the national government.

1.5 Research objectives

It is the aim of this research to analyse the existing fiscal intergovernmental relations that govern the relationship between the national and local governments in Botswana. This is aimed at establishing the criteria that are followed in assigning expenditure and revenue responsibilities to local governments; finding out whether the current arrangement enhances innovative financial management and political accountability on the part of local authorities and assess the efficiency and effectiveness of the planning and budgeting – all amid heavy reliance by the municipalities on the centre. This is even more important today, at a time when Botswana's economy is experiencing a slow-down in economic growth rate, dictated by the unpredictable global economic developments, as it has direct impact on the ability of national government finances to provide for increased financing of local affairs by the centre.

The objectives of the study are to:

- Assess and review the fiscal decentralisation strategy adopted by the government of Botswana in view of the objectives it seeks to achieve;
- Find out whether the current fiscal decentralisation strategy is compatible with the objectives that the government has set to achieve;
- Recommend the necessary reforms that the government should embark on in order to cultivate a culture of financial probity and innovation at municipal level thus ensuring sustainable local governance as well as generating new research areas that could facilitate a smooth transitional period between the

reform period and full scale implementation of the necessary reforms that will stir local authorities to their best performance since independence.

1.5 Research design and methodology

Welman and Kruger (2001:46) postulate that research design is a plan or a blueprint, according to which researchers "obtain research participants (subjects) and collect information from them". In order to ensure that the study will generate scientifically-valid findings and conclusions by adequately answering the research problem and hypothesis, a research design has been devised, as indicated below.

Firstly, given the time, human and financial resources constraints required to adequately address the research question at a macro level, a case study approach will be applied on the basis of the advantages that it offers, without necessarily jeopardising the quality of the findings or their interpretations in a scientific fashion. That is, the selection of the subjects of study (district and urban councils) will be based on the following conditions as recommended by Welman and Kruger (2001:182):

- individual cases to be studied will be highly representative; and
- there will be an intensive study on a limited number of units of analysis as indicated below.

Secondly, an intensive literature study will be undertaken in order to obtain clarity about local government, with specific reference to the powers and responsibilities assigned them by legislations establishing local authorities. The literature study will be undertaken in order to understand the dynamics of the assignment of expenditure responsibilities, as well as the powers to generate marginal own revenues and the vertical fiscal transfer mechanism. A literature review on the institutional framework will also form an integral part of the study. The institutional framework indicates the extent to which local authorities may run their own affairs. In essence, the study will assume that the assignment of expenditure and revenue responsibilities and the intergovernmental transfer mechanism are largely influenced by the institutional framework that delimit the extent to which local authorities can generate funds, predict vertical transfers and run their own financial affairs, all without undue interference from the centre.

Thirdly, a sample frame of the population of study will be drawn. A representative sample from the target population will be designed in such a manner that the study will generate findings that will not compromise the population validity[6] and [7]ecological validity tests. A stratified random sampling will as such be designed by way of outlining stratification variables. Stratification variables that will be used in order to come up with clearly distinguishable strata are as follows: (a) the level of economic development of each district/urban council studied; (b) the level of urbanisation; (c) closeness/ proximity of the district/urban council to the major primary centres; (d) population distribution within the district/urban council; (e) poverty and affluence levels; and employment and/or unemployment levels.

This design will be chosen on the basis of the fact that a smaller sample is applicable and, as such, less time will be required to undertake the study. In order to carry out an empirical study on fiscal decentralisation in Botswana, relatively broad longitudinal data, covering financial years 2001/02 to 2005/06, on each case study will be analysed. Such data will include budgetary information (recurrent) on a range of services. The thesis will investigate and analyse local spending on selected individual expenditure items, income from government grants, own incomes and demographic information, as well as the overall economic environment in each locality, in order to establish whether fiscal decentralisation reforms in Botswana acknowledge the socio-economic and population changes that have characterised the country since the establishment of councils. In order to carry out an empirical study, the following municipal councils will be used as case studies:

Gaborone City Council (GCC), a town council established through the Township Act, has more or less the same characteristics as other towns, except that by virtue of it being the capital, it enjoys more attention than the rest of the town councils in terms

[6] According to Welman and Kruger (2001:120) population validity is "the generalisation of the results obtained to the population to which the research hypothesis applies."

[7]Ecological validity is defined as the degree to which obtained results may be generalised to all circumstances that are implied by the research hypothesis. (Welman and Kruger, 2001:120)

of infrastructural developments and economic opportunities. However, because GCC has access to the same revenue sources assigned to other town councils, the same expenditure assignments and is subjected to the same vertical intergovernmental system in the same manner as other urban councils, it is equally a good candidate for this study. Problems, issues, challenges and opportunities identified here can be successfully replicated in other town councils, with little modifications, where necessary, to suit specific areas or/and towns (See section 3.5.1).

Kweneng District Council (KDC) was established through the Local Government (District Council) Act. KDC represents an intriguing category of districts that depicts both the rural and urban elements that are characteristically the differentiating features between the district and urban councils respectively. This category of councils represents a new trend of historically rural villages that are progressively being transformed into townships and towns within the periphery of major towns, especially within the vicinity of the capital and second largest city.[8] However, the current decentralisation system classifies them as district councils and thus they enjoy the same status accorded other rural district councils in terms of vertical fiscal transfers from the national government. Hence, their capacity to generate their own internal revenues is defined in the same manner as with other rural district councils. By implication they are expected to generate only limited own revenues, as do other rural districts, despite their enhanced capacity to do so. The same approach is adopted here. Findings made in KDC are considered representative of other districts that fall within this category (See section 3.5.2).

The third case study will be done in Kgalagadi District Council (KgDC). KgDC is one of the districts populated by the impoverished majority, located far away from the major primary centres[9] and, generally, sparsely populated in terms of the number of people per square kilometre. This study considers this district council to be one of the few that marginally benefited economically from the country's rapid economic growth and development, urbanisation and population growths since independence. As opposed to the majority of councils that are located along the eastern corridor of

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[8] The City of Francistown is the second largest city in Botswana in the north eastern part of the country.

[9]

Botswana where a high potential for arable farming served as a pulling factor for the majority of the citizens, KgDC lies within the Kalahari Desert. It is for this reason that district continues to be scarcely populated. This has had many other repercussions that are developmental in nature and these are attended to thoroughly in chapter 3 (See section 3.5.3).

Fourthly, efforts will be made to ensure that secondary information collected from various sources is validated for credibility by comparing and contrasting such information through various methods. Hence, data will be collected using diverse methodologies. These include newspaper clips, academic journals, papers and text books, government policies and documents, questionnaires and interviews as well as through participant observations.

Semi-structured questionnaires will be designed and sent to the Ministries of Local Government (MLG), Finance and Development Planning (MFDP) as well as to the two municipal governments, GCC and KgDC. Semi-structured questionnaires will outline areas of interest, as outlined in the research problem statement and research hypothesis, with special reference to the findings of the *Second Presidential Commission on Local Government Structure in Botswana Report of 2001.* In order to clear up some issues that may not be adequately answered in the questionnaires, semi-structured interviews will be arranged with the MLG and MFDP, and at least one of the three case study local authorities. More attention in the follow-up interviews will be focused on the MLG, because the ministry has a lot of influence in both the recurrent and development budgets of the local authorities, as indicated above.

A purposive sampling method will be used in the selection of interviewees. This methodology will be chosen in order to ensure that key informants will be selected to provide all the necessary information regarding local government finances in Botswana, vis-à-vis the design and implementation of a workable fiscal decentralisation strategy. Where possible, workshops on capital projects at municipal level will be attended in order to have better insights into fiscal decentralisation and its impact on financial management at local government level.

1.6 Definition of concepts

In order to avoid ambiguity and create an in-depth understanding of this discussion, concepts that are considered to be fundamentally the hallmarks for undertaking this research are conceptualised and contextualised by definition and significance and/or justification. These are decentralisation and/or fiscal decentralisation and innovative financial management.

1.7.1 Decentralisation

Cameron (2002:115) best summarises the justification for decentralisation as follows: The local authorities, as the representatives of the electorate, have the duty to account for their decisions. Hence, they should be held accountable and responsible for the policy decisions that the law mandates them to carry out. It is therefore logical to say that the significance, or perhaps the extent, of decentralisation is without substance if local authorities remain financially incapacitated to exercise their developmental and constitutional mandates. The capacity of local government to be autonomous and accountable depends on its ability to create a substantial tax base with a high degree of discretion to vary the rate of the tax collected. Moreover, the grants from national government, though desirable, may be a source of the insubordination of local government –depending on the nature of the grants. For instance, general grants are desirable in that local authorities determine the way in which they are utilised, no matter how limited they are, as opposed to specific grants which come with conditions, spearheaded by the funding sphere, demoting local governments into implementing the designs of authorities accountable solely to the central government through the Ministry of Local Government.

However, as Fjeldstad (2003:133) rightly remarked, the results and approaches, as well as the extent of decentralisation, vary from country to country. Hence, the word itself is a blanket term encompassing diverse approaches (Cameron 2002:114). Approaches to decentralisation reforms can be summarised as follows (Olowu and Wunsch, 2004:5):

- Deconcentration: the transfer of responsibilities and authority from national government to local government.
- Devolution: the transfer of responsibilities, resources and accountability from national government to local government by law and other formal actions.
- Delegation: the transfer of only responsibility, authority and resources from national government to local government, with accountability being/remaining? the preserve of the national government.

According to Vosloo *et al* in Cameron (2002:114), devolution is the extensive form of decentralisation. It is the 'conferment of rule-making and executive power of a specified or residual nature on formally constituted sub-national units' (Vosloo *et al*, 1974:10, as referred to by Cameron, 2002:114). The decentralisation strategy postulated in this research therefore refers to the substantive democratic (devolution) reforms that have the following characteristics (Mawhood, 1993:9-10) (adapted from Cameron, 2002:114):

- Local government should be separate constitutionally from central government. It should be responsible for a significant range of services.
- Local authorities should have their own treasury, separate budget and accounts, and their own taxes to produce a significant part of their revenue.
- Local authorities should have the right to allocate substantial resources, including the power to decide over expenditure, to vary revenue collection and to appoint and promote staff.
- Local councils, consisting predominantly of elected representatives, should decide policy.
- Central government administrations should play only an indirect, advisory and inspection role.

A thorough analysis of the multi-level government system requires a review of several aspects that give a vivid picture of the state of fiscal decentralisation. These include an examination list of the intergovernmental fiscal relations, as recommended by the Institute on Governance (1998:2): expenditure responsibilities; local authorities' own revenue sources – including taxation; the criteria for fiscal transfers and the institutional aspects such as measures put in place to enforce the fundamental principles of good governance. These include, but are not limited to: the legal framework for governmental finances, capacity building at local government level, accountability measures and monitoring systems.

1.7.2 Why decentralise?

The benefits, as well as the possible costs of decentralisation, are wide ranging. Below is a summary of the envisaged benefits (an extrapolated version of both costs and benefits of decentralisation is explored in chapter 2) arising out of decentralisation, as referred to by Sagbas (1997-2004):

- Political: promotion of diversity in public choices; closer congruence between the preferences of the public and public policy.
- Economic: allocative efficiency; production efficiency.
- Administrative: the close proximity of local governments to their jurisdiction provides for efficiency.

This research focuses on fiscal decentralisation, albeit not at the absolute exclusion of the political and administrative aspects. For the purpose of a clear conceptualisation of this terminology, a concise definition of fiscal decentralisation is as follows (Sagbas, 1997-2004):

"Fiscal decentralization is the diffusion of fiscal power from center to localities. Diffusing fiscal power means assigning expenditure responsibilities and either allowing local authorities to collect their own revenues and/or allocating transfers to meet these expenditures".

However, it is important to note that in this discussion, while appreciating that many authors use the words *'fiscal federalism'* and *'fiscal decentralisation'* interchangeably, the latter is preferred here. This is for the reason that federalism is an advanced form of decentralisation found mostly in larger and more progressive countries, whilst decentralisation is associated with unitary states where the extent of devolution is still within the 'control' of the national government. Botswana is certainly one such as the latter.

Because local authorities are never in a position to fully finance all their expenditure responsibilities from their own revenue sources, national government grants are used to balance the fiscal gap. Hollies and Plokker (1995:132-141) identified three models of grant allocation systems: centralised tax sharing; decentralised tax sharing and a hybrid allocation that is characterised by strong local taxation.

1.7.3 Innovative financial management

Financial management has under gone tremendous transformation since the beginning of civilisation. The concept of good governance has not only changed the dynamics of political governance but has played an equally pivotal role in shaping the democratic management of finances. The traditional principles of good governance have, as is widely known, been aimed at creating and maintaining transparency and accountability from the authorities entrusted with managing public monies. The Organisation for Economic Cooperation and Development (OECD), for example, developed the best practice for budget transparency through periodic budget reports, specific disclosures (for example tax expenditures), in an effort to ensure the integrity, control and accountability in the same manner as public sector activities are undertaken by executing authorities (OECD, 2001). As such the generation and utilisation of public resources in an economical, efficient and effective fashion, influenced by the reigning economic ideology, have given birth to what is referred to as innovative financial management (Burger, 2004:6).

Due to the scarcity of financial resources, amid high expectations from the public, most governments have since been compelled to pay homage to the principles of good governance in financial management mainly to ensure the sustainability of predetermined service levels within the financial constraints of such local authorities. The desire to maximise the conversion of inputs into outputs and outputs into outcomes dictates the need to adhere to the so-called principles of good financial management such as:

- Transparency: this entails openness about policy intensions, formulation and implementation (Burger, 2004; Blondal, 2003:20; Gildenhuys, 1997:35); and
- Public accountability: demonstrated in part by accounting standards "... that require fair presentation and full disclosure" (Allen, 2002:11).

To give further impetus to the principles of transparency and accountability, already mentioned, the challenges of financial scarcity, amid a surge in public expectations of delivery from their governments, have precipitated the adoption of the following (innovative financial management) techniques :

- Performance measurement and management: this technique derives its authenticity from the notion that "what gets measured gets managed" (Blondal, 2003:18). Performance indicators are thus reconciled to financial performance (Burger and Ducharme, 2000:50) in what may be referred to as 'efficiency measurement and management'.
- Integrated financial management: includes-
    - Multi-year spending (Schick, 2003:8) or what Bouckaert (2000:64) refers to as "super budgeting" (Quoted from Burger, 2004:31). In Botswana, the multi-year budgets manifest themselves as National Development Plans at national level and District Development Plans and Urban Development Plans at local government level.
    - Fiscal rules-driven budgeting: the following are some of its core features as identified by Schick (2003:8):
        - "lengthening the time frame from a single year to the medium term;
        - baseline projections (or forward estimates) of future budget conditions;
        - estimates of the impact of policy changes on future budgets;
        - procedures for monitoring budget out-turns and for taking corrective action when necessary; and
        - enforcement mechanisms to insure that opportunistic politicians do not breach the rules".

However, it is worth mentioning that the successful implementation of such good financial management techniques is subject to the balanced intergovernmental fiscal relations between national and local governments. Such relations should be based on the following principles (Gildenhuys, 1993:182): financial accountability; right of existence of each sphere; integration of functions; coordination of functions; adequate revenue; equal adjudication; adequate increase in revenue; revenue security and certainty and, finally, adaptability.

Cameron (2002:115) argues that, "... the most autonomous of local revenue is when local government has a substantial tax base and has wide discretion to vary the rate of the tax collected". As such, the relative autonomy of local governments to run their affairs amounts to the availability of sufficient financial resources to exercise their functions, yet pursuing the principle of 'allocative efficiency'. According to Bailey (2003:21) this principle itself underpins economic efficiency and decentralisation in that the allocation of resources requires local rather than central decisions. Bailey's view of allocative efficiency is incongruent with the decentralisation principle adopted by the Council of Europe's Charter of Local Self-Government (Article 4), that 'Public responsibilities shall generally be exercised, in preference, by those authorities which are closest to the citizen" (Adapted from, Bailey, 2003:21) (See also Bird, Litvack and Rao, 1995:1-3).

Contrary to theory, the reality on the ground is that local authorities do not wholly finance all the services that they provide. This reality therefore goes against the requirement of absolute financial autonomy as a prerequisite for allocative efficiency at local government level. Hence: "The greater the dependence of local governments on central sources of finance, the more likely they are to be subject to central controls" (Bailey, 2003:27). Therefore, as explained above, the continued flow of – and in particular substantial – financial transfer from central government to local government is an impediment to the notion of innovative financial management enshrined in NPM philosophy.

The extent of innovative financial management is thus dependent on the degree of the effectiveness of the fiscal decentralisation system that takes cognisance of the capacity of local authorities to generate their own revenues, run their own financial and developmental affairs within their financial and administrative capacity. It also relies on their ability to independently assess the state of their economies in relation to national developments (integration of national and local government budgeting and planning). This implies that the above-mentioned financial strategies require a reciprocal relationship with the proposed innovative ways of providing services at local government if they wish to have a lasting impact on the local economies and those the local authorities seek to serve. Innovative financial management will, for the purpose of this study, be limited to the following factors that in part reflect the state of affairs in any central-local relations:

- Cost reduction and savings through such methods as contracting out, where necessary, to reap the benefits of economies of scale as well as initiating horizontal intergovernmental relations – especially when undertaking costly projects that may have a crowding-in effect on private-sector investment;
- The principle of correspondence in service delivery;
- Cost recovery and cost sharing in service delivery;
- Variations of service across different categories of demands, such as for the business community, the wealthy and the poor.
- Alternative charging methodologies;
- Tax innovation reflecting the economic developments that have taken place since 1966 in Botswana (for example the reclassification of settlements as either urban or rural) and
- Designing fiscal intergovernmental transfers in such a manner that local authorities may successfully budget within the hard budget constraints.

1.8 Contents of the thesis

Firstly, this research succinctly outlines and substantially discusses the broad background and the rationale for undertaking this empirical study, particularly in the context of the local governance finance and global economic developments that have a direct bearing on the sustainability of local governance in Botswana.

Secondly, a relatively thorough review of the fiscal decentralisation literature from an international perspective (theory and empirical experience), with specific reference to its successes and failures in both the developed and developing countries constitutes chapter two.

Thirdly, before embarking on three case studies, this discussion highlights an overview of the fiscal intergovernmental relations and the structure of Botswana's economy. One of the case studies is an urban area (the capital city), while the other two are district councils. One of the district councils is in the vicinity of the capital city.

The fourth chapter discusses and analyses the findings of chapter 3.

The fifth and final chapter concludes the discussion and provides a systematic outline of recommendations specifically suited for Botswana.

Chapter 2

2. FISCAL DECENTRALISATION: THE PHILOSOPHICAL, POLITICAL AND ECONOMIC PERSPECTIVES

The popularity of fiscal decentralisation as a multi-pronged field of study by, *inter alia* development economists, political scientists, public finance theorists and generally an array of administrative science-related subjects' experts is no doubt associated with the significance of the public sector in achieving sustainable development in any given country. Among some of the internationally renown subject experts from these fields of study are included, amongst others, Oates (*Fiscal federalism*, 1972); Musgrave (*The theory of public finance,* 1959) and Tiebout (*A pure theory of local expenditure,* 1956), whose theories continue to enjoy rigorous debate in the world of everyday life and lay knowledge, the world of science and scientific research, and the world of meta-science.[10]

Recently new dynamic individuals have since in the late 1980s emerged who have thus far navigated this concept at various levels of governance, including at the World Bank, International Monetary Fund and national and sub-national levels. The persistent theoretical and empirical studies of this concept have had notable impact on the perceptions, some of them positive and negative over time, about the potential benefits and dangers of fiscal decentralisation. The paradigm shifts in reasoning about the perception of fiscal decentralisation are reflective of a number of factors including the rapidly-changing global economic conditions, subsequent reforms of national economic planning emanating from the influence of the former, deepening democratization, population diversity, growing economic affluence (increase of incomes associated with the superior good) (Tanzi, 2001:1-3) and, finally, the repositioning of local government as a strategic and autonomous level of government (Smoke, 2001:3). A better understanding of decentralisation and, in particular fiscal, decentralisation requires a solid background knowledge of the public sector reforms that have characterised the world for some decades now.

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[10]See Mouton (2001:138) for further explanation of common- sense knowledge (world 1), world 2 is where common-sense knowledge is subjected to systematic and rigorous enquiry whilst world 3 (Meta science world) refers to the research methodologies and theories that are used to reflect upon scientific researches undertaken.

2.1 Globalisation and the public sector reforms

The repercussions of the end of the Cold War cannot be underestimated. A new trend of economic and political thinking emerged that reinvigorated the social aspect of economic planning and political decision making. The magnitude of socio-economic, ideological and technological developments and innovations has had intrinsic impact on the perceived role of the state (Larbi, 1999 referred to by McLaughlin, Osborne and Ferlie, 2002:213). New concepts were conceived such as governance as opposed to government, network approach to governance as opposed to representative government, digital governance/individualised governance as opposed to collective government, interdependent nations as opposed to sovereign governments and, finally, a global village/borderless world against the background of rigid, politically-motivated international relations[11] (Cloete, 2003:14-24; Raga, 2003).

According to Burger (2004:25) the effects of globalisation have been profoundly felt by governments across the world. The traditional sources of revenue generation for governments, more especially taxation and loans, have been persistently retrograding. The conventional methods that guaranteed the reception of taxes have been eroded by globalisation. The basis of "territoriality" and the inability of taxpayers to equivocate politically-imposed taxes within jurisdictions that the taxpayers may have been residing in, due to the ephemeral nature of the latter (taxpayers) across the borders, is effectively epitomised by the unmonitored mobility of the citizenry to move from one local authority to the next. The vulnerability of the developing countries cannot be overemphasised. Global tax competition has been found to be dogmatically overbearing for the developing economies. The uncertainty with which revenue anticipation can be prognosticated through the traditional economic theory and applications has caused panic within the economics community across the world (Burger, 2004:25-27). George Soros is captured by Burger (2004:29) while (IFR, 1998(e)) expressing the mixed and the often unpredictable outcomes of globalisation as follows:

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[11] According to Shah (2004:4) "The culture of governance is also slowly changing from a bureaucratic to a participatory mode of operation; from command and control to accountability for results; from being internally dependent to being competitive and innovative; from being closed and slow to being open and quick; and from that of intolerance for risk to allowing freedom to fail or succeed".

"The global capitalist system, responsible for our remarkable prosperity, is coming apart at the seams... The pain at the periphery has become so intense that individual countries have begun to opt out of the capitalist system or simply fall by the wayside".

Governments, in their attempts to deal head on with the globalisation phenomenon, adopted various financial management strategies and techniques, many of them influenced by the New Public Management philosophy that precipitated a paradigm shift in public service delivery, such as (Taylor in McLaughlin, Osborne and Ferlin, 2002: 110):

- An emphasis in efficiency through the introduction of business management techniques
- Client orientatedness and customer-driven services
- The introduction of competition into the public sector and market mechanisms
- A smaller role for governments at all levels and increased private sector participation and reduced tax burdens. Herein referred to as civil service reforms by Minogue in Minogue *et al*, (1998:156) or commercial market enterprises (deregulation, privatisation and marketisation) (Toonen, 1998:86)
- An entrepreneurial approach to governance.

The following strategies have been adopted by various states in different forms to facilitate effectively the successful implementation of the above-mentioned public service deliveries (Taylor in McLaughlin *et al*, 2002:110): the restructuring of the public sector; restructuring the public service; making public management more efficient; introducing competition into the public service; creating a regulatory state and, addressing ethical issues. Subsequently, what the Canadians termed alternative service delivery mechanism. These constitute amongst others: corporatisation, outsourcing, joint ventures, partnerships and alliances, privatisation and decentralisation (Cloete, 2000:125).

Several authors are of the view that these reforms, in all their manifestations, emphasise "the use of economic markets as a model for political and administrative relationships" (Hope, in McLaughlin *et al*, 2002:211); "seek to reconfigure the relationship between states, markets and societies by giving prominence to market forces" (Bangura, 2000:5) and, the more visible yet, subtle feature of the approach is its comprehensive and rigorous application of the private sector principles to the public sector. (Jenssen in Christensen and Laegreid, 2002:295). These reforms have been found to be attending to the economic values and norms, while downgrading other equally important values. Hence Christensen and Laegreid (2002:15) have come to the conclusion that the reform modes have been largely one dimensional.

The United Kingdom offered a good example of a one=dimensional, economically obsessed public sector reform during the early 1980s, ostensibly referred to as the "Thatcherite dogma of 'public bad, private good'" (Burns, Hambleton and Hoggett, 1994:5). First of all, huge financial support to local authorities was slashed and, worse, the government was determined to reduce revenue raised locally. Secondly, local government became politicised. Thirdly, the political landscapes of local politics changed quite drastically: (a) rate-payer democracy/local tax payers were introduced to bolster individual rights in local democracy (b) participatory democracy, concerned with the promotion of sectional interests. Thirdly, good management as the way forward in local government, is the final such development of Thatcherism (Burns *et al,* 1994:20). The latter two changes are explored in more detail later.

However, an assertively holistic written text on the reinvention of the government by Osborne and Gaebler (1992:20) drew conclusions that are often overlooked by many analysts from different professional backgrounds. The duo ague that government cannot be run like a business and so governance cannot be privatised like services. But, most importantly, that there are areas where governments perform better than the private sector, just as much as private-owned businesses perform better at other service deliveries that cannot be effectively and efficiently delivered by governments (Osborne and Gaebler, 1992:45-48). In other words, it is in the best interest of every country to identify where the private sector fits better than the government and hence, *de jure* transfer of the service delivery to the rightful service provider should follow.

This rather moderate tone does not appear to rule out the public sector's role in service delivery. It has, in an effective and efficient way, reinvigorated the concept of decentralisation and, in particular, intergovernmental fiscal decentralisation, with a view to redesigning the revenue assignments and expenditure responsibilities between the national and sub-national governments. This then is the focus of this chapter: the theoretical grounds of fiscal decentralisation and its practice across the world and, in particular, the fiscal intergovernmental relations framework for innovative financial management, with widespread economic and social benefits at local government level.

The public sector reforms, referred to above, conform to the notion of fiscal decentralisation (especially its benefits) in many respects. The introduction of competition in the public sector can be equated with the Tiebout model; client orientatedness and customer-driven services can be associated with the Pareto-efficient output, production efficiency as well as accountability; an emphasis in efficiency, through the introduction of business management techniques, is clearly related to the notions of allocative efficiency And, finally, an entrepreneurial approach to governance is a major characteristic of financial innovation (See section 2.3.1).

2.2 Fiscal decentralisation: theory, rhetoric and practice

Fiscal decentralisation generally refers to the transfer of financial (especially the expenditure responsibilities and taxation) and political decision making, from the national government to the sub-central spheres of government and, in particular, to local authorities in two-tier government systems. However, as it has already been highlighted in the preceding chapter, it is the intensity with which decentralisation is approached that gives it a unique meaning. Notwithstanding that though, it is important to note that there are different kinds of decentralisation documented by Burns, Hambleton and Hoggett (1994:5), such as neighbourhood-based decentralisation, decentralisation of projects, devolution of power to voluntary organisations, pure managerial decentralisation and intergovernmental decentralisation.

There is no absolute consensus as to what exactly constitutes decentralisation. According to Burns *et al* (1994:5) there are still antithetical = or strongly opposed? views, particularly from the so-called right wing, who contend that the introduction of markets into the public sector is but the starting point of decentralisation, because there are elements of citizen voice, choice and exit that form the cradle of this concept. Despite the polemic nature of this concept, it still remains an area of interest because of the potentials it holds for good governance.[12] It is nevertheless not the aim of this discussion to dwell on the appropriateness of the philosophical or the ideological basis underlying this concept. Fiscal intergovernmental relations, with emphasis on the finances of local government are at the epicentre of this discussion.

Empirical evidence, from the international trends and policy repertoire, proves that decentralisation has not only been present in the domain of academic experts, but has, in practice, been on the rise over the past three decades. In reality, more governments across the world have adopted decentralisation mechanisms in one way or the other (Arora and Norregaard, 1997:3). The only difference being that the magnitude of decentralisation is varied from country to country (Bahl in Roy, 1995:74; Bahl, in Yusuf, Wu and Evenett, 2000:94; Smoke, 2001:1; Burns *et al*, 1994: 3; Bahl and Linn, 1992). Whereas the resurgence in interest expressed for fiscal decentralisation and local government development has been met with enthusiasm, it is the costs and, at times, the paltry (as compared to the expectations) progress made towards the achievement of the initially sketched-out reform objectives that seem to mushroom and create new tunnels of questions and doubts about its astuteness for good governance and sustainable development.

According to Prud'Homme (1995:209) statistical analysis attests to the fact that decentralisation appears to be increasing along with income levels. That is to say that some of the negative issues, attributed to the decentralisation reforms, are less likely to be experienced in middle and high income countries as compared to low income nations. Bahl and Linn (1992:393) in their classic treatise concluded that "for the lowest income countries decentralisation may be limited to rhetoric".

This argument is backed by the so-called *critical mass* principle. According to this principle, as postulated by Prud'Humme (1995:209), in order for the potential benefits (more especially efficiency) of decentralisation to be maximised, the decentralised

[12] See Bailey (1999:37) decentralisation as an aid to political stability, for example it facilitates nation building (used for nation building in South Africa and Uganda, see World Bank, 1999:107-124) See Bird, Litvack and Rao (1995) decentralisation used as a poverty reduction strategy in Vietnam.

units must be sufficiently large in terms of the population, activities and incomes. Put differently, this means that the more developed and urbanised units of sub-national units are more likely to reap the benefits of decentralisation than the less developed rural municipal governments. That is, if economic efficiency is to be achieved in the production and provision of local public goods the concept of critical mass should be taken into consideration whenever the fiscal decentralisation reforms are undertaken.

It is for this reason that revisiting the benefits and, obviously, the dangers of decentralisation, that are often overlooked, should be expanded, given that the former were presented only in a condensed format in the previous chapter (section 1.7.2).

2.2.1 The benefits of decentralisation

The justifications for decentralised public service delivery are wide ranging from country to country. Some of them are political whilst others are economic, yet the rationale for fiscal decentralisation addresses both the political and economic dimensions of decentralised public services delivery.

As indicated in section 1.7.2 the political justification for decentralisation is to ensure that the political mechanism is able to serve a diversity of local preferences. This is achieved when there are demarcated wards or local constituencies that are represented by elected local politicians to ensure that "... expenditure decisions are tied more closely to real resource costs in smaller jurisdictions" (Smoke, 2001:6). It is assumed that by devolving political decision making to the local political representatives, local governments would achieve allocative efficiency through decentralised expenditure decisions because local expenditure patters would be reflective of the preferences of local constituents. Hence there would be little if any waste of resources in pursuit of local service delivery because of clearly defined and demarcated political jurisdictions. Local public goods and services would as such be provided to a "clearly limited geographic region" (Ahmad, Hewitt and Ruggiero in Ter-Minassian, 1997:30) (see section 2.3.3).

The demarcation of political jurisdictions can also solve the demand revelation problem in the provision of local public goods and services. Decentralised expenditures are aimed at unbundling the aggregated preferences of the entire country's population in centralised democracies in order to determine the differing preferences of each political jurisdiction. The preferences of urban constituencies are different from those of rural areas hence, through decentralised expenditures local authorities are in a better position to assess and supply desired levels of each public good according to the demand of their local constituents. This ensures that through decentralised expenditures, governments are able to reap the benefits of the Pareto efficient output. In the same vein, governments would be able to achieve production efficiency because their spending decisions would be tied to demand of such goods as may be demanded by their constituents (Ahmad *et al* in Ter-Minassian, 1997:30; Inter-American Development Bank, 1997:154).

The desire of local governments to meet the needs of their peculiar constituents also provide for increased efficiency in local service provision through increased competition between local governments to match the supply of local goods and services with the demands of the local voters. It is assumed that increased competition between municipal governments results in the movement of residents from one political jurisdiction to another in search of better local services that would satisfy their preferences. This is called the Tiebout Model. Through choice, exit and voice local constituents are in a better position to express their preferences and tastes by voting through the ballot and voting through their feet. This ensures that through decentralised expenditures local political accountability is promoted (Ahmad *et al* in Ter-Minassian, 1997:31; Inter-American Development Bank, 1997:154). Municipal governments would strive to provide durable services to their constituents in the lowest possible cost.

Fiscal decentralisation also enhances economic efficiency in local revenue generation because of the close proximity of local governments to their political jurisdictions (see section 1.7.2). For example, resource mobilisation would be enhanced through the taxation of some sectors in the urban economy by local governments rather than central government (Bahl and Linn, 1992:387). It is administratively efficient to provide, charge and collect such revenues generated through public charges at municipal level. Hence, decentralisation is the preferred way of providing local public goods and generating local revenues through among others user charges and charging local property taxes. For example in decentralised setting, local authorities, more especially in urban areas, have the privilege of charging residents the full marginal cost of urbanisation[13] as opposed to partial or lower public charges (partial or lower charges in comparison to the costs associated to the specific service provided by the municipal government to its residents) in rural areas (Bahl and Linn, 1992:387).

Moreover, "One argument for the decentralisation is that states and localities can serve as laboratories for testing national policy changes-systems-systems can be tested on a small scale and perhaps be better tailored to local conditions"(Gramlich, 1987:309). The provision of local public goods and the generation of revenues through local public charges and other revenue generating avenues at local government level promote innovation and experimentation at local level without disrupting the provision of services at a larger scale should such experimentation be applied at national level.

It is important to highlight that the outstanding justification for fiscal decentralisation as indicated in the preceding paragraphs is to achieve allocative efficiency in the provision of local public goods and services through political accountability and revenue generating mechanisms that are sympathetic to good financial management and innovative financial management (see section 1.7.3).

This is still merely a summarised version of the perceived benefits of decentralisation. However, to instil a better understanding of this concept, in terms of the aforementioned benefits, it is critically important to have an overview of the implications of these benefits. Some of them are economic whilst others are political, yet a re-look at the abovementioned benefits blurs the political-economic benefits dichotomy, because of the interlinked nature and interrelatedness of both economic and political factors. In fact, they feed into each other. The visibility and tangibility of decentralisation reforms however remain polemic. This often compromises the applicability of the concept in the developing world with the concomitant results, because of the following reasons:

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[13] -See Wellish (2000:14-15): Because of the preference for expanded and high quality programs by some residents against the other section of society who prefer less taxation for smaller public budgets, eventually the preferences between local governments should vary very strongly but preferences within them should vary little (Bailey, 1999:19).

- In order for sub-national governments to satisfy the preferences of differing tastes, there has to be larger differences in preferences. This implies that the country has to be highly heterogeneous and this is highly likely in larger countries with big Gross Domestic Product and bigger populations (Inter-American Development Bank, 1997:153/4). Many of the developing countries have fragmented and smaller populations. For example Botswana and Namibia.
- In order for taxes and services to mirror the tastes of existing population, there has to be high mobility that depicts the notions of choice, exit and voice. Theory suggests that the degree of homogeneity in jurisdiction is increased as a result. King, in Fisher (1997:20), links this kind of thinking with high mobility by residents from one jurisdiction to the next, as follows: "… citizens in any area who find they dislike the services provided in their area can, if they feel strongly enough, move to another area that would suit them better". This is fundamental to the Tiebout Model (Ahmad, Hewitt and Ruggerio in Ter-Minassian, 1997:31). Given the trying economic situations in developing countries, it is quite doubtful to assume that residents can move from one area to another because of poor service delivery or higher taxes, except for a few affluent citizens. Furthermore, the readily availability of quality information is critical to matching the preferences of the population with services (Joumard and Kongsrud, 2003:168-9). Indeed, the availability of information in developing countries still remains a challenge that will take time to subsidise/address; and
- The efficient provision of services, according to the decentralisation theory, brings about increased accountability that, in turn, provides incentives for constituents to monitor their elected councils closely. The building blocks for such a relationship between citizens and politicians are only sustainable as far as a larger part of services is financed from own revenue (Inter-American Development Bank, 1997: 154). The reality in the developing world is that the bulk of services provided at local government level are funded from the top through fiscal transfers. In actual fact, according to Oates (1993:237), " In terms of public revenues, the average share of central governments in the developing countries was in excess of 90 percent!".

What emerges quite clearly above is, what may be referred to as, the decentralisation-economic development discourse in the social and political economic development or, what Oates (1993:238) refers to as, the Bahl-Linn thesis. According to this theory a relatively developed country, with a reasonable level of income and ability to create conducive political, administrative, organisational and behavioural conditions, has an increased probability for successful implementation of the decentralisation reforms, because local authorities would have sufficient resources to carry out the decentralisation functions[14].

2.2.2 The Perils of decentralisation[15]

Against the odds, Tanzi (2001) and Prud'Homme (1995) defied the widely held academic norm of pervasively appraising the decentralisation theorem as the ultimate solution in addressing the inefficiencies associated with the public sector service delivery, albeit without the trivial or obvious benefits that the academia postulate about. Indeed, decentralisation (and in particular fiscal decentralisation) is often a difficult journey for any country to embark on. However, the duo does not in any way suggest that there are no potential benefits to be derived from the decentralisation drive. What comes out clearly in their literature is that many public policy failures – be they economic, socio-political or environmental – may not necessarily be as a result of poor arrangement of the spheres of government, but because of inefficient and unfair national policies in the activities that can be better performed by the private sector (and the overextended public sector requiring an improvement of the existing policies) and privatisation or divesture of the public sector, among others (Tanzi, 2001:3-4).

In order to appreciate the pitfalls that the countries undertaking decentralisation may be exposed to, it is appropriate to refer to the so-called Musgrave's Three-Function Framework (McLure, 2001:3), often considered the conventional public finance theory, based on the Richard Musgrave classic treatise: *The Theory of Public Finance*

[14] This view is also held by Rondinelli (1981:142).

[15] The proponents of centralised public sector justify their position on the basis of economic, social and economic benefits of a centralised setting, as such maintaining macroeconomic stability, improved income redistribution from the centre, national building and unity and equitable distribution of developments across regions.

(1959). Traditionally, the functions of government are separated into three branches: macroeconomic stabilisation; income redistribution and resource allocation. These functions are not mechanical and static. A lot of inconsistencies and policy deadlocks occur as a result of the contradictions incurred by the different spheres of governments in their policy design and implementation, reflecting unclear specification of functions. This is the domain of fiscal intergovernmental decentralisation. This will be discussed in detail later (see sections 2.4.1; 2.4.2; 2.4.3; 2.5.1). The potential shortcomings of decentralisation are, for now, as follows:

- According to Tanzi (2001:11) decentralisation could be a recipe for deepening regional disparities, particularly if some regions are blessed with natural resources whilst others are resource poor. This is discussed extensively by Prud'Homme (1995:201) who argues that decentralisation makes it difficult for the central government to pursue the redistributive policies. In their efforts to redistribute income, local governments tend to overtax the rich, redirecting the benefits to the poor, with the concomitant results of the former migrating to lowly-taxed areas. Eventually, when the poor move in to the high-benefit areas, the generous jurisdiction ultimately fails to sustain its redistributive policies. The United States of America (US) offers a good model of a segregated nation with the rich enjoying the fruits of decentralisation at the expense of the economically disadvantaged citizens. Hence, "*centralisation is not a sufficient condition for redistribution but a necessary condition for redistribution*" (Prud'Homme, 1995:201). Analytical and empirical research concludes that, "any reduction in the importance of national budgets relative to those at the subnational level (a definition of decentralisation) therefore increases inter-jurisdictional disparities by reducing the impact of national policies designed to correct regional inequities" (Prud'Homme, 1995:202).

- There is a high probability that decentralisation could be a recipe for increased corruption. Reasons advanced by Tanzi (2001:7) for this are: (a) the capacity of local institutions is normally not sophisticated enough to build strong institutions that could deter corruption. (b) national governments in most cases attract the most technically skilled and trained individuals, leaving local governments with narrow labour markets;

- Highly decentralised governments may pose serious threat to economic stability because the sub-central governments may run policies that counter those of the centre. Such a scenario may arise if local governments adopt expansionary economic policies, countering the national contractionary fiscal policies and, in the process, undermining the monetary policy as well, creating macroeconomic coordination problems. This is more likely when subnationals face soft budgets, more especially when borrowing is not tightly restricted (Prud'Homme, 1995:203; Tanzi, 2001:10); and

- Because of their small size, local governments may not enjoy production efficiency. The lack of economies of scale and scope therefore escalates the costs of service production (Prud'Homme, 1995:207).

The list of dangers that may arise out of the decentralisation strategy is not exhausted. These are but some of them. It is also important to highlight that some of these concerns have been adequately debunked and rebutted with such excellent subject proficiency by Smoke (2001:13-15). The aforementioned dangers, according to Smoke (2001:13), cannot be conclusively blamed on fiscal decentralisation reforms. In fact, empirical evidence shows that the perceived macroeconomic dangers of decentralisation are far and few between. Such uncommon incidents are limited to countries with substantially decentralised subnational governments, like Argentina, Brazil and Russia. Generally, the fiscal weight of local governments in the overall public sector, even in developing countries, is such that they cannot cause remarkable macroeconomic upheavals.

In addition to that, tax competition in the developing world cannot justifiably be said to be problematic. Local government taxation is quite modest, most buoyant tax revenues being the prerogative of the national government (Smoke, 2001:14). Basically, the traditional public finance theory, still the hallmark of multi-government financial relations, unequivocally restricts the income redistribution and macroeconomic stabilisation functions to the national governments. Resource allocation is preferred for the sub-central governments, more specifically local governments (See section 2.4.3).

Smoke (2001:15) does not only delimit the fiscal decentralisation debate on the decentralisation-centralisation dichotomy, but raises equally intellectually-stimulating policy recommendations to bolster the fiscal decentralisation drive from country to country. Indeed, the "... policy conclusion should be that the decentralised fiscal system ought to be structured in a way that both prohibits such potentially growth-constraining local taxation and provides local government with viable alternatives for raising revenue". The conclusion that can be drawn from this quotation is that the fiscal decentralisation concept has been held captive by the decentralisation-centralisation dichotomy, thereby limiting research to two opposing camps.

Indeed, the challenge for every country is to redirect the resources to replenish the existing policy implementation lacuna that is to blame for poorly designed and executed fiscal decentralisation systems that are not country specific in their approach. In short, there is no one-size-fits-all. It is therefore important for the governments designing the intergovernmental fiscal structures to take into account such factors as: regional or inter-municipal socio-economic inequalities; the capacity of the national machineries to monitor local authorities on the implementation of the decentralisation reforms; technicity[16]; chargeability[17]; ability to decentralise only services that have limited externality effects reducing regional inequalities; efficiency at, respectively, minimising incidents of corruption at municipal level and increasing the production efficiency to provide local public goods .

2.3 Intergovernmental fiscal relations

Now that the critical significance of the public sector in any country's pursuance of economic, social and political values has been established, the perennial question still

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[16] The level of technical and managerial expertise required to provide services. The lower the technicity the higher the production efficiency achieved in the provision of local goods and services (Prud'Homme, 1995:210).

[17] Refers to, "the ease with which the service can be financed by charges as opposed to taxes" (Prud'Homme, 1995:210).

persists: "what form of government promises the greatest success in resolving the allocation, distribution and stabilisation problems?" (Oates, 1972:3). Indeed, the desire to concisely redefine the role of the public sector to meet the new challenges of poverty reduction, sustaining good governance, intact local economies (micro economies), macroeconomic stability, income redistribution, responsive and accountable governance, among others, through political and economic means, has ignited the academic interest in studying the role of different tiers of government in achieving the aforementioned policy objectives or economic and political values at the lowest possible cost (efficient and effective public sector).

Whereas the intergovernmental systems in many countries reflect the historical and geographical characteristics of such countries; the degree of heterogeneity of the population and the extent of government intervention in the economy (Fjeldstad, 2001:1), it is fundamentally important that a reorganisation of the vertical and horizontal intergovernmental system, sympathetic to an effective and efficient public sector, is in place. The intergovernmental system defines the relationships between the structure, functions and finance. Figure 1 (derived from Hollis and Plokker, 1995: 76) illustrates that.

However, to keep the discussion focused, a brief overview of the traditional public finance theory, as referred to earlier, conceptualised by Richard Musgrave (1959), forms the basis of an analytical framework defining the role of the national and sub-central spheres of government in the economy. This framework consists of three aspects that characterise the intergovernmental relation systems. These are macroeconomic stabilisation, redistribution of income and resource allocation aspects which are extrapolated below.

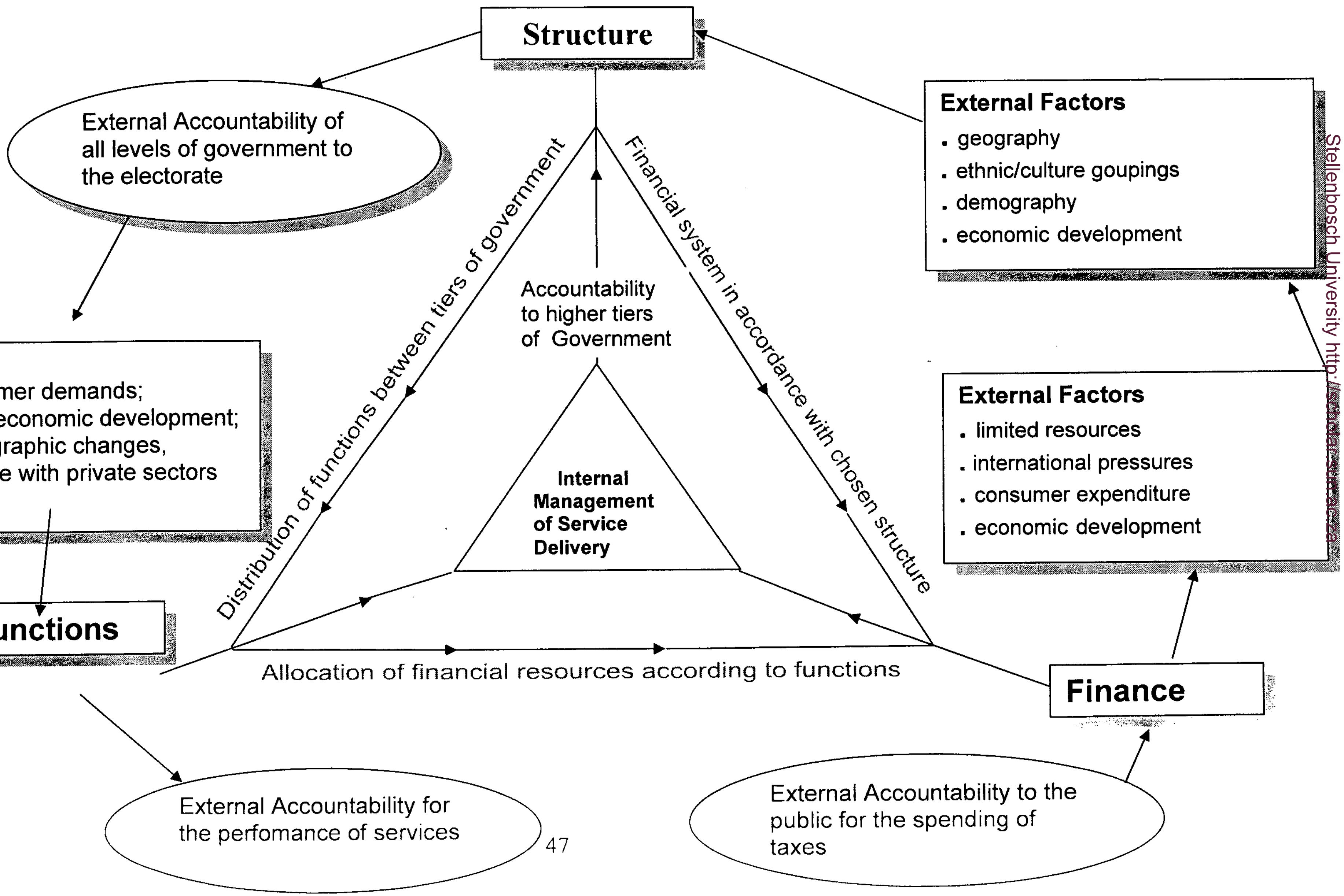
2.3.1 Macroeconomic stabilisation

Textbook theory suggests that macroeconomic stability is better left to the national government. It is generally accepted within the economic community that the macroeconomic policy standard objectives include economic growth, a high and stable level of employment, a stable average price level, balance of payments equilibrium and distributional and equity objectives (Fourie, 1997:213). The principal reason for the national government's firm grip on the fiscal and monetary policies, is the duos ability to act as the lever and gear in influencing the overall economy of the country in a preferred fashion. Mclure (2001:4) advances the following reasons for the national government to maintain the overall steering of macroeconomic stability:

- an attempt by local government to affect the conditions of macroeconomic policy would 'spill' beyond its area of jurisdiction, defeating the essence of decentralised governance;
- local government's power to borrow and print money is limited and so is its ability to engage in expansionary policy that is constrained by prohibited deficit financing; and
- corporate income tax and progressive individual income tax are treated heavy-handedly by the national government of most countries, if not all, hence any other tax at local government's disposal would not have as much effect on the overall national economy.

The macro-economic stabilisation process to a large degree reflects the ability of the government to influence the economy through its borrowing and taxing capacity, as well as its capacity to influence the monetary policy through its expenditure decisions. All these factors are at a macro level and therefore have an impact on the entire economy. They should not be left to the local authorities or else the decentralisation reforms may risk exposing the country to economic instability, as discussed in section 2.3.2.

Figure 1: Relationships between Structure, Functions and Finance



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2.3.2 Redistribution of income

The undesirable implications of income redistribution at local government level have already been highlighted above (see section 2.3.2). Below is a summary of them:

- high taxation of the affluent citizens meant to redistribute income to their economically disadvantaged counterparts is likely to drive out the former whilst attracting the latter. Eventually, the local government concerned would fail to sustain the policy as the supply side would be drying up amid surging demand (Tiebout effect) (King in Fisher, 1997:34); and
- Tiebout's assumption derives its legitimacy from the perceived high mobility of tax payers in search of sub-central governments that can satisfy their preferences (Wilson, 1984:16-17). As much as this view may have its merits in industrialised countries, it clearly lacks logic in developing countries where the challenge that still dominates economic planning within political circles, is finding ways to meet the basic needs of the inhabitants. Hence, national government becomes the natural level of government that can effectively redistribute income between jurisdictions without necessarily putting the entire economy at risk.

2.3.3 Resource allocation

Resource allocation has to do mainly with the provision of services by the public sector and is the essence of the decentralisation concept. The degree to which the benefits of decentralisation could be realised is increased here, especially for those services that are geographical in character. The perceived outcomes of decentralised government, and in particular decentralised expenditures, require that the allocation of resources be devolved to the local government. Such an arrangement would facilitate the benefits of decentralisation, e.g. allocative efficiency, because local governments:

- are in a better position to satisfy the varying preferences of citizens as opposed to the national government. Local governments are in a better position to have quality and more often reliable economic and social information about their constituents, hence a better match of supply to demand (Fjeldstad, 2001:4-5; Inter-American Development Bank, 1997:154);
- are politically more accountabie in a decentralised expenditure setting, as the financial and political decisions of the council have a targeted impact on the constituents. Decentralisation would be nurtured as a consequence; and
- where the local public sector is not big enough to enjoy the quite substantial savings of the economies of scale and scope in the provision of public services, they (local governments) can be innovative enough to engage large private firms, where substantial economies of scale could be tapped, to produce services. For example, by providing local public goods through joint local government efforts. (King in Fisher, 1997:35-36).

The Musgrave public sector role framework presents a complex and a conflicting mechanism, with no clear-cut trivial implications of the government policy decisions on the general welfare of the society, the economic development, macroeconomic stability and many other important issues pertaining to good governance. A panoply of issues emerges that remain unanswered. These include *inter alia*:

- the degree of political autonomy afforded local authorities;
- the appropriate alternative system (for example, federal or unitary);
- identifying adequate revenue sources (especially taxation) for local governments to carry out their mandates effectively, without necessarily undermining macroeconomic stability;
- balancing the structure, functions and finances between all the levels of government;
- how inter-jurisdictional income disparities are objectively and sustainably dealt with, without necessarily undermining microeconomic and local economic development; and

- improving coordination of functions between all levels of government, especially in the provision of joint services.

Notwithstanding the complexity in finding a balance between all the three competing, and often uncomplimentary, framework approaches to public sector spending and revenue generating structure, there is no doubt that the devolution of spending decisions to local governments is critical for any government to achieve economic efficiency in the provision of public goods.

2.4 The intergovernmental fiscal issues

In order to architect a suitably adequate structure *vide* the functions-finance equilibrium that provides incentives for innovative and responsible local government fiscal behaviour, it is important to address what Inter-American Development Bank (1997:152) refers to as the dimensions of decentralisation or the major parameters of intergovernmental fiscal relations (Gandhi in Roy, 1995:40). These are (Institute on Governance, 1998:2):

- expenditure responsibilities
- taxation and other own-source revenue
- design of intergovernmental transfers
- borrowing capacity; and
- institutional aspects

2.4.1 Expenditure assignment

Assigning functions and finances to different levels of government is a starting point for addressing the intergovernmental issues within the Musgrave framework concerning the division of vertical intergovernmental structure (Fjeldstad, 2001:2). In fact, Musgrave's three point framework provides a platform for the division of power and authority, between the centre and the peripherals in accordance with the objectives of the decentralisation policy, yet within the constraints of the public choice school. In view of the fact that both the national and subnational spheres of government face financial constraints in pursuance of service delivery, the following principles are generally considered important for the optimum performance of an intergovernmental fiscal structure:

(a) finance follows functions: according to this principle, it is fundamentally important, first and foremost, to assign the expenditure responsibilities to local governments and, on this basis, determine their revenue responsibilities. The following reasons necessitate the justifications for this principle:

- Central governments are in a better position to assign revenue responsibilities objectively for each local government, once expenditure needs are established (Bahl, 1999:7);
- Because tax assignment is guided by spending requirements for each local government, spending responsibilities for various levels of governments must be determined first before tax assignments (Institute on Governance, 1998:3);
- Such an arrangement, as described in the preceding two points, will ensure a better match between taxing and spending powers. Hence, the national government and the electorates will be in a better position to hold local governments to account for their financial and political decisions, since theoretically, an over-reliance of the local governments on transfers will be curtailed.

In reality it is difficult to determine expenditure responsibilities precisely, because of the joint administration of certain services, more specifically merit goods, that require setting minimum national standards in the provision of education and health care (Vita, 2001:8).

(b) beneficial principle: the benefits of local government expenditure should fall within its jurisdiction. That is, their impact should be felt by the local tax payers in such a way that the electorate see themselves as the sources of local government finances - hence the principle of correspondence (Murphy, Libonatti and Salinardi In Murphy, 1995:6). Unquestionably this principle fits well into the allocation function that is traditionally the preserve of local government from an economic point of view, since it could be instrumental in achieving the chief objective of fiscal decentralisation: economic efficiency in service delivery. However, the benefit principle is only effective in so far as the following conditions are observed (Joumard and Kongsrud, 2003:173-181):

- local economies should be able to exploit the economies of scale and scope. However, if they are too small to take advantage of that, contracting out to big firms is one such mechanism that could bolster them sufficiently to enjoy economies of scope and scale;
- territorial spillovers should be avoided as much as possible, unless there are other centrally-determined mechanisms to internalise them through financial transfers from the national government;
- welfare benefits and redistributive services should not be under-provided and this can only be achieved if such responsibilities are not financed by local governments. Locally-financed arrangements would destabilise local government finances, resulting in 'welfare induced migration' that would eventually overburden the socially philanthropic local governments. According to Ahmad *et al* in Ter-Minassian (1997:26) "A country's social preference, rather than economic theory, should be the major guide to defining the appropriate level of expenditure decentralisation for mixed public goods".
- local preferences should be reflected in the expenditure patterns at local government level in order to determine the quality, quantity and ultimate charge for services. This should be applied according to the ability-to-pay principle, among others, to avoid free rider incidents.

The beneficial principle emphasises the need for sustainable local government finances, over an extended period of time, in order to provide them a safety valve or marginal revenues that are generated on the basis of the correspondence principle. That is, local constituents should receive the quality and quantity of goods that corresponds with what they have paid. The service provision relationship between the constituents and their local governments would based on the *quod pro quo* principle among others, thus inculcating political accountability and stimulating incentives to restraint local spending while steadily broadening local government finances. This is what is referred to as fiscal decentralisation at work.

2.4.2 Taxation and other own-source revenue

Although Mclure (2001:5) states that the assignment of taxes between the national and subnational government levels cannot be prescribed rigidly, it is undoubtedly so that the manner in which subnational governments are resourced or funded, chiefly influence their spending behaviour (Joumard and Kongsrud, 2003:182). Conventional public finance wisdom has it that for the optimum performance of financing sources, public service delivery costs should be at margin of taxation and other revenue sources. That is to say revenue-raising powers should reciprocate spending responsibilities. The traditional theory, on the other hand, hastens to raise the possible macroeconomic destabilisation and income redistribution implications of balancing finances to expenditure responsibilities at local government level, since this would require a transfer of buoyant taxes from the national government (Joumard and Kongsrud, 2003:182).

The basic rule therefore is: local government taxation should be limited to non-mobile taxes, non-redistributive taxes; evenly distributed tax bases (taxation of natural resources should in principle be restricted to national government) and taxes that are not subject to cyclical fluctuations, like income taxes, because they are progressive in nature (Joumard and Kongsrud, 2003:182). Because central governments have the luxury to borrow from the markets (deficit budgeting), it is not surprising that unstable revenue sources are better left to them, whilst the opposite is true for local authorities. (Fjeldstad, 2001:5; Shah, 2004:11). The following principles of taxing assignments are therefore ideal for stable local government finances and the overall macroeconomic stability (Fjeldstad, 2001:6):

- central government should have access to taxes that are suitable to economic stabilisation, whilst lower-level taxes should be cyclically stable;
- central government should be assigned progressive re-distributional taxes;
- Personal taxes with progressive rates should be levied by jurisdictions most capable of implementing a tax on a global base;
- low-mobility tax revenues are ideal for lower-level governments;
- highly-uneven taxes, that may reflect regional or jurisdictional resource distribution, should be centralised; and
- user charges and benefit taxes are eligible for all levels of government.

To realise the political benefits of tax assignment, such as subnational sovereignty, tax assignment at municipal governments should be characterised by (Mclure 2001:7): (i) own revenues emanating from their assigned taxes, safeguarded by constitutional provisions and objectively determined grants that are relatively predictable over time; (ii) marginal revenues whose level they can control. No matter how limited this revenue source in relation to the expenditure responsibility assigned, it nevertheless, signifies some level of political autonomy that local governments enjoy, and (iii) subsidiarity in taxation reinforces the sovereignty of local governments as it requires that the expenditure responsibility should "reflect geographic scope of benefits of public service and achieve economies of scale..., expenditure responsibility should be assigned to the lowest level of government" (Mclure, 2001:7-8).

There are limitations on the taxes that can be assigned local governments, because of a number of important factors that have to be given thorough consideration. One such factor is the administrative capacity in tax design that may undermine the buoyancy of the given revenue sources. The technical skills required for its efficient collection, or administrative costs that may be prohibitively high, could make it difficult to sustain its viability.

In view of the technical skills required to administer taxes, there is an overwhelming consensus that property tax is the most appropriate source of local government revenues (Bahl, 1999:13; Shah, 2004:12; Spahn in Roy, 1995:228; Smoke, 2001:23; Bird, 2001:21). The following reasons are advanced for such optimism about property taxation at local government level (Bahl, 1999:13):

- property owners and occupants tend to benefit from local governments' services, as it clearly exhibits the beneficial element;
- the burden of the tax cannot be easily exported;
- it is a tax on wealth and is highly visible in the local area; and
- identifying local property wealth is practicable, given the comparative advantage that local assessors have in identifying local property wealth.

Yet, property taxation is not without its limitations. Although it is generally perceived to be a potential revenue spinner for local government, it rarely produces significant revenue – more especially in developing countries – because it is administratively demanding and costly and hence politically unpopular. It is for these reasons that property taxation revenues remain insignificant in developing countries (Bahl, 1999:14).

User charges are currently adduced as important sources of revenue for local governments. According to Bird (2001:58) the utilisation of user charges other than taxation has become the alternative essential source of local government revenues that is still to be fully utilised. In fact, user charges are ideal for local public service delivery because they have clear benefit model characteristic. The appropriateness of the levels of user charges is what matters most in determining the level or standard of public services. The three types of local user charges identified by Bird (2001:58) are (i) service fees, (ii) public prices and (iii) specific benefit charges. The philosophy of public charges also has an element of correspondence between the qualities of local public goods provided and the charges imposed by the local authorities on their constituents.

2.4.3 The design of fiscal intergovernmental transfers

International experience suggests that there is no ready-made model in designing fiscal intergovernmental transfers. In fact, there is no model that can be labelled as being either good or bad, unless it is appraised against the objectives it was designed to achieve. The design of fiscal intergovernmental transfers is guided by several, often conflicting, factors emanating from the need to achieve a balance between the macroeconomic stabilisation (see section 2.4.1), equitable redistribution of income (see section 2.4.2) and allocative efficiency through appropriate resource allocations (see section 2.4.3).

The main justification for designing appropriate intergovernmental transfer mechanism is to maximise potential benefits (see section 2.3.1) offered by each of the three factors mentioned above, while mitigating such shortcomings (see section 2.3.2) that may arise as a result of the decentralisation reforms adopted. Hence, intergovernmental fiscal transfers can be used as effective control mechanisms against the likely undesirables of fiscal decentralisation. That is, "Trade-offs must be identified and compromise reached" (Prud' Homme, 1995:9).

It is nevertheless, important to bring to attention the underlying fact that there is not a single sub-national government (more specifically local authority) that has enough financial resources to meet all its expenditure needs. That is, first and foremost, the main reason for designing intergovernmental fiscal transfers: to address a mismatch between local finances and functions. Such an imbalance arises as a result of the factors briefly referred to below. First of all, traditional fiscal federalism theory assigns buoyant taxes, such as income tax, value added tax and corporate tax, to the national government for stabilisation reasons (see section 2.4.1). Secondly, national government has been found to be better placed to redistribute resources economically, fairly and equitably, hence the latter retains control of major revenue sources, such as taxable natural resources, in order to avoid inter-regional disparity resulting from unequal natural resource distribution (see section 2.4.2). The result: fiscal deficit forever remains a permanent feature of local governments' finances. It is worth noting, though, that national government intervention is not necessarily bad by nature, but by design. Hence, the centre's intervention, in the form of fiscal transfers, is what constitutes this subsection of intergovernmental issues.

There are two types of financial imbalances at local government level. They are effectively vertical and horizontal. Vertical imbalances exist where one of the spheres of government has inadequate financial capacity to meet all its expenditure assignments. Local governments are the *de facto* governments in this category. Sub-national governments are said to be experiencing horizontal fiscal imbalances when they are characterised by financial inequalities amongst themselves, emanating from differences in *per capita* taxable resources and *per capita* local expenditure needs. In order to address these anomalies, two dimensions of transfers form the integral part of intergovernmental financial transfers system. They are the vertical and horizontal transfers (Bahl, 2000:1-3).

The vertical dimension of intergovernmental transfers is defined as the total distributable pool of revenues between the central and sub-national governments. Horizontal transfers constitute the allocation of financial transfers amongst sub-national governments, in order to equalise their financial capacities to meet their expenditure needs. In most cases, if not all, vertical imbalances, arising out of relatively low per capita locally taxable resources and high expenditure needs at local government level, reflect what the Layfield Committee of inquiry into local government finance in the United Kingdom (1976) calls a basic choice between the "localist" or "centralist" approach in deciding the appropriate level of financial autonomy (King in Fisher, 1997:44-46). However, before getting into the details of determining both the vertical and horizontal transfers, the discussion briefly highlights the justification/objectives for both dimensions of transfers and methods for determining both types of transfers, with reference to both developed and developing countries.

Whereas the objectives of intergovernmental fiscal transfers are wide ranging, there are effectively four major reasons that are universally accepted as factors in deciding the appropriate mechanism. These are generally to (a) achieve vertical equilibrium, (b) achieve horizontal equilibrium, (c) to offset externalities/inter-jurisdictional spillovers and (d) address the administrative inefficiencies in the assessment and collection of taxes and the managing of other revenue sources at local government level (Bahl, 2000:1-4; Schroeder and Smoke in Bahl and Smoke, 2003:21; Bird and Smart, 2002: 899; Ma, 1997:1-2).

Firstly, vertical fiscal transfers from the centre to the peripheral governments (total distributable pool) are meant to equalise revenues and expenditures of each level of government. Alternatively, vertical fiscal gaps that reflect the revenue-raising capacity and expenditure responsibilities mismatch at local governments, may be closed by increasing revenue-raising capacity at local government level, transferring expenditure responsibilities from local governments to the central government and, finally, by reducing local expenditures or by raising local revenues through other means that are feasible (Bird and Smart, 2002:899). Not all these alternative means of gap-filling are as viable as theory suggests. In fact, they have implications that are often undesirable. For example, by increasing the revenue-raising capacity of the local governments with relatively low *per capita* taxable resources and simultaneously increasing the scope of already existing user charges may have adverse social impacts. The economically-marooned individuals may find themselves in a worse economic situation because of their inability to afford the public goods provided by their governments.

This is meticulously argued by Prud'Homme (1995:2002), who states that "Poor people in low-income regions are poor for a good reason". Poor people find themselves in areas offering limited economic activities; this results in relatively low *per capita* taxable resources. Increases in taxes and introduction of revenue-generating instruments in these areas would merely result in higher tax levels per capita. In the same vein, by transferring some of the expenditure assignments to the central governments would be against the notions of allocative efficiency (See sections 1.7.2; 1.7.3; 2.4.3) and innovative financial management (see section 1.7.3) that are supposedly the offspring of fiscal decentralisation.

Vertical fiscal equilibrium (balance between local expenditures, own revenues and transfers) is therefore generally assumed to be achievable in the richest local governments, because of the latter's high revenue raising capacity or relatively high locally taxable resources (Bird and Smart, 2002:900). However, this does not hold true for poorer local governments. Because of their unfavourable socio-economic status, poorer local governments will continue to be characterised by fiscal incapacity to provide public goods and services at acceptable or nationally-determined standard levels despite receiving vertical transfers. This unfavourable state of affairs arises out of horizontal imbalances amongst local governments and therefore can be addressed only through horizontal equalisation transfers, over and above vertical transfers (Bird and Smart, 2002:900).

Designing vertical fiscal transfers is quite a complex process. An effective vertical transfer system should ensure that local authorities retain equity and have adequate revenues to undertake their assigned responsibilities, promote local tax effort and control expenditure at local government level. Equity is only achievable in as far as the transfers can directly vary with local fiscal needs and, inversely, with local fiscal capacity (Ma, 1997:3). Inadequate information on expenditure needs and fiscal capacity may have unintended consequences, producing results that are contrary to the elements of financial probity, equity and financial innovation. For instance, if excess gap-filling financial transfers are made to richer local authorities, on account of failure to objectively estimate their fiscal capacity, local political representatives may be tempted to under tax their electorate.

In essence, the fiscal transfer system would have subdued local taxation, thus undermining the very reason for adopting fiscal decentralisation reforms – to increase own revenues relative to the level of local population affluence, through innovative means, in order to promote economic efficiency in the provision of local public goods (See section 1.4). According to Bahl (2000: 3) inappropriately excessive financial transfers may result in "some services that should be tax-financed being covered by grants. Ultimately, over-expenditure by some subnational governments is likely to be stimulated, because external grants would be used on services that should be financed with user charges and local taxes. Various governments, in their effort to avoid the pitfalls of intergovernmental transfers, therefore use several criteria to measure the financial capacity and expenditure needs of local authorities. In the United Kingdom, an estimation of expenditure needs and revenue-raising capacity is guided by nationally-determined standards and quality of public goods. Standard Spending Assessment and Standard Local Tax Income are used to estimate the expenditure needs and financial capacity of local authorities effectively (Ha, 1997:9-15). A fiscal gap at local government level is thus objectively closed.

Several governments across the world use one or a combination of the following vertical transfer methods (Bird and Smart, 2002:900-901) (See Table 1[18]):

- local government transfers may constitute a fixed proportion of central government revenues (a share of some central government revenue source). This may create stability at local government level whilst, on the other hand, causing inflexibility in central government budgeting. The latter scenario is quite evident during an economic slowdown that may require limited centralisation of budgeting (reduced transfers dictated by the declining revenues at central government. This transfer method is represented by symbol A in table 1 below;
- transfers to local government could be on an *ad hoc* basis. That is, they will be determined during the annual budgeting process. This creates a lot of flexibility for the central governments, because transfers can be slashed at any given time, depending on the central government budget constraint, whilst local government planning is entirely jeopardised because of uncertainties about the potential transfers;
- local governments may receive revenues on a formula-driven basis. One way of doing this is for central government to reimburse local governments. This may be based on the proportion of specific local expenditures, or by using general characteristics that the recipient jurisdictions exhibit, such as population or area size. The Philippines government, for example, determine their transferable pool as follows: population 70%, area 20% and equal share 10% for each local government.

It is not possible to discuss all the pros and cons of vertical transfer methods now. A brief and applied discussion of this aspect of the intergovernmental transfer system is dealt with in Sections 3.4; 3.5.1; 3.5.2; 3.5.3 and section 4.4 in the final analysis of Botswana's transfer system.

Achieving fiscal equalisation among local authorities is the second major justification for intergovernmental fiscal transfers. According to Bailey (1999:191) central governments are obliged to provide fiscal equalisation in their fiscal decentralisation initiatives in order to: avert potentially severe fiscal stress in poorer local government units, in their effort to provide durable local public goods and services; improve and provide infrastructural developments as

[18] This table will be discussed in detail in section 2.5.3.1

incentives to ensure equitably spread private-sector investment in all regions and ensure that the local welfare state does not

TABLE 1
Alternative Forms of Intergovernmental Transfer Programmes

Allocation of Transfer Pool Among Subnational Governments	**Method of Determining the Total Pool**		
Tax	**Share of National**	**Annual Budget Decision (*Ad Hoc*)**	**Reimbursement of Government Approved Spending**
Origin of Collection	**A** General Purpose		
Formula	**B** General Purpose or Sectional Purpose	**F** General Purpose or Sectoral Block	
Cost reimbursement (partial or total)	**C** Sectional Block or Specific Purpose	**G** Sectoral Block or Specific Purpose	**K** Sectoral Block or Specific Purpose
Ad hoc (based on Annual decisions by Granting government	**D** General Purpose, Sectoral Block or Specific Purpose	**H** General Purpose, Sectoral Block or Specific Purpose	

Source: This an adaptation of a slightly modified table developed by Bahl and Linn (1992) by Shroeder and Smoke (2003:28)

According to Bird and Smart (2002:901), the argument for not adopting a gap-filling approach to horizontal equalisation stems from the fact that there are differences in local needs, different costs in service provisions across the regions and, invariably, unequal revenue-raising capacity of local governments (these differences, in most cases if not in all, are as a result of the variations mentioned in the last sentence of the preceding paragraph). Hence, a gap-filling grant system may not create desirable incentives for local governments to raise their own revenues[19] because "equalising actual outlays would discourage both revenue-raising effort and local-expenditure restraint since, under this system, those with the highest expenditures and the lowest taxes get the largest transfers" (Bird and Smart, 2002:901). In other words, a gap-filling system by itself, in a country characterised by inter-regional or inter-municipal socio-economic inequalities, may be counter-productive to the notion of innovative financial management and financial probity at local government level, because the desire to close the financial gap may lead to unnecessarily increased and excessive

[19] Bailey (1999:185) calls the subdued interest on the part of local authorities to increase revenue-raising effort or the declining trends in local revenue generation, as a result of the transfer system, *displacement*.

expenditure levels[20]. This would stem mainly from the fact that expenditure needs are vast. Yet, proper allocation of resources, based on established expenditure assignments and revenue-generating capacity of each locality, may provide a nursery for restrained overall expenditures on service provision, whilst increasing revenue base for local authorities. Such an ideal situation would result in the achievement of a basic thrust of intergovernmental transfers: *direct net additionality*[21]. Better planning would also be the ultimate achievement, since municipal government would be afforded a high degree of certainty, knowing about the to-be-expected financial transfers from the centre over an extended period of time.

Notwithstanding this, it is important to underscore the underlying fact that "At best, an objective system of expenditure-needs assessment can only control, rather than eliminate the degree of subjectivity in the distribution of needs-equalising grants" (Bailey, 1999:194). It is for this reason that the degree of fiscal equalisation varies from one country to another. Some use full equalisation through grants systems. The United Kingdom, Denmark and Norway fall into this category. Other countries such as France, Netherlands, Italy, Switzerland and Ireland prefer partial equalisation in order to safeguard local autonomy. After all, the most important factors that should be reflected by the equalisation system should mirror variations in local governments' abilities to generate local tax revenues per head of population, largely on the basis of the following issues (Bailey, 1999:192):

- uneven distribution of economic activities, such as large businesses, that may boost local governments' property taxes and local population incomes;
- the size of disparities in the local tax base per head of population and
- the amount of potential local tax revenue per head of population at a given tax rate.

If all these factors are taken into consideration, fiscal equivalence would be achieved across all categories of municipal governments, thus creating a platform for fair competition between all municipalities in all regions. Local government financial innovation would be the ultimate outcome. It is nevertheless important to state that there are several equalising methods for both vertical and horizontal inequalities, as well as types of transfers that have an impact on

[20] Bailey (1999:184) terms this *indirect net additionality*. This occurs when an intergovernmental financial transfer system achieves its unintended consequences. Such an occurrence may include inducing increased expenditure at municipal level.
[21] *Direct net additionality* occurs when the transfer system finances services that would otherwise not be provided without grant in aid from the centre, which is the main objective for grants (Bailey, 1999:184).

the objectives for which fiscal decentralisation reforms are introduced. In order to understand their potentially facilitating influence on financial probity and accountability at local government level, as well as possibly their undesirable consequences, they are briefly discussed below (See Section 2.5.3.1).

Furthermore, the justification for intergovernmental transfers is to offset externalities or inter-jurisdictional spillovers. It has been established that certain services of local governments generate spillovers in the form of benefits or costs beyond the borders of their areas of jurisdictions. Of all the services provided by local governments, it is the merit or mixed goods whose benefits or costs are notorious for disregarding the established boundaries of local governments. Education, health services, road networks and fire departments are some good examples of services that have an element of externality. To ensure that local governments do not under-spend on these essential services because they may be benefiting the neighbouring jurisdictions, central governments step into the breach with substantial transfers that are clothed with conditions that they be spent only on the services classified as 'boundary blind services' (Own citation) (Shroeder and Smoke in Bahl and Smoke, 2003:21/22).

Notwithstanding this view, Bahl (2000:3-4) raises the two salient concerns in policymaking, with regard to funding or subsidising externalities, that are often ignored. These are, (i) how the size of the grant is determined (subsidy required and "expenditure response ... required by the local governments) and (ii) how the resources will be allocated to the local governments by the intermediate level. The latter, is however, irrelevant for this discussion, because Botswana is a two-tier government system. The former, whilst important, will be discussed under Botswana's fiscal intergovernmental system, with references to case studies (sections 3.5.1; 3.5.2 and 3.5.3).

Finally, achieving administrative efficiency in the management of taxes is one other justification for intergovernmental transfers. The centralisation of tax administration at central government enhances efficiency through centralised collections within the local government area of jurisdictions on the tax bases and tax rates determined by the latter government. Although, Mikesell (2003:2) argues that experience from the international practice does not automatically rule out the local administration of taxes on technicality, it appears that, where the principle of complete localisation of tax administration seems too big for the lower level of government to efficiently administer, there are a plethora of economically viable tax collection alternatives that simultaneously enhances efficient tax administration and local governance autonomy. The benefits of centralised tax administration include (Mikesell, 2003:3-6):

- the provision of high quality service at low cost in favour of local government;
- the probability of increased cost savings will be heightened through the economies of scale, realised in tax administration;
- tax payers across the country will be dealt with through a single structure, hence it will be easier to track defaulters *vide* a single information system;
- it may make economic sense to adopt more sophisticated configurations of some taxes and,
- finally, the facilitation of revenue transfers to subsidise horizontal fiscal inequalities across the local government units justifies centralised administration of taxes.

Japan is one such country that levies local transfer taxes on behalf of local authorities in order to reap the benefits of economic efficiency in the assessment and collection of local transfer taxes. Local transfer taxes are levied by the central government on local governments, rather than on central government, in Japan. Indonesia also has a centralised tax system meant to minimise the administrative inefficiencies associated with the assessment and collection of taxes at municipal level by municipal governments (Ma, 1997:21-32). However, this does not mean that centralised taxation is a sufficient condition for achieving administrative efficiency on the assessment and collection of taxes and any other revenue sources due to the local authorities. Where local authorities display the required technical and managerial capacity to administer their taxes and allocated revenues, such a function is better performed by them, because the national government may not give this function adequate attention, thus leading to under collections, for the simple reason that their incentive to do so may be dulled by the fact that such revenues would not accrue to them. Hence, decentralised tax revenues would mean more financial autonomy for local authorities. The more decentralised revenue sources, the better for local government financial management, because more effort would put into coming-up with innovative ways of increasing their coverage ratio and collection ratio, whilst restraining local spending.

2.4.4 Types of intergovernmental transfers

Intergovernmental transfers are broadly divided into two categories. They are: (a) conditional/categorical/earmarked or specific grants; and (b) general /unconditional/block. These categories of grants are applied by different methods, in accordance with the objectives for which the transfers are designed to achieve. (Refer to Appendix 2for a typology of grants designed by Bailey (1999:181).

Conditional transfers: this type of transfer system is used on services that are considered more important to the central government. Such services may include those with substantial spill-over effects and those meant to achieve national objectives. Reducing unemployment through national infrastructure programmes at municipal level is one of the common examples for which conditional transfers to municipal governments are used in order to implement nationally determined programmes on behalf of central governments. Earmarked transfers may also be used to finance specific services in order to achieve minimum standard for services, as determined by the central government at sub-national level. As such, they are said to have redistributive elements (Joumard and Kongsrud, 2003:182).

Conditional transfers are further categorised into three types. They may be used as: (a) matching open-ended grants, (b) matching closed-ended grants; and non-matching grants. Open-ended grants are limitless. On the one hand, central governments grants in this regard are influenced by the spending patterns of local authorities, while on the other hand, in closed-ended matching grants there is a ceiling on the maximum amount that central governments can make available to local authorities through conditional transfers. Non-matching conditional transfers represent a fixed sum of money, with the requirement that it be spent on specified public goods. The recipient government here is not required to match financial grants from the central government (Bailey, 1999:181; Ja, 1997:3).

It is important to note that conditional grants are by nature, restrictive to local authorities. Perhaps, open-ended matching grants may be seen to be giving local authorities a reasonable degree of latitude to decide their expenditure decisions with limited interference from the centre. Yet, this type of transfer would certainly disadvantage poorer municipal governments from enjoying the same level of transfers from the centre because of their limited financial capacity to generate more own revenues that would in turn attract more transfers. The richest local authorities would certainly benefit most from such a transfer system. In the end, horizontal inequality would be increased in favour of the richest local authorities.

Closed-ended matching grants, on the one hand may disadvantage poorer local municipalities because they may not be able to generate the required revenues in order to be eligible for the grants. On the other hand, non-matching or fixed grants would more likely be more redistributive and equitable. The downfall of this grant is that local authorities lose their financial decision-making autonomy. So, the desire to be innovative would on probability be diminished, because they would be reliant on central governments for directions and specifications of projects to be undertaken in their areas of jurisdictions.

A summarised version of the disadvantages of the conditional transfers is as follows (Joumard and Kongsrud, 2003:194):

- there are high administrative costs involved in managing them. Governments of Germany, Switzerland and the United Kingdom are good examples of countries that incur high administrative costs in managing specific transfers;
- excessive spending and poor cost-effectiveness in many countries. Botswana is a good example of those countries incurring excessive spending on development projects financed through specific transfers (See section 4.5.2);
- grants are in some cases based on *ex post* actual costs instead of *a priori* standard costs. Hence, restraining/containing local government expenditure is a difficult task to achieve.
- In concluding their arguments Joumard and Kongsrud (2003:194) state that conditional grants "may limit a sub-national government's ability to be innovative", because expenditure must be defined precisely. Hence, many countries including Japan and Ireland have reduced their reliance on conditional grants in favour of general grants. The effects of the above-mentioned shortcomings of conditional transfers on the notion of fiscal decentralisation will be illustrated in section (see section 4.5.2).

General Grants: unlike specially-earmarked grants, general fiscal transfers places no restriction on local authorities on their use. They are used to finance a broad range of services provided by local authorities in line with their statutory or constitutionally defined expenditure responsibilities. Block grants may be used to achieve both horizontal and vertical equity through financial equalisation schemes. There are two types of general grants. These are: (a) lump-sum grants; and (b) effort-related grants (Bailey, 1999:181).

Effort-related grants are intergovernmental grants that are related to the revenue-effort of the local authorities. Revenue effort is measured in terms of tax effort. The more revenue raised by local authorities, the more grants the former receives (Bailey, 1999:181). Effort-related grants are deliberately designed to stimulate more own local revenue generation in order to ensure that local authorities are able to finance a significant amount of their expenditures with their marginal revenues. This is another innovative method of upping local revenue generation, while increasing discretion on how they provide local public goods to their constituents.

It is critically essential, nonetheless, to bring to the fore the fact that block or universal grants are not by nature the most appropriate type of intergovernmental transfers in order to achieve the positive attributes of fiscal decentralisation. The determining factors of their design play an equally important part in their effectiveness or ineffectiveness. General grants may be transferred to local authorities as a specified share of the national revenues on the basis of origin of collection. That is, local authorities would be allocated a specified percentage of general grants derived from within their areas of jurisdictions (refer to symbol A in Table 1). Alternatively, a formula may be used to allocate local authorities general grants. Such a formula may be based on the expenditure indicators, fiscal capacity, and cost of providing services, as well as on the tax effort among others. The formula may constitute a specified share of the national revenues (B) for an extended period of time or on an *ad hoc* basis (F) (Bahl, 2000:5-19).

General grants may also be decided on an *ad hoc* basis as a share of the national revenues (D) or worse, decided on anew by the central government every financial year (H) (Bahl, 2000:5-19). Each method of deciding general grants has shortcomings as well as positives. However, there is consensus among several experts that formula grants would ideally be a better choice, should the benefits of decentralisation be maximised. It allows for better planning through increased revenue certainty and does not erode the autonomy of local authorities\. This instils an element of political accountability because local authorities decide the expenditure priorities (Bird and Smart, 2002; Ma, 1997; Bailey, 1999; Joumard and Kongsrud, 2003).

2.4.4 Borrowing capacity

Alternative financing for local government expenditures remains one of the difficult issues in local government finance. To avoid heavy reliance by local governments on financial transfers from the central government, that normally come with strings attached, and which often compromise local agenda settings in local economic development planning, (is but a thorn to the decentralisation initiatives, especially in developing countries) municipal governments should be allowed to borrow financial resources from the private sector markets in order to augment their limited financial capacity to deliver their mandates. Indeed, big infrastructural developments that require substantially heavy capital injection into the local economies remain pipedreams in the developing countries because of local governments' limited, if any, access to the capital markets. Although, Smoke (2001:28) postulates that loans and bonds should be used as financing alternatives in capital investment for fiscally sound local governments and in self-financing projects, the fact is that this view is generally irrelevant in so far as development budgets are concerned in many developing countries, because capital markets in those part of the world remain largely undeveloped.

However, this is not to suggest that borrowing should not be carefully looked into as an alternative source of capital in the developing world, in the near future, as and when the general economic development reaches an ideal stage. Deficit budgeting at local government level may otherwise have devastating repercussions on the general economy because the national government is morally obliged to bail out debt-trapped municipalities.

2.4.5 Institutional framework

Adopting an appropriate institutional framework is a critical component of a potentially-successful fiscal decentralisation strategy. Fiscal decentralisation involves all spheres of government and as such the role of each government should, where possible, be explicitly defined to allow for better coordination of the entire public sector. There are several reasons why there is a need for an institutional framework that is sympathetic to the implementation of a given fiscal decentralisation system. The most fundamental prerequisite for good institutional framework is to ensure that there are clear accountability lines between all spheres of government, between sub-national governments and businesses, sub-national governments and taxpayers /electorates.

According to the Institute on Governance (1998:9), the institutional framework should address institutional issues such as performance measures that attempt to measure outputs at municipal level, more specifically programmes funded through conditional grants. Initiatives, such as performance measures, may play a role in the objective structuring of conditional grants in order to create a competitive environment in which local authorities operate (Institute on Governance, 1998:9). This means appropriate conditional transfer types may be adopted by the central governments in order to inculcate a competitive culture at municipal level. Such a culture may create an enabling environment for the employment of financial innovation measures meant to maximise the programme outputs through intergovernmental conditional grants (Refer to section 2.5.3.1 for types of conditional transfers). In addition, performance measures would create a platform for the national government to benchmark the performance of each municipal government through fair comparative methods in order to ensure effective accountability lines between all stakeholders indicated above. This would ensure that each local authority is assessed on its level of commitment to achieving economic efficiency through such measures as cost saving and recovery initiatives.

However, measuring the level of commitment of each local authority in order to ensure political accountability is not an easy task, unless other facets of fiscal decentralisation have been carefully addressed. The Institute on Governance (1998:9)
indicates that the intergovernmental transfer system should make clear the role of audit, programme evaluation and other monitoring tools on the performance of sub national governments. According to Ahmad, in Ahmad (1997:10), the first question that should be addressed is specifying the body or bodies that should organise fiscal equalisation transfers. Several countries use various bodies to perform this task. In India a constitutionally created body, the Finance Commission, is responsible for determining the distribution and sharing of finances between the federal government and states from the Consolidated Fund. Such grants, awarded by this body, are unconditional. Another body, the Planning Commission, makes grants and loans available for the implementation of development plans. Central ministries also provide grants for their counterparts in specified projects, either as wholly funded or requiring the contribution of states (Singh, 2004:8-10).

Other countries use only one agency in the equalisation transfers. In Australia the Commonwealth Grants Commission, established in 1933 by the central government, distributes general purpose grants to states, using a system that measures their fiscal capacities and fiscal needs (Ma, 1997:9). A constitutionally established body in South Africa, the Finance and Fiscal Commission, is also mandated the responsibility to recommend to the national government on all issues regarding the intergovernmental grants. The intergovernmental transfer system in South Africa is helped by the notion of cooperative government that recognises the existence of all three spheres of government as distinctive, interdependent and inter-related.

Another set of countries prefers the Ministries of Local Government and Finance to allocate grants on their own, without interference from other agencies. Local governments are expected to bargain for equalisation transfers. Whilst these ministries may have a dominant role in the determination of grants to local authorities, in some instances such a system encompasses the direct intergovernmental relations between all national sectoral ministries and local governments on sectoral issues that are performed by the latter on behalf of the former. Botswana and India use this system.

On account of the variety of methods followed by different countries, as discussed above, the Institute on Governance (1998:9) recommends that at least one independent agency, appointed by the government, should be tasked to design and distribute grants or equalisation transfers at municipal level in an objective fashion.

On a different note, the institutional framework is not only expected to rationalise the intergovernmental transfers but be guided by a strategy specifically designed to strengthen the institutional capacities of subnational governments (Institute on Governance, 1998:9). Such a strategy would ensure that local authorities are able to cope with increased scope of functional responsibilities that come with the devolution of functional responsibilities and increased revenue assignments. In other words, the institutional framework should be seen to be addressing, what Dillinger (1991:29) terms, the decentralisation dilemma of "a trade-off between indifference and incompetence". This arises when municipal governments are considered the rightful tier of government to achieve allocative efficiency in providing local specific public goods yet are without the capacity to do so. Such a body, as may be assigned the responsibility to oversee the interaction between all spheres of government, should therefore ensure that local authorities have the human capacity to undertake the assigned functional responsibilities, as well as the capacity to tap into additional revenue sources allocated them as a result of the decentralisation reforms.

Finally, in order to ensure proper planning, coordination, budgeting and implementation between all spheres of government, the intergovernmental fiscal relations should be reformed in such a manner that there are comparable institutional arrangements of the four aforementioned. For example, if equity is to be achieved, common accounting practices should be used across all the sub-national governments.

On account of the expected benefits of a properly designed institutional framework, Smoke, in Yusuf, Wu and Everett (2000:101), identified several problems that are often not addressed by the institutional framework in the developing countries. There tends to be no incentives, systems or procedures to guide the interaction between all tiers of government. As such, poor performance of local authorities goes unnoticed. This is, more often than not, the case when powerful ministries such as that of Local Government and Finance have the greater control on the decentralisation process. This becomes even more problematic when there are several powerful agencies that have differing views on what constitutes decentralisation. Moreover, poor bureaucratic incentives to decentralise may hold the decentralisation process to ransom. Immature local democracy (even when the local political representatives are elected) that gives only limited local autonomy to the political representatives may be acting counterproductively to the process and ideals of decentralisation. Smoke, in Yusuf, Wu and Everett (2000:102), is of the view that as long as local decisions can be overridden by the centre, local accountability, which is the essence of decentralisation, would shrink.

Local accountability may be undermined in many ways that are not obvious. This includes the appointment of local political representatives by the central government minister, despite the existing arrangement for local elections (refer to section 3.3.2). On the basis of the institutional bottlenecks discussed above, Bird (2001:5) concludes that the institutional framework may results in an over or under-controlled, but over-regulated local public sector. Local governments are left with little initiative, if any, on such local issues as whom they hire and what they pay. This may develop to such an extent that "citizens look to the central government to fix pot holes". This may undermine the basic thrust of fiscal decentralisation – local autonomy to decide about own affairs – and the resultant ideals of local self determination and local political accountability.

2.5 Conclusions and deductions

In concluding this chapter, the following factors need to be noted as trendsetters in fiscal decentralisation:

(a) International experience indicates that there is a positive correlation between the level of economic development and the rate at which the benefits of decentralisation could be maximised. In this regard middle and high-income countries stand a better chance to implement the fiscal decentralisation reforms successfully. Therefore, Botswana as a middle-income country also stands a better chance to increase economic efficiency in the provision of local public goods through fiscal decentralisation initiatives;

(b) In order for the benefits of fiscal decentralisation reforms to be realised to the best potential of a given country, local government units should be sufficiently large in terms of income, economic activities and populations. Urban centres are therefore the best candidates to reap the benefits of decentralisation because they, in most cases display these features. Therefore, on the basis of the fact that urbanisation has grown tremendously between 1971 and 2001 in Botswana, a reasonable number of local governments can be subjected to the fiscal decentralisation reforms in order to achieve allocative efficiency and inculcate financial innovation in the management of local governments' finances. Hence, fiscal decentralisation reforms require that municipal governments be differentiated or classified according to their expenditure needs, revenue-raising capacity, population size, level of income and level of development;

(c) Fiscal decentralisation reforms should appreciate the fact that there are inter-regional and/or inter-municipal socio-economic inequalities within all countries and that these should be taken into consideration when designing intergovernmental equalisation fiscal transfers, so ensuring that each locality is capable of providing a nationally determined, minimum standard of basic services This is only possible when each locality has achieved fiscal equivalence. Therefore, the national government should have information on the potential total taxable resources in each municipality as well as the costs differentials (arising out of among others, rural population sparsity or urban density) of providing a 'basket of local public sector goods' in accordance with

the nationally established expenditure indices. This would ensure equity in the transfer system. Therefore an equitable intergovernmental transfer system would ensure fair competition between all municipal governments in Botswana, in the process providing a platform for them to be innovative enough to restrain their expenditures and maximise their revenue-raising efforts from the limited revenue sources allocated them; #

(d) Different types of intergovernmental transfers have impacts on the spending behaviour of local authorities. Conditional transfers appear to bear the brunt of most of the disadvantages associated with intergovernmental transfer systems, especially non-matching grants. As such there has been a shift in recent years to general or universal grants. The shift in emphasis from specific to block grants is precipitated by the national government's desire to give local authorities a fair amount of discretion on how best to utilise their funds to meet the expectations of their constituents. This is intended to promote local financial autonomy and create a favourable environment for local political accountability. Block grants would ensure that local political representatives in Botswana take the blame and/or credit for the overall outputs and outcomes of their spending decisions, without passing the blame to the national government;

(e) There are several methods used to decide the magnitude of both the total vertical and horizontal transfers to each locality. Notable among them are the *ad hoc* and formula-driven intergovernmental transfers. Formula-driven transfers have been credited for bringing revenue security and certainty at municipal government level because they are transparent. This enhances their multi-year planning system, because local authorities are in a better position to prognosticate the amount of revenues due to them over a long-term period of 3-5 years. By adopting formula-driven transfers, Botswana's intergovernmental transfer system would be capacitated to make long-term planning at local government effective, thus providing local authorities with incentives to be less wasteful in expending grants from the centre as budgeting would be decentralised;

(f) I it is considered a best-practice scenario for governments to establish the technical, administrative and managerial capacity of each local government unit, before

devolving the expenditure and revenue generating powers to them. This ensures that local authorities are not overwhelmed by an increased number and scope of expenditure responsibilities, as well as increased revenue sources which they may not tap into, because of inadequate administrative capacity. Therefore, decentralisation reforms should begin with building the institutional capacities of both tiers of governments rather than increasing the revenue raising powers and the expenditure assignments; and

(g) There would be a need for a clear, coordinating strategy between all spheres of government in order to ensure that local governments' autonomy is not trampled on by various national agencies and ministries. Such a task requires the establishment of a single institution, based on a transparent system, assigned with the responsibility to recommend or allocate grants to local authorities. This would ensure that bureaucrats who would like to retain control of municipal governments, in the process frustrating reforms, do not have an opportunity to do so.

Chapter 3

3. FISCAL DECENTRALISATION: A BOTSWANA PERSPECTIVE

3.1 Introduction

Botswana is a middle-income, developing country. Like many other developing countries and transitional democracies in Africa, Asia and Eastern Europe, Botswana's multi-level government system has many limitations. These have direct impact and implications that need detailed analysis should there be a desire for appropriately designed, flexible and successful fiscal decentralisation strategies. These include *inter alia*: (a) economic structure, (b) the level of economic development, (c) poverty and affluence levels (and patterns), (d) trends in urbanisation, (e) economic planning, (f) population distributions and concentrations, (g) natural resources patterns and distributions, (h) the extent of ethnic heterogeneity, and (i) the political profile of the country. It is for this reason that some of these factors have been discussed in sections 1.1 and 3.2, whilst others are briefly discussed in this chapter with a view to building a solid background and a better comprehension of Botswana's economy as a whole, in order to locate local government as a level of government at which the country could derive economic efficiency through fiscal decentralisation.

Briefly, the following sub-headings address some of the challenges referred to above: national framework, local government structure, overview of fiscal decentralisation in Botswana and, finally, the case studies on Gaborone City, Kweneng District and Kgalagadi District councils.

3.2 National framework

From humble beginnings as one of the poorest countries in the world, [22]Botswana is today classified as a middle-income country by the World Bank, largely due to the discovery of diamonds,[23] prudent macroeconomic policies and political stability, as well as substantial investment in education, health and public infrastructure. Botswana's political profile stands

[22] Diamonds fuelled an uninterrupted and phenomenal economic growth of 14.2 per cent in the period 1965-80 and almost 10 per cent between 1980 and 1990. Between 1965 and 1990 the country had the highest rate of growth of Gross National Product *per capita* in the world at over eight per cent per year. (See, Edge in Edge and Lekorwe, 1998:337)

[23] Botswana has the highest output of high-quality gem diamonds anywhere in the world. Diamonds are the mainstay of the economy. (Standard and Poor's Sovereigns, 2002:7).

out prominently in Africa, a continent associated with dictatorial governments, civil wars, colonial and apartheid regimes, civil and political strife. While various academics and practitioners (Mangcu, 2003; Sokhulu, 2004; Somolakae, 2005) engaged themselves in gauging the nature and extent of Botswana's democracy, none doubted its genuineness. At least eight free-and-fair general elections have been held in the country since independence, the latest in October 2004. Members of Parliament and Councillors are voted directly into political office every five years, based on universal adult franchise through the First-Past-the-Post System (FPPS). Both the national and local elections are held at the same time.

The prevailing conducive political environment at national level has thus been credited for the impressive development of local governance in Botswana (Olowu and Wunsch, 2004:92), albeit with limitations. Some of the major noteworthy positives that the national government may duly be credited for are: the functioning of the local government machinery as a result of: sustained flow of financial transfers from the national government; the employment of highly educated and capable personnel in various fields who are remunerated by the government at the centre and the prevailing political environment conducive to free elections.

The role of the President, Cabinet, Parliament and (especially) the Ministry of Local Government (MLG) in running the affairs of the local authorities is such that it undermines 'self-governance'. This they do primarily through the Local Government (District Councils) Act Chapter 40:01, Township Act Chapter 40:02, Unified Local Government Service Act Chapter 40:06, Act 13 of 1973 and the Town and Country Planning Act Chapter 32:09 of 1977. The extensive involvement of the MLG in the affairs of local authorities cannot be downplayed. The Minister responsible for local government has the power to nominate councillors over and above those elected by the constituents. Of the 476 councillors across the country, the Minister of Local Government nominated 101 councillors in the 2004 general elections. Only 3 (three) out of the 101 were from the combined three opposition parties, the rest were drawn from the ruling Botswana Democratic Party that has been in power since independence (Somolakae, 2005:25).

Commenting on the significance of elections at local government level in the United Kingdom, a constitutional lawyer, Sir Ivor Jennings (1947:17), as quoted by Foster, Jackman and Perlman (1980:14), remarked that "Under this historic system of local self government, local authorities even now have a substantial amount of discretion. They consist of persons responsive to the local electorate....within the limits laid down by Parliament and of central control, they adopt a policy which accords as they think with the views of the local electorate". On the one hand the enthusiasts of responsive local governance are of the view that local political decisions should be reflective of the views of the majority of their constituents, while on the other hand the realities of local politics are not necessarily determined by local communities but are creatures of the national government's making. The ironic and almost dejected observation made by Foster, Jackman and Perlman (1980:16) (as indicated in the latter part of the previous sentence) implies that, in most if not all cases, national issues decide local elections in the United Kingdom and in many other countries because local governments are constrained by the former. This view appears to apply to the local political environment in Botswana.

This thesis therefore suggests that the appointment of such a large number of councilors by the minister responsible for local governments is not healthy for decentralised political decision-making and political accountability, because the appointees owe their loyalty and allegiance to the minister who appointed them to represent the national government constituency. This is contrary to the notion of fiscal decentralisation that "accountability to the electorate is the essence of local democracy" (Sir Frank Layfield' committee, 1976:102) as quoted by Foster, Jackman and Perlman (1980:15) and that instead the decisions of locally-elected politicians should prevail and mirror the differing preferences and tastes of their constituents.

3.3 Local government organisational structure

The local government system in Botswana is constituted of: (a) District and Urban Councils; (b) Tribal Administration[24]; (c) District Administration; and (d) Land Boards[25]. However, district and urban councils constitute a major element of the Local Government Structure. Councils (both urban and district) are statutory bodies. According to Section 5 of Local Government Law "A council shall be a body corporate having the name by which it is established and capable of suing and being sued under the said name". Both acts state that "it

[24] Tribal administration facilitates development at local level and is composed of chiefs, sub-chiefs, village headmen, local police service and administrative staff. This is where a lot of consultations between government officials, political leaders and the public take place through the *kgotla* system.
[25] Land boards are by law responsible for the administration and planning of tribal land. There are currently, 12 main land boards and 39 sub land boards across the country.

shall be the duty of a council to perform the functions it is required to perform and otherwise exercise its powers so as to secure and promote the health, order and good government of the area for which it has been established" (Section 29 of Local Government Law).

In Botswana councils have a long history of working with the Village Development Committees (VDCs) which are important village structures that facilitate the interactions between the councils and the constituents on developmental issues concerning both parties (see section 3.4.1 on the role of VDCs on multi-year development planning at local government level). In addition to that, local government planning at council level is facilitated by District Development Committees DDCs) which play a critical role in the multi-year development planning and the prioritisation of projects that have been identified by the councillors and their respective constituents (VDCs). DDCs draw a priority list of projects to be evaluated by the ministry of local government at the beginning of every National Development Plan/DDP season. The same procedure is observed during the annual compilation of projects that are implemented through the Drought Relief Labour Intensive Public Works Programme (DRLIPWP) (see sections 1.2.1 and 3.4.1 about the DDCs and planning in Botswana).

Councils in Botswana, unlike in countries such as South Africa, do not have executive committees or cabinets. They operate through committees which have been delegated authority to make decisions, (albeit the exception when making bye-laws) I do not quite follow your meaning here. Section 24(1) of the Local Government Law obliges all councils to establish Finance and Education committees. Over and above that, individual councils have the discretion to establish committees that they consider relevant for the smooth operation of the council. Most of them have committees for staff, health, works, licensing and social and community development (S&CD).

On the political and administrative fronts, it is important to state that although councillors are elected to represent their wards[26] at the full council meetings, their remuneration, like those of the council administrative staff, is determined by the national government. The heads or political leaders of urban councils and district councils are called Mayors while their

[26] Each councillor is expected to represent at least 3000 residents, irrespective of the size of the land area which may be characterised by great distances between settlements within the same ward.

counterparts at district councils are referred to as Council Chairmen[27]. These elected incumbents are expected to serve their respective councils for a period not exceeding a year, with the exception of the Central District Councils (CDC) which carry out Council Chairmen elections at two year intervals (SPCLGB, 2001:38). Mayors and Council Chairmen are not directly elected by their constituents, but drawn or elected from within the elected local political office bearers. Given a short notice of only12 months for them to influence and drive the developments of their respective councils, it is difficult to objectively gauge their performance in office.

The administrative heads of councils at city, town and district councils are called City Clerks, Town Clerks and Council Secretaries respectively. Larger district councils are divided into sub-districts headed by Assistant Council Secretaries, as well as administrative centres. Administrative centres and sub-districts do not have a legal standing. This arrangement was created in order to bring services provided by the local authorities closer to the people, in line with the ideal notion of fiscal decentralisation. For example, Central District Council has six sub-districts while other district councils have Administrative Authorities (in addition to the sub-districts) for the same purpose (SPCLGS, 2001:127, 129-130).

Local government in Botswana is single-tiered. It is comprised of district and urban councils. There are nine district, five town, one township and two city councils. Councils vary considerably in terms of their population across Botswana vis-à-vis land area, natural resource distributions, economic growth and development, as well as level of urbanisation and potential for urbanisation, owing to the centralised nature of Botswana's public sector infrastructural investments. In the 2001 population census it was established that the largest[28], Central District Council had a population of 510 532, while Ghanzi District Council, the second largest in terms of land area was the least populated, inhabited by only 32 481 people. On the other hand, South-East District Council[29] had the smallest land area of 1492 square kilometres whilst populated by 60 623 people, as a result of the urbanisation phenomenon that has characterised Botswana's development trajectories since the diamond boom of the early 1970s (Refer to Appendix 1: Map of Botswana for boundaries of district and urban councils).

[27] This applies to their deputies who are elected at the same time as the mayors and council chairmen.
[28] Central District Council is the largest in terms of the population and land area (142 669 square kilometres)
[29] Part of the South East District Council falls within the Greater Gaborone Metropolitan Municipality (See Appendix 3, Map of the Greater Gaborone Metropolitan).

(See section 3.3.1 on a brief synopsis about the impact of urbanisation on Botswana's population distributions, income differentials and development patterns).

3.3.1 Urbanisation in Botswana

According to Botswana National Settlement Policy Government Paper No. 2 of 1998, a settlement attains the status of an urban area when it has a threshold population of 5000 human inhabitants, with at least 75% of its economically-active population in the employ of non-agricultural activities (Botswana National Settlement Policy, 1998:7). Botswana's economic growth and development has been characterised by rapid urbanisation between 1971 and 2001. Urbanisation increased from less than 10% in 1971 to 18% in 1981. Between 1981 and 1991 the urbanisation phenomenon more than doubled, shooting from 18% up to 45%. By 2001 at least 54% of Botswana's population was urbanised (Gwebu, 2003:2). Botswana's urbanisation phenomenon is attributed to several inter-related factors. Firstly, an increase in the number of places designated urban such as Palapye and Tlokweng as well as the reclassification of a large number of villages into urban villages in 1991increaseed the share of Botswana's urbanised population (Gwebu, 2003:2) (Refer to Appendix 1).

Secondly, rapid rural migration to urban villages, towns and cities, in response to both public and private sector investment, changed the landscapes of Botswana's population distributions in favour of those areas with appealing socio-economic opportunities that served as pull-factors for the majority of Botswana's citizenry. Thirdly, the designation of certain areas as district and sub-district headquarters, in an effort to decentralise the activities of local authorities, meant the improvement of physical infrastructures, utilities and telecommunications, as well as the decentralisation of human resources to operationalise these centres. These developments served as private sector 'crowding-in' factors. Employment was thus created (Gwebu, 2003:3-4).

Fourthly, the strategic location of certain settlements relative to the major centres of industrial, commercial and administrative functions, such as those within the periphery of Gaborone, benefited immensely in economic terms. For example, the populations of Mogoditshane, Gabane and Molepolole in the Kweneng District Council (KDC) grew rapidly from 14 200 to 36 300, from 2 480 to 10 600 and from 36 900 to 53 900 respectively (See Appendixes 1 and 3). This effectively means the population of Gabane surpassed that of Tsabong which stood at

6 300 as at the end of 2001. Yet, Tsabong is the capital centre of Kgalagadi District Council (Gwebu, 2003:4).

In view of rapid rural-urban migrations that illustrated the inter-regional socio-economic inequalities, the Government of Botswana developed a National Settlement Policy in 1998 in order to "provide a comprehensive set of guidelines for national physical planning and to provide a framework for guiding the distribution of investment in a way that reflects the settlements' population size, economic potential, level of infrastructure and settlements' role as service centres". Botswana has since been divided into four planning regions. These are: (a) Eastern Region; (b) South Eastern Region; (c) Western Region; and Northern Region. However, for the purpose of this discussion, only the Western and South Eastern Regions are explored briefly.

According to the National Settlement Policy (1998:5), the South Eastern Region is made up of the rural districts of South East, Kweneng, Southern and Kgatleng, as well as the urban districts of Gaborone, Lobatse and Jwaneng. *At least 50% of Botswana's urbanites are residents of the South Eastern region.* They are mainly located in Gaborone, Lobatse, Jwaneng, Tlokweng, Mogoditshane, Mochudi, Ramotswa and Molepolole (refer to appendix 1 for these districts and settlements). Campbell in Edge and Lekorwe (1998:261) postulates that the re-classification of a settlement as urban is done on basis of the capability of the area to provide infrastructural and environmental services similar to those offered in a modern city to its population. This means that the aforementioned settlements have the attributes of a modern town, yet are located in the so-called "rural" Kweneng district (refer to appendix 3). This region is exemplified by the largest concentration of Botswana's population, better infrastructures and services, as well as being the largest base of Botswana's manufacturing and industrial strength. These economic attributes translate into employment creation, increased incomes and densely populated areas, hence economies of scale and scope in the provision of local public goods and services come into play.

In contrast to the South Eastern Region, the Western Region, comprising of the rural districts of Kgalagadi and Ghanzi districts, as well as the urban district of Ghanzi,, has the lowest level of urbanisation in Botswana. It is a mere less than two percent (see appendix 1 for both Ghanzi and Kgalagadi districts). The National Settlement Policy (1998:6) captures the features of the Western Region eloquently as follows, "*The Western Region is characterised* *by low and sparsely-distributed population, lack of surface water and prevalence of saline water and semi-desert conditions".* In economic terms the provision of local public goods in the Western Region, which encompasses the Kgalagadi district, is relatively high *per capita* while the local taxing power should logically be relatively lower because of lower incomes and sparsely populated settlements.

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According to the National Settlement Policy (1998:5), the South Eastern Region is made up of the rural districts of South East, Kweneng, Southern and Kgatleng, as well as the urban districts of Gaborone, Lobatse and Jwaneng. *At least 50% of Botswana's urbanites are residents of the South Eastern region.* They are mainly located in Gaborone, Lobatse, Jwaneng, Tlokweng, Mogoditshane, Mochudi, Ramotswa and Molepolole (refer to appendix 1 for these districts and settlements). Campbell in *Edge and Lekorwe* (1998:261) postulates that the re-classification of a settlement as urban is done on basis of the capability of the area to provide infrastructural and environmental services similar to those offered in a modern city to its population. This means that the aforementioned settlements have the attributes of a modern town, yet are located in the so-called "rural" Kweneng district (refer to appendix 3). This region is exemplified by the largest concentration of Botswana's population, better infrastructures and services, as well as being the largest base of Botswana's manufacturing and industrial strength. These economic attributes translate into employment creation, increased incomes and densely populated areas, hence economies of scale and scope in the provision of local public goods and services come into play.

In contrast to the South Eastern Region, the Western Region, comprising of the rural districts of Kgalagadi and Ghanzi districts, as well as the urban district of Ghanzi,, has the lowest level of urbanisation in Botswana. It is a mere less than two percent (see appendix 1 for both Ghanzi and Kgalagadi districts). The National Settlement Policy (1998:6) captures the features of the Western Region eloquently as follows, "*The Western Region is characterised by low and sparsely-distributed population, lack of surface water and prevalence of saline water and semi-desert conditions*". In economic terms the provision of local public goods in the Western Region, which encompasses the Kgalagadi district, is relatively high *per capita* while the local taxing power should logically be relatively lower because of lower incomes and sparsely populated settlements.

It is important to note that this précis on Botswana's population is meant to put into context the development of local governments in Botswana, with reference to their demographics, resources capacity, and geographical locations, in view of their differences in population distributions vis-à-vis land areas as discussed in section 3.3. This contextual discussion on urbanisation in Botswana seeks to highlight the fact that population distributions have shifted tremendously since the establishment and demarcation of district and urban councils in Botswana, yet the boundaries of districts have never been reviewed to allow for this development as well as the accompanying features, such as increased incomes. Urbanisation in Botswana has a potential for increased decentralisation in the provision of local public services, because such principles as the service-costs correspondence can be applied successfully in richer districts, while subsidies, funded through intergovernmental transfers. can be applied objectively in order to achieve equity and allocative efficiency without promoting incidences of free riding. This view draws its validity from the notion of critical mass, which is an important determinant of the degree of fiscal decentralisation that should be adopted in each municipal government (for an applied discussion of this principle see section 4.2.1).

3.4 Overview of fiscal decentralisation in Botswana

Fiscal decentralisation has a long history in Botswana, dating back to independence when the government of Botswana decided that local authorities were to be an important tier of government through which local issues would be better addressed locally, without recourse to the national government. However, the government acknowledged that local authorities did not have adequate financial and human resources capacity. Therefore the degree of decentralisation was to be equated with the level of their capacity as it evolved from weak to strong over time. Briefly, this discussion highlights the institutional arrangements between both tiers of government, the allocation of expenditure assignments and revenue raising powers, as well as the transfer system in place for both recurrent and development expenditures at local government level.

3.4.1 Institutional arrangements

The Ministry of Local Government[30] (MLG), as the main link between local authorities and the central government, has the explicit role of providing development support and policy guidance to the former. MLG also bargains on behalf of all local authorities at the central government for funding. As the "parent" ministry, MLG is allocated financial resources in the annual financial budget like any other ministry. However, the ministry is responsible for distributing the pool to various local authorities, according to their priorities, within the budgetary constraints and in accordance with the priorities of the National Development Plans (NDPs) and District Development Plans (DDPs). The extent of the central government's involvement in the affairs of local municipal governments through various national ministries is evidenced by the following:

- MLG controls and supervises most decisions considered critical to the relevance of local governments, such as local personnel, budgeting, training, developing new revenue sources and, in the development of managerial systems and procedures[31] (Olowu and Wunsch, 2004:94) (see section 4. 4.5.2);
- MLG is directly involved in the recruitment, training and development of the council's staff through the Department of Unified Local Government Service Management (DGLSM) (See section 3.4.2). This is done at no cost to the local authorities, in the process disburdening councils of budgetary pressures. However, local authorities have the responsibility to hire and remunerate the industrial-class employees (labours and semi-skilled personnel). Although Olowu and Wunsch (2004:93) credited the effective intergovernmental relations system between the MLG and local authorities for the successful implementation of this arrangement, the duo hastened to acknowledge that the system suppresses own initiatives and the development of local democracy that

[30] Formerly the Ministry of Local Government, Lands and Housing
[31] "No bye-law made by the council shall be of any force and effect unless it is approved by the Minister and published in the Gazette" Local Government (District Councils) Act Chapter 40:01 section 30

thrives when there is adequate local autonomy, in accordance with the decentralisation theorem;

- local governments are constrained to set fees for the services they provide to their constituents, either by the MLG or other government departments that individually control the levels of fees to be charged on behalf of councils[32]. This has created a tendency for council staff to assume that the national government will always be on standby to close financial gaps at district level (Peters-Berries,1994:43-45) (see section 4.5.3);
- the MFDP had the overall authority to determine which capital projects are undertaken in a given district/urban council, regardless of the priorities of the latter, although these projects had financial implications in the council's recurrent budgets. According to Briscoe (1995); Chanaux-Repond and Kanengoni (1995) in Olowu and Wunsch (2004:95), local politicians felt constrained to respond to the needs of their constituents, because problems were only addressed when considered important by a national ministry, which would then transfer funds to the council, or else the issues would not be addressed (see section 3.4.4).

This thesis suggests that the institutional framework between the national and local governments is in such a mode that coordination between the activities of both tiers of governments is difficult to maintain because there are various role players (ministries) involved in various activities of the municipal governments. The Ministry of Local Government may be calling for the implementation of cost-recovery measures to be imposed on the electorates, in order to reduce intergovernmental fiscal transfers to the districts, while the Ministry of Health (MoH), which sets primary health-care fees, may be driven by the contrary notion of equal access to public health. Hence, MoH may maintain lower standard rates that may not reflect the population *per capita* income of each municipal government. This would normally arise because of different views of what constitutes equity. MLG may understand equity from a fiscal decentralisation perspective, while MoH may consider equity as access to public health for all, irrespective of their economic status, at no cost at all or at nationally-determined standard rates.

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[32] Price setting (local charges) made by the local authorities for implementing on their populations is predetermined nationally by the Ministry of Health. The charge is uniform country-wide.

Fiscal decentralisation reforms require that the allocation of functions be clearly defined in order to ensure that conflicts between tiers of governments or between local governments and national ministries are kept to the minimum, in order to ensure that local authorities maintain their political autonomy from the centre. This would ensure local political ownership of locally-determined spending decisions that would be considered as the preferences of the local populations. It is therefore important to highlight briefly the intergovernmental relations framework between both tiers of governments and establish whether it provides for interdependent and inter-related relations between governments, or maintains a "grandmotherly" relationship in favour of the national government.

Inter-Governmental Relations: The relationship between local governments and the central government is governed by several acts, as stated in section 3.2. These Acts outline the statutory responsibilities of the councils and those of the national government ministries in the affairs of local authorities. In doing so they draw the limitations thereof, placed on municipalities and their expectations concerning the national government, on various sectors of local economies. In addition, both tiers of government cement their relations through such forums as the National District Development Conferences (NDDCs) which are instrumental in developing the National Development Plans (NDPs). Such forums are intended to ensure that NDPs reflect the priorities and views of local authorities.

However, the promotion of good relations between the centre and the peripheral governments is in principle the responsibility of the Botswana Association of Local Authorities (BALA)[33]. This body was established in 1983 "with the overriding objective of contributing towards a strong, democratic and development-conscious local government in Botswana" (SPCLGSB, 2001:63). BALA is supposed to achieve this by promoting and strengthening local democracy; providing advice and guidance to local authorities; arranging training for councillors; officers and monitoring standards; providing opportunities for discussing issues of common interest; formulating common policies on issues affecting local government; engaging in dialogue with the central government; and linking municipalities with others outside the borders of Botswana (SPCLGSB, 2001:63).

[33] Comprised of Mayors, Chief Executive Officers (CEOs) and Council Chairpersons.

However, the role of the MLG cannot be ruled out in this regard because it is, in principle, the chief role player on all issues concerning local governments. As the ministry responsible for coordinating all the activities of other ministries at local government, it has an overriding influence on the effectiveness of BALA because MLG is a major source of revenues for the former. As a result, lack of resources has hampered the achievement of some of these objectives for which BALA was created, except for a few, thanks to financial supports from donor agencies as well as the national government. The effectiveness of BALA is, notwithstanding this, compromised by the unwillingness of the national government to respond and implement its resolutions (SPCLGS, 2001:64). BALA is not recognised by any statute or the constitution.

This scenario is described by Green (1889:374) in Foster, Jackman and Perlman (1980:21) as "grandmotherly government", where the intergovernmental relation system is characterised by over-legislation at the expense of local authorities. Green (1889:374) in Foster, Jackman and Perlman (1980:21) remarked that "The outcry against state interference but to centralisation, to the constant aggression of the central executive upon local authorities" is not healthy for local self-determination of local authorities. This erodes their authority in their areas of jurisdictions, in the process undermining the objectives of fiscal decentralisation which is to ensure that local political leaders are answerable to their constituents and that their spending decisions mirror the changing tastes of their electorates. The ability of local governments to meet the preferences of their constituencies, which are not constant, depends on their capacity to adopt short, medium and long-term development planning in an environment where their spending decisions will be determined by them. They should as well be able to have a high level of revenue certainty and security, especially on services funded through intergovernmental fiscal transfers.

Multi-Year Development Planning at Local Government level: According to NDP9 (2003:389) "A fundamental premise of planning in Botswana is that it should, to the extent possible, be based on a *"bottom-up" planning system, through consultation, whereby the people have the opportunity to express their needs and prioritise them. These needs, in turn, constitute the basis for local-level planning and eventually national planning"*. Grassroots consultation is fundamentally critical to multi-year planning at local level. The Village Development Committees (VDCs) /Ward Development Committees (WDCs) are the lowest level consultation institutions, at village level, to facilitate bottom-up planning and coordinate development.. The former were established in 1968 through a Presidential directive and the latter replicated in urban areas. They are thus, called WDCs in urban areas.

These institutions are created to ensure that there is intensive and extensive consultation between ordinary members of society, government officials and politicians in the formulation and implementation of the DDPs and NDPs through the *Kgotla*[34]. Resolutions agreed upon here are taken to the District Development Committees which are comprised of all government departments at local level, Tribal Administration, Chief Executives of Councils, Non-Governmental Organisations (NGOs), private sector and others (NDP9, 2003:389-391). During NDP8 (1997-2003), the government committed itself to genuine decentralisation of DDPs, consistent with the development needs of the localities, within their financial and implementation capacities and guided by the overall objectives of the NDPs, resources permitting. For the first time the Urban Development Plan (UDP) 1, DDP5[35] and NDP8 were simultaneously produced after extensive consultative processes between the councils, national government, private sector and the Non-Governmental Organisations (NGOs). (NDP8, 2003:465).

Notwithstanding this, there is a concern that long-term development planning is far from being bottom-up in Botswana. According to local government officials, the determination of projects to be undertaken at district level are not decided upon by local authorities but by the national government. During an interview with a senior municipal official it emerged that National Development Plans are compiled first and then a schedule of projects that have been decided at national level is circulated to all district councils. Councils are expected to decide on their projects of interest and submit them to the Ministry of Finance and Development for evaluation and reprioritisation. Once this exercise is complete, district councils, through the District Development Committees, compile their District Development Plans. An analysis of the content of DDPs indeed reflects a schedule of development projects as contained in NDPs. This means that the DDPs address the development needs of the municipal governments through the eyes of the national government or from a national perspective, rather than from a local perspective.

[34] Kgotla is a public forum for discussing issues of societal interest at community, regional or national level.
[35] Urban councils used to produce physical plans as opposed to development plans.

This thesis, therefore, suggests that multi-year development planning in Botswana is reminiscent of what Blo-Hansen (1999:237) refers to as policy making environment dominated by "expenditure guardians" whose interest lies in protecting the macro-economic stability at all costs, in the process sidelining other equality-important role players (See section 4.5). In such an environment, local elections may well be decided by national issues, because local governments may be greatly constrained by national government[36]. From a fiscal decentralisation perspective this means local preferences would be decided from the centre. This is what is referred to as centralist approach to decentralisation. The environment within which multi-year policy making process is taking place creates a scenario of centrally-dominated, local-development planning, because all development projects are funded from the centre through non-matching grants (refer to 2.5.3.1 for the disadvantages of non-matching, conditional grants and section 4.4 for an analysis of Botswana's intergovernmental transfer system).

It should be noted, in concluding this section, that some of the developments grants are administered by the funding national ministries. Perhaps that is the reason why planning at local government level is centralist in approach. Accordingly, local authorities account to the government ministries, not the people that elected them to power. This is against the basic thrust of fiscal decentralisation which is about achieving economic efficiency. International experience suggests that governments are likely to be more efficient at spending their financial resources ift they were involved in generating them.

3.4.2 Expenditure responsibilities

According to the Local Government (District Council) Act, Chapter 40:01; 28 and the Township Act CAP 40:02; 29: "*It shall be the duty of a council to perform the functions it is required to perform and otherwise exercise its powers so as to secure and promote the health, order and good government of the area for which it has been established*". Through these acts, at least nine districts councils, four town councils and two city councils have been established, with varied responsibilities in accordance with the conditions of these acts. Over

[36] This observation was made by Newton in Layfield (1976:6) and referred to by Foster, Jackman and Perlman (1980:16), when they made the observation that in the United Kingdom national issues dominated local government politics to the extend of marginalising local issues. In the process the results of local elections were being decided on national issues.

and above their statutory responsibilities, local authorities may, through bye laws, extend their responsibilities with approval of the Minister of Local Government.

In an assertively-written text, after a comparative study of local governments in South Africa, Botswana and Swaziland, Oluwu (2004) concluded that, unlike most local governments in Africa, municipalities in Botswana have a wide range of expenditure responsibilities and they have in most cases exhibited a high level of competence to perform them. Perhaps Oluwu (2004) came to this conclusion as a result of the following wide and complex responsibilities that the Local Government Acts confers on councils[37]:

- primary education;
- basic health care and sanitation;
- maintenance of public roads other than those maintained by the national government;
- water supplies, mostly in rural areas where Water Utilities Corporation[38] (WUC) is not mandated such a responsibility;
- general administration (for example, the establishment, maintenance and control of markets, recreation grounds, parks and other places, cemeteries and burial grounds);
- abattoirs;
- regulating and licensing of , among others, brewing, distribution and sale of traditional beer.

Through various statutes and regulations the expenditure responsibilities of councils have been increased since 1985 to include: self-helping housing, matimela (stray cattle); remote-area development; fire extinction and prevention; physical planning; trade licensing and labour-intensive public works.

In addition to the expenditure responsibilities assigned to district councils, town and city councils, they have additional responsibilities, such as the protection of common properties and providing public electricity supplies. They also have to build, maintain and let houses and must acquire and develop land for sale as serviced lots[39]. As Peters-Berries (1994:8) rightly said, the current laws and bye-laws assign the councils broad responsibilities, including some of the most cost-intensive undertakings such as: the provision of health care,

[37] The first few are the main functions, whilst the rest are permissive responsibilities.
[38] Water Utilities Corporation has been statutorily assigned. All the responsibilities pertaining to the supply of water to urban centres and other areas are designated by the Minister of Minerals, Energy and Water Affairs.
[39] Townships Act CAP 40:02; regulation 28

primary education and drought relief projects. However, according to Sharma (1998:79) and Wunsch (2004), the capacity of the local authorities has been found wanting in delivering their statutory mandates. The limited capacity of councils to deliver their statutory mandates satisfactorily is denoted largely by the sustained provision of certain services on a joint basis with national ministries.

Notable among their statutory responsibilities, delivered on a joint basis (provisions?) with the ministries responsible for such sectors, are:

- **Primary Education**. Whereas the national Ministry of Education (MoE) is responsible for the provision of teachers, the deployment of teachers and their supervision and development of the curriculum, local authorities have been mandated to build schools and teachers' housing, provide supplies and other related facilities (NDP8, 1997:341);
- **Primary Health Care**. The responsibility to run the basic health-care service has been vested with the councils along the same lines as the arrangement with primary education. Whilst, the Ministry of Health (MoH) sets the standards, supervises and trains the nurses and doctors (including other health personnel), they are employed and salaried by the MLG. The national government assists councils quite significantly with health facilities and other critical equipments to ensure that the basic health care runs smoothly (ibid);
- **Public Road Construction and Maintenance**. The construction and maintenance of primary and secondary roads have been designated to the roads department within the Ministry of Works and Transport (MWT) whilst the MLG, through the councils, are responsible for tertiary and access roads. According to NDP9 Part II (2003:44), district councils were responsible for construction and maintenance of tertiary and access roads, 9 866 kilometres long (earth: 6 996 km, tracks: 2 770 km) while urban councils were responsible for 1 440km. MWT is responsible for 8 775km of roads. Yet, MLG estimates that during the entire NDP9 (2003-2009) both district and urban councils would be allocated a capital budget of P1 066 499 000, while MWT estimates that at least P2 332 187 000, as capital expenditure, would be incurred through the construction and rehabilitation of secondary and primary roads. Both district and urban councils have outsourced most of the roads programme to the private sector since the beginning of NDP8. This has since relieved their overstretched technical capacity;

- **Water and Waste Water**. The water sector, as well as the policy development related to it, falls within the Ministry of Mineral Resources and Water Affairs (MMRWA). The Department of Water Affairs (DWA) plans, constructs, and operates water supply systems in 17 major villages (headquarters of districts), whilst the operation and maintenance of water schemes in medium and small rural villages are the responsibility of the district councils under the MLG. The operation of water supply systems by DWA certainly deprives local authorities of potential revenue sources that would boost their internally-generated revenues. In an effort to perform their water supply responsibility effectively, all district councils established separate Water Departments (NDP 8, 1997:279-282).
- **Drought Relief Labour Intensive Public Works Programme**[40] (DRLIPW). Botswana is prone to long periods of harsh droughts that threaten the food security of rural communities and drastically curtail the potential income that could be generated through subsistence farming. The government has historically taken upon itself to provide relief measures to the rural citizens through the DRLIPW. MLG's projects were accordingly decentralised to the district councils. District councils submit proposals of projects to the MLG to be considered for viability and sustainability. Priority is given to infrastructure that is considered basic and necessary for the developments of rural areas, including the construction of teachers' quarters, health posts, accommodation for public servants and water supplies within localities. However, it appears that projects undertaken through the DRLIPW are becoming more complex and require high level of technical skills to undertake. As a result, of this, it was observed during the NDP8 (1997-2003) that the capacities of districts became overstretched because the management of projects became too complex, while project supervision was weak. As a result, projects took longer to complete than planned. To augment inadequate technical skills within district councils to undertake such varied and cost intensive projects, it became necessary to engage external volunteers to assist with the technical aspects (refer to section 4.4.2).

Although the provision of local public goods and services on joint basis has worked well in the past, there is a pressing need to devolve some of the activities to be fully performed by

[40] This programme is implemented nationally and executed by districts, funded through specific or conditional transfers from the centre.

local authorities so as to avoid inconsistencies within the same jurisdictional areas. For example, councils contend that they are not performing to the optimum in the supply of water, because they do not have the authority to identify, site or drill boreholes, as the authority rests with DWA. In addition, DWA on one hand offers its customers in large villages the option to dig trenches and get connected to the water system by the department at a cost of P470 or, alternatively, the department may provide full connection at P640. Councils, on the other hand, expect applicants to dig trenches and purchase their own material. Councils in return charge P200 for labour involved in the connection. This, according to the councils, was as a result of inadequate financial resources (SPCLGSB, 2001:19).

This situation is not helpful to genuine decentralization. Firstly, the department of water affairs enjoys economies of scale in the supply of water in urban villages (because of high population densities) within the jurisdictions of councils while the latter supply water to scattered homesteads at a high cumulative cost because homesteads are sparsely distributed in small villages. This may negatively affect the durability and sustainability of supplying water in a cost-effective manner in rural villages due to high capital costs (incurred by councils) that cannot be recovered from rural residents in the short-to-medium term. Residents of smaller villages may perceive the supply of non-durable water to them by the councils as a sign of failure by councils to deliver their assigned mandate. This may be interpreted as failure of the decentralisation reforms to improve the provision of durable goods and services at reasonable cost (or in an efficient and effective manner) because rural residents do not get value for their money from the councils.

Secondly, the concept of fiscal decentralisation values competition (or the Tiebout Model) as a way of inducing competition between service providers (in this case municipal governments) in order to ensure efficient delivery of services. This is only possible when residents have a choice of services to choose from. The supply of water in rural villages has limited if any choices for residents to choose from. Residents in rural villages have no choice but to travel long-distances in order to purchase materials required to connect them to the council water supply system while their counterparts in urban villages enjoy the supply of durable water by either getting full connection at a correspondingly high cost or by digging trenches in order for the department of water to connect them. This inconsistencies only entrenches the view that decentralisation is not a solution for poor service delivery but an impediment for better services deliveries by the national government departments[41].

On a different but related note, Mosha (2004:25) observed that the Gaborone City Council had constructed two new clinics that were not in operation because of lack of nurses and doctors that are not employed by the council but the MLG. This is an illustration of the control that the government (through MLG) has on municipal governments. If local authorities had the authority to determine what projects to undertake within the capacity of their financial resources, Gaborone city council would not have constructed clinics without taking into consideration the human resources required to run them. The city council would rather have undertaken an alternative project that it would be able to operate with the resources at disposal. Because, the city council constructed the facilities with an expectation (and most probably legitimate expectation because projects are approved and fully funded by the government through MLG) that MLG would provide human resources, it may as well had made a pledge to its constituents that clinics would be operational at an earlier time than is the case now. This is centralisation at local level.

This thesis, while appreciating that there is inadequate capacity at local government level to run their affairs without interference from the national government, suggests that the current arrangement of joint provision creates a setback for fiscal decentralisation reforms, because it blurs the accountability lines between local political representatives and their electorates. Consequently, councils merely pass on the blame to the national government for services that they are mandated to provide, instead of taking positive steps towards solving inadequacies.

Notwithstanding this, it is important, *ab initio,* that before getting into the details of the revenue sources assigned to local authorities, the significance of local government as a source of employment and a contributor to the Gross Domestic Product of the economy should be highlighted. This is one element in the measuring of the extent of decentralisation, because it indicates the implications of locally based financial expenditure decisions in the overall economy.

[41] The Second Presidential Commission on Local Government Structure (2001:20) raised a concern that limited choices for rural residents in the supply of water by the councils are "unfortunate and grossly inequitable".

TABLE 2 ESTIMATED NUMBER OF PAID EMPLOYEES BY SECTOR AND ECONOMY ACTIVITY

September 1999-September 2004

Sector/Economic Activity	Sept 1999	Sept 2000	Sept 2001	Sept 2002	Sept 2003	Sept 2004
Private & Parastatal	15300	160100	166900	169519	174483	178854
Central Government	84900	84500	82200	86958	87700	94753
Local Government	19100	20700	22100	23247	23200	22780
Grand Total	**257100**	**265200**	**271200**	**279724**	**285382**	**296387**

Source: Central Statistics Office (An extract from the Annual Economic Report (2005:33))

Based on the information in tables 2 (above) and 3 (below) it is clear that the level of local governments' expenditures did not keep pace with the growth of the overall government expenditures within the 1999/00-2003/04 financial years. Local government consumption remained constant within the five-year period, whilst its contribution to employment initially grew marginally from 7.42% to 8.31% before retreating back to 7.68% in 2004. It is still to be established whether this implies centralisation or decentralisation of the overall public sector financial expenditure decision-making. It is nevertheless worth noting that the number of local governments' employees decreased relative to that of the national government, parastatals and private sector. Government's consumption increased faster than that of local governments (Table 3). If indeed this information implies centralisation, then the government's efforts to inculcate economic efficiency through decentralised public expenditures are not bearing fruits.

TABLE 3 GROSS DOMESTIC PRODUCT BY TYPE OF EXPENDITURE AT CURRENT PRICES

TYPE OF EXPENDITURE	1999/00	2000/01	2001/02	2002/03	2003/04
P Million					
Government final Consumption	**7,524.5**	**8,741.8**	**10,552.7**	**12,167.5**	**13,692.4**
(a) Central	6,709.7	7,839.2	9,507.8	11,013.9	12,422.4
(b) Local	814.9	902.7	1,044.8	1,153.6	1,270.0
Percentage of Total					
Government final Consumption	**30.2**	**30.5**	**33.1**	**33.1**	**34.3**
(a) Central	26.9	27.4	29.8	30.0	31.1
(b) Local	3.3	3.2	3.3	3.1	3.2

Source: Central Statistics Office (An extract from the Annual Economic Report (2005:30))

3.4.3 Revenue Assignments

Councils in Botswana have been assigned less buoyant revenue sources. According to the Local Government Law (section 40 of Chapter 40:01; and section 96 of Chapter 40:02) councils revenue sources include:

(a) such tax as the council is authorised by law to collect from the inhabitants of the area in respect of which the council has been established;
(b) such rates as the council is authorised by law to impose;
(c) rentals from property owned or administered by the council;
(d) all moneys derived from licenses or permits issued by the council and all taxes, dues and fees imposed under lawful authority by the council;
(e) interest on investment;
(f) such royalties as may by law be payable to or receivable by the council;
(g) donations, contributions and endowments;
(h) reimbursements;
(i) such grants as the government may make to the council;
(j) any other moneys which may by law be paid to or received by the council.

It may appear as if local authorities have relatively extensive authority to generate their own revenues through a wide panoply of sources. This is the implication that the Local Government Law generates. To the contrary, according to Peters-Berries (1994:12), local authorities are disempowered to impose taxes of their own on profitable businesses to avoid distortion of competition, such as in the public transport industry. The law further restricts the power of councils to tax certain individuals through granting exemptions in property taxation. The beneficiaries of this arrangement, among others, are: public enterprises such as the Botswana Railways, Botswana Power Corporation and the WUC (in their use of industrial land), religious groups who own buildings, private and public schools, as well as the economically disadvantaged members of society (Peters-Berries, 1994:12). There is therefore, a clear indication of a deliberate policy to restrict the financial autonomy of councils in Botswana. The trend has been developing over time since the 1970s as a result of the rapid growth rate of national government revenues from the sale of rough diamonds. According to the NDP7 (1991:472), local government tax was revoked because it was expensive to collect and lacked an element of equity. This assertion was made during the time of Botswana's diamond boom.

Since being stripped of the right to raise local government tax, municipal governments have very limited own revenue that they have some sort of control over. As the main sources of local governments' revenues have been reduced too, they have technically created a third type of revenues for themselves – albeit at the expense of their electorates. These are through own revenues, intergovernmental grants (referred to as Revenue Support Grants (RSGs) or Deficit Grants). The main revenue sources for district councils are trade licence fees, matimela charges, water levy, fees for sanitation and abattoir and investment income from General Fund balances.

Urban councils, on the other hand, mainly have access to the following own revenue sources (SPCLGSB, 2001:52): property rates; site and service levies and licence fees.

According to the NDP7 (1991:453) there was a rapid expenditure resurgence during the NDP6 period, so much so that the difference between councils' own revenues and the deficits grants from the central government was P36 million, before swelling to P140m in the 1990/91 financial year. It is on record that expenditure growth indeed averaged at least 13 percent *per annum* between the financial years 1985/86-1990/92 in real price terms. During the same period, urban councils were expected to finance 85 percent of their expenditure responsibilities from own sources. Much to the disappointment of the national government, urban councils only managed to finance 40 percent of their expenditure responsibilities for the financial year 1989/90 as against the 81 percent that they had funded in the financial year 1985/86 (NDP7, 1991:455).

This trend continued unabated during the NDP8 (1997-2003) and NDP9 (2003-2009) intervals. There is therefore, a positive gap (because expenditure needs have been rising rapidly while the revenue raising capacity remained stagnant) between the expenditure needs and the revenue-raising capacity of the local authorities. This applies to both urban and district councils. The expenditure needs' growth exceeded the own revenues' growth rate. During NDP8, RSG constituted 64 percent and 92 percent of the urban and district councils, whilst during NDP9, 70 percent and 95 percent of urban and district councils were sourced by the central government through intergovernmental financial transfers (NDP8, 1997:467; NDP9, 2003:392).

According to Sharma, in Sing and Reddy (2003:234), limited revenue sources are further subsided/depleted by the ineffective administration at local government which manifests itself in the form of high default rates and arrears in service levies, arrears in the collection of loans extended to the public via the self-help housing areas (SHHA) programme (loans) and inadequate collection of property rates in urban councils (see sections 3.5.1 and 4.3.1.1).

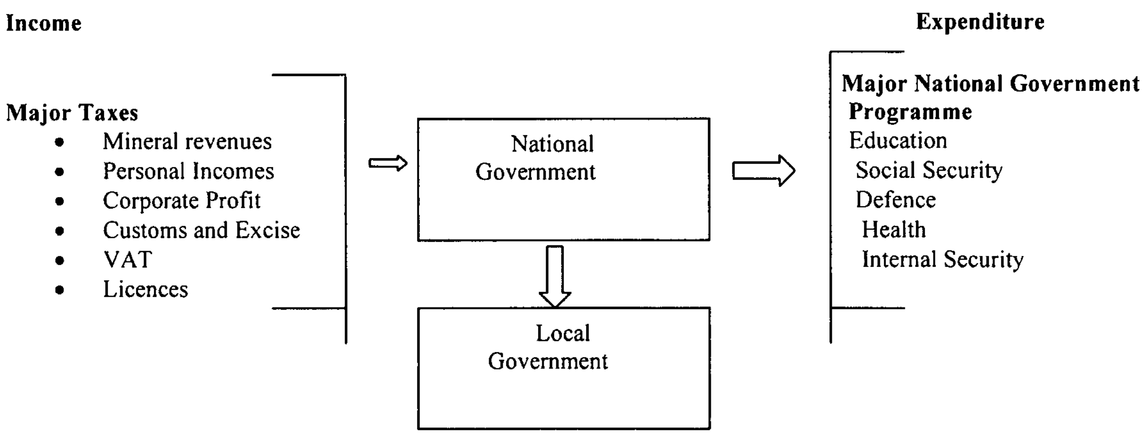
It is important to mention the fact that the General Fund was not created by the government as a local revenue source. According to section 41 (1) of the Local Government (District Council) Act and section 97 (1) of the Townships Act "Every council shall establish and maintain a general fund and all moneys received by the council by way of revenue shall be paid into this fund, all expenses incurred by the council in the execution of the powers and duties conferred upon it by or under provisions of this Act shall be defrayed out of such fund". Due to deferred expenditures, as a result of inadequate capacity to undertake budgeted-for projects and council activities, as well as inflexible financial rules imposed by MLG, such revenues accrue in the general fund (in the process-generating income) lost me here!. Such interests as may accrue to the general fund is seen by local authorities as a lucrative source of income for their councils (refer to case studies, sections 3.5.1; 3.5.2; and 3.5.3). In fact it accounts for more than 60% of own incomes for most district councils.

This thesis therefore suggests that the growing gap between expenditure needs and revenue capacity at municipal level is not incidental but as a consequence of the expenditure reforms undertaken that were not complemented by reforms of revenue- generating powers. Furthermore, inadequate measures were taken to build local institutional capacity to maximise their (municipalities') revenue collections from existing revenue sources.

3.4.4 Intergovernmental fiscal transfers

Whereas Craythorne (2003:218) agues that the power of the government to impose taxes relates directly to its fiscal powers, the reality is that in unitary states local governments derive their power to raise and spend own revenues directly from the central government. The practice therefore, has been that the bulk of the sub-central governments' revenues emanate from the national government. Botswana is certainly an illustrative example of a centrally-organised revenue generation system. Figure 2 (below) fairly represents Botswana's fiscal transfer system. Figure 2 indicates how/that all major revenue sources, including cyclical taxes (for example income tax and taxes on natural resources) are the preserve of the national government. Hence, there are no revenues generated within the jurisdictions of municipal governments to be shared between spheres of government, like in a hybrid tax system as is the case in South Africa and France. Revenue generation is centralised and distributed by the national government, through the established transfer mechanisms as discussed below.

*Figure 2 Taxation Systems I: The Centralised Systems of Grant Allocation
(This model is adapted from Burns, D. Hambleton, R. & Hoggett, P, 1994:132)



*The contents (income and expenditure) of figure 2 are based on the Botswana budget speeches of 2004/05 and 2005/06

Centralised taxation in Botswana is an offspring of the widely-held notion in the developing world that decentralised taxes may be a recipe for inter-regional or inter-ethnic conflicts. Whilst this may be true for many developing countries, it must be mentioned that a centralised taxation system is not a sufficient condition for equitable distribution of national-generated resources, but a necessary condition. Therefore, it is incumbent upon the architects of the intergovernmental transfer carefully to craft the system in such a way that it achieves equity without compromising the provision of local public services on the basis of economic efficiency.

The justifications advanced for a centralised taxation system in Botswana are on the basis of the fact that only two administrative districts[42] have diamond mines and only one is endowed with substantial natural resources that are up to international tourism standards, as well as for the equitable distribution of such revenue sources as the petroleum fuel taxes and hotel taxes.

[42] As at 2007 several (two copper and one nickel) mines were opened in addition to the existing three big diamonds mines. One diamond mine was on the verge of being opened in 2007. It is expected that more mines in 2008 and 2009 will be opened in Botswana in non-traditional diamond areas.

Hence, the government of "...*Botswana chose a deliberate policy that allows central government to collect revenue from these sources and to redistribute them to the various districts according to their planned development needs*" (SPCLGSB, 2001:47). This has left local authorities with insignificant autonomy and close to no own initiative as so pithily phrased below:

"*Financial dependence on the central government breeds an unhealthy reliance upon Central Government, forcing local authorities to look to the Central Government for advice and direction on even the smallest matters. It reverses the desirable direction of accountability, making local authorities less responsible to the needs of their constituents*" (NDP8, 1997:233).

In concluding this section, it is important to state that intergovernmental transfers are/come in two forms. Capital transfers to local authorities are non-matching and conditional. That is, local authorities are not expected to contribute anything but must implement approved projects within their areas of jurisdictions. Government also transfers RSGs to the local authorities to carry out their day to day activities as assigned by the acts establishing them. Such transfers are not stable over time. They appear to reflect the annual national budget outlook rather than a transparent revenue transfer system that is predictable in the medium to long term. As indicated in section 1.3 the oscillatory nature of intergovernmental transfers are such that rapid increases in one year are followed by sharp declines in the following financial year. This is not conducive to local long-term financial planning. Thus, local authorities may be too demotivated to be innovative in budgeting for their districts because there is no revenue certainty or security over an extended period of time (refer to sections 3.5.1; 3.5.2; 3.5.3 and 4.4). These decentralisation shortcomings are illustrated in the case studies below.

3.5 Case Studies: Fiscal decentralisation for equitable distribution and innovative financial management or wasteful spending?

As alluded to in the literature review, fiscal decentralisation as an on-going process can be used as a vehicle to achieve certain objectives successfully, if appropriately designed and implemented (refer to sections 2.3.1 & 2.3.2). Nevertheless, the opposite is true if the strategy adopted is misguided and it can, at worst, force the economy on its knees, fuel tribal/ethnic rivalry and cause corruption of the elite through inter-regionally skewed developments that are precipitated by inconsistent intergovernmental transfer mechanisms, shrouded in secrecy. Now, that it is clear that local authorities rely on national government for funding their statutory assignments in terms of fiscal and institutional support, it is important, first and foremost, to study carefully the expenditure trends within the district and urban councils on local public goods and services that have the following features: (a) significant externalities or merit goods such as primary education and primary health care; (b) equity-inclined or social-welfare goods and services such as Social and Community Development (S&CD) and Remote Area Development Programme (RADP) (pure goods); as well as (c) mixed and private goods and/or services such as domestic water and sewerage connections, sanitation services and municipal staff housing rentals.

These expenditure assignments have been chosen in order to assess the extent of each case study of local governments' expenditures on the (a) redistribution of nationally-generated revenues in order to achieve allocative efficiecy through the provision of social services; (b) goods and services with externality effects[43] in order to establish the extent and impact of intergovernmental fiscal transfers on local government financial management; and (c) on mixed and private goods and/or services in order to ascertain the degree of cost-recovery measures applied with the aim of maximising allocative efficiecy and inter-municipal equity, depending on the average population *per capita* income (or the chargeability of services[44]) of each local government case study. It is the aim of this thesis to establish whether the allocation of expenditure assignments took into consideration an element of *technicity* or technical and managerial expertise of each local government that is required to provide such services as determined by the acts establishing them, especially those services with high potential to generate more revenues for local authorities.

On the basis of information collected on the expenditure assignments, as mentioned in the preceding paragraph, the discussion would also establish the revenue-raising capacity of each council, based on actual revenues collected on selected revenue items that account for the major component of internally-generated moneys. Reference would be made to the productivity of expenditures on selected mixed and/or private goods and services. An analysis

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[43] See footnote in section 2.4.3 (Page 60)

[44] According to Prud'Homme (1995:210) the chargeability of services indicates the ease with which services can be financed through public charges rather than with taxes.

of property taxation as a significant source of town/city councils' own revenues would be made in order to establish its coverage and collection ratios among others. Finally, this thesis will study trends in intergovernmental fiscal transfers over an extended period of five years, from the 2001/02 to 2005/06 financial years, in order to establish whether they address both the vertical and horizontal inequalities between local authorities and the national government as well between local authorities themselves respectively.

Based on available information, the discussion should be able to answer the hypothesis. It is the objective of this thesis to establish whether the current allocation of expenditure and revenue assignments, intergovernmental transfer mechanism and institutional framework facilitate the achievement of allocative efficacy, restrained local public expenditures, increased revenue generation, improved political accountability as well as better equity in each category of municipal governments covered in the case studies below.

3.5.1 Gaborone City Council[45]

Gaborone is the capital city of Botswana. All national ministries, most parastatals and the Southern African Development Community (SADC) are headquartered here. It is the financial, telecommunication, rail, manufacturing and air-travel/transport hub of the country. As at 2001, it was home to at least 186 007 people, accounting for 11 percent of the country's populace (See Tables 4 and 5). For this reason, it has become the major location of formal employment in Botswana. The city's rapid population growth rate since 1966 to 2001 from 6 000 to 186 007 largely reflect the country's development trajectories that (a) promoted centralised public and private investments, (b) considerably improved social and infrastructural services (for example in Education, Health and Housing) and (c) increased incomes attributed to the growth of the diversified formal sector employment within the city.

Table 4: Gaborone's Population trends

Year	Population	Batswana	Non-Batswana
1991	133, 346	121, 487	11, 981
2001	186,007	163,382	22, 625

[45] Gaborone lays on State land (75.7%) and Freehold land (24.3%). The administering of land allocation has been assigned the Department of Lands on behalf of the Minister of Lands and Housing. (GUDP2, 2003-2009:51).

Source: Central Statistics Office (Adapted from the Gaborone Urban Development Plan 2, 2003:6)

Table 5: Population Growth Trends in Urban Primary Centres (2001)

Primary Centres	2001	Annual Growth Rate % (2001-)
Gaborone	186,007	3.37
Francistown	83,023	2.44
Lobatse	29,689	1.32
Selibe-Phikwe	49,849	2.28
Total	348,568	2.28

Source: Central Statistics Office 2001 (Adapted from the Gaborone Urban Development Plan 2, 2003:7)

Compared to other primary[46] and urban centres, Gaborone has enjoyed more rapid population growth rates. According to Campbell in Edge and Lekorwe (1998:262) half of Botswana's population was within the 200 kilometre (km) radius of Gaborone in 1981. By 1991, the distance had reduced to 100 km. This rapid change within 10 years was mainly due to the migration effect (refer to section 3.3.1). In fact, by 1991 Gaborone had reached primacy status[47] in accordance with the Pareto Law. Gaborone was 104.6 percent larger than the second biggest centre (See Table 5). At least 53.3 percent of the urban population were residents of Gaborone. This development was (is) influenced by geographic location[48] of the city, by other district councils bordering the city, as well as the centralised economic structure of the country. The population expansion has had many implications for the GCC to deal with. The provision of serviced land and housing, as well as other necessary infrastructural developments required in a modern city, such as the provision of centralised sewerage and drainage systems, overextended the limited financial resources of GCC. In order to establish whether the current fiscal decentralisation system is sympathetic to improved management of financial resources and increased revenue generation in GCC, this discussion systematically analyses the expenditure, revenues and intergovernmental financial trends of the capital city council over a period of five years.

[46] The National Settlement Policy-White Paper No. 2 of 1998 provides for a stratified classification of centres into primary, secondary and tertiary. Primary centres are considered to possess high development potential, to be economically diversified and populated by more than 20 000 people.
[47] "A city attains the status of primacy when its population is at least twice that of the next largest town". (Stewart, 1947) quoted by Campbell in Edge and Lekorwe (1998:263).
[48] This will be discussed later, more specifically in chapter 5

Expenditure trends: On average, urban councils are estimated to have accounted for 24% of total councils' recurrent budgets over the 2001/02 – 2005/06 periods, with modest fluctuations annually. However, GCC enjoyed a lion's share of the total urban expenditures, accounting for almost 40% of the urban councils' budgets. Between 2000/01 and 2001/02 there was an almost 14% increase in expenditures, followed by an annual increase of 23.15%, 3.86%, 6.69% and finally a reduction of 1.31% in the subsequent financial year. It is also clear from table 6 that there were deficits in every single year between 2001/02-2003/04 (in chronological order) as follows: 1.95%, 8.93% and 10.95% . Moreover, during the same period, GCC budget deficit increased consistently (See tables 7, 8 and 9). This is despite balanced estimated expenditures and incomes in each financial year within the period under review.

The preliminary findings indicate a rapid rise in expenditures during the 2001/02 and 2002/03 financial years, followed by a sharp fall in the subsequent years until the council budget finally shrunk by just over a percent in the 2005/06 financial year. Below is an analysis of five expenditure items, in order to establish the reasons for simultaneous deceleration of budget expansions and increased budget deficits growth in the period under review. These are: education, primary health care, Social and Community Development (S&CD), Self Help Housing Agency (SHHA) and water and sewerage. These sectors have been chosen for a number of reasons which, to a large extent, could be considered laboratories of allocative efficiency in the expenditures of nationally-raised financial resources at municipal level, more so in that they exhibit an element of redistribution. Local government, as the government closest to the people, is better placed to identify the deserving beneficiaries of equity-inclined services that should be targeted enough to avoid free rider elements and welfarism. It is even more pressing to refer to these expenditure items, because they constitute, on average, almost 32 percent, or over 1/3, of the GCC budget (See table 9 below).

behalf of the SHHA residents until efforts were made by the city council to reduce the costs it incurred in water supplies. A water upgrading project in all SHHA areas, with the exception of the Old Naledi[53], was completed in 2000 by the WUC. The project was necessitated by the pressing need to ensure that the residents of Gaborone connected water supplies into their yards in order to phase out public stand pipes that had become a burden to the council. The project generally was successful given that just over 75 percent of yards were connected to the WUC water system. Unfortunately the low-income areas were sidelined from the GCC's development strategy as they were not connected to the sewerage system. They have been left to face the rigours of the old system of pit latrines and septic tanks that is proving unfriendly to the environment (GUDP2, 2003-2009).

After an examination of the GCC's expenditure trends, based on available information, it emergeg that a significant portion of the city's financial resources are devoted to primary health care (see table 9). The figures from financial resources, assigned to the health-care expenditure item, have been rising since 2001/02 to 2005/06, mainly because the sector has significant externality effects. The roll-out of the anti-retroviral therapy, among others, to residents within the city's planning area (see appendix 3) that are statutorily outside the GCC's jurisdiction, has had an impact on the rising health care expenditures. The city also provides public and private education services to the Kgatleng, Kweneng and South East districts (see appendix 1 for these districts). It should be noted that the city plays an important (if indirect) role in both public and private education, because a significant amount of property tax is lost through exemptions extended to all private and public education service providers.

In addition to that, there is an extensive involvement of the central government through government ministries and departments, as well as parastatals, in local government-assigned responsibilities. For example, the department of housing is responsible for the monitoring of the SHHA programme. Allocation of land and land servicing also fall within the purview of central government's departments. This finding is corroborated by Maundeni (2004:20). Perhaps this better explains the decline in the number of allocations of SHHA plots and loans within the city (refer to table 9). However, on a more positive side, increased resources allocated to the upgrading and development of sewerage and sanitation services is a positive step towards decentralised service provision. The success of sewerage and sanitation services

[53] Old-Naledi is a unique low-income area that does not conform to the Urban Development Plan

Table 6: Trends in Recurrent Expenditure Estimates for the Years: 2001/02-2005/06 (Gaborone City Council)

EXPENDITURE ITEM	2001/02	2002/03	2003/04	2004/05[49]	2005/06[50]
City Clerk	13,144,310	17,351,770	18,988,805	22,170,660	20,340,220
Treasury	9,487,520	10,753,300	13,050,543	11,982,890	10,461,440
Education	8,936,940	10,864,870	12,795,060	12,957,910	11,154,990
Clinics	20,497,790	19,260,630	23,332,498	35,608,450	36,348,240
Environmental .Health	11,592,460	12,703,320	12,257,655	20,431,100	22,580,510
Engineering	20,714,770	25,835,800	24,677,247	24,519,710	24,123,970
Architecture &Building	4,799,900	4,924,800	3,759,013	7,123,050	6,213,250
Social &Community Development	5,713,570	7,643,910	3,842,224	5,062,120	5,084,000
HBC	623,720	659,640			
fire service	3,663,640	3,807,140	4,279,204	4,800,940	6,694,690
SHHA	5,910,050	4,438,660	4,683,288	6,029,970	4,526,430
Transport	11,665,360	11,940,300	12,879,102	9,087,230	9,280,470
Water/Sewerage	7,068,710	8,680,830	6,470,590	9,202,790	9,945,200
SUB-TOT.	**121,400,760**	**138,864,970**	**141,015,229**	**168,976,820**	**166,753,410**
SURPLUS	**-2,417,980**	**-13,617,840**	**-17,356,233**	**0**	**0**
Grand Total	**123,818,740**	**152,482,810**	**158,371,462**	**168,976,820**	**166,753,410**

Sources: Ministry of Local Government, City and Town Councils Recurrent Budgets (2001/02-2005/06)

Table 7: Estimated Growth Rates of Gaborone City Council Recurrent Budgets (in %)

District	2001/02	2002/03	2003/04	2004/05	2005/06	Average
Gaborone	+13.86	+23.15	+3.86	+6.69	-1.31	+9.25

Table 8: Estimated Growth Rate of Deficits of Gaborone City Council Recurrent Budgets (in %)

District	2001/02	2002/03	2003/04	2004/05	2005/06	Average
Gaborone	1.95	8.93	10.95	0	0	4.36

First of all, education on average constituted over seven per cent of the council's budget. By 2002 there were 40 primary schools in GCC. 12 and 28 primary schools were privately and publicly owned respectively. According to the Gaborone Urban Development Plan 2 (2003-

[49] Financial year 2004/05 represent approved estimated expenditures where as 2005/06 is a representation of estimated expenditures

[50] Financial year 2005/06 represents estimated expenditures

2009:98) 60.7 per cent of public schools were overstretched exceeding the stipulated 40 pupils maximum per class. Empirical evidence from a report compiled by Botswana Council of Non-Governmental Organisations (BOCONGO) (2001:10) indicates that many pupils from the surrounding peri-urban centres of Kweneng and South East Districts[51] receive their primary school education within the GCC area. This constitutes a spill-over effect on the council's budget. However, because there was no quantified number of pupils from within GCC and the surrounding peri-urban centres, it remained difficult to calculate the cost of spill-over effects on the GCC. A qualitative conclusion would nevertheless be reached later after studying the education expenditure within the Kweneng District Council, one of the main beneficiaries of GCC's expenditure spill-over effects.

Table 9: Estimated Sectoral expenditures (expressed in %) against the annual budgets (GCC)

Sector	2001/02	2002/03	2003/04	2004/05	2005/06	Average
Education	7.21	7.12	8.07	7.66	6.68	7.34
Clinics	16.55	12.63	14.73	21.07	21.78	13.13
S&CD	4.61	5.01	2.42	2.99	3.04	3.61
SHHA	4.77	2.91	2.95	3.56	2.71	2.42
Water & Sewerage	5.70	5.69	4.08	5.44	5.96	5.37
Total	38.84	33.36	32.25	40.72	40.17	31.87

Secondly, primary health care, much the same as primary education, is a merit good. With at least 14 clinics under the GCC as at 2002, over 13 per cent of the council's budget is dedicated to this expenditure item, yet congestion of patients has become a concern to the local authorities. The referral of patients by clinics from the surrounding districts has been found to be worsening the situation.[52] This also constitutes spill-over effects which should be internalised through national transfers (GUDP, 2003-2009, 18; Botswana Council of Non-Governmental Organisations (BOCONGO) 2001:10).

Thirdly, Botswana has a wide array of social services such as the Destitution policy, Orphan Care Program (OCP), Community Home Based Care System (CHBCS), which are taken care

[51] More especially pupils from Mogoditshane and Tlokweng (See appendix 3)

[52] Gaborone, as the capital, took a lead, as the first district to roll out the Anti-Retroviral (ARV) therapy to those infected with the Human Immuno Deficiency Virus (HIV), in the event attracting people from outside its statutory boundaries.

of by the councils through the Social and Community Development (S&CD). According to the GUDP2 (2003-2009: 130) there are increasing incidents of destitution in the city, strongly linked to the HIV-AIDS pandemic. The increase of orphans, and the CHBCS who are provided with, among others; bedding, clothing, toiletry, special diet and counselling, kept the council on average spending close to four percent over five years. This indicates the extent to which the city is involved in the redistribution of resources in order to enhance allocative efficiency as the government closest to the people.

Fourthly, Self Help Housing Agency (SHHA) is an initiative of the Government of Botswana, meant to relieve the low-income groups who do not have access to the housing loans provided by the market. In 1999 the loan stood at P20 000 per beneficiary. The loan is used to purchase building materials. The beneficiaries are expected to repay the council within 15 years. This is a revenue-generating initiative for the local authorities and as such GCC is expected to utilise the initiative as some form of a revenue-generating source of money that can be re-lent to the low-income residents of Gaborone. However, the success of the initiative does not only rely on the willingness of the beneficiaries to repay loans, but the extent to which GCC is allocated serviced land for the programme by the Ministry of Lands and Housing, as well as the availability of funds to survey the plots by the Department of Surveys and Mapping. Serviced plots are provided by the Department of Local Government and Development before they are finally allocated to the beneficiaries (GUDP2, 2003-2009:51). It should be noted, however, that GCC is only involved in the administration of SHHA. The formulation, implementation and monitoring of SHAA policy and programme, remain the preserve of the national government (Maundeni, 2004:20).

A major setback so far has been shortage of serviced land in the Gaborone planning area. As at 2002, the allocation of plots was last done in 1997, with the number of applications soaring. According to the GUDP2 (2003-2009:20) the waiting list of applications stood at 20 772 at the beginning of 2002. Intriguingly, the rate at which SHHA plots were developed after allocations was below 50 percent in four areas, indicating the financial inability of the residents to build appropriate structures in accordance with the Development Control Code of 1995.

Fifthly, GCC, like other urban centres, is supplied water by the Water Utilities Corporation (WUC). However, the council had been paying the water bills run up by public stand pipes on can only be gauged against the revenue income that they bring to the city council's coffers. As such this is addressed below in the analysis of the city's revenue sources.

Revenue Sources: Gaborone City Council (GCC) has relatively wide sources of own revenues compared to rural districts. Nevertheless, given the stature of Gaborone City as a capital, in a highly-centralised development system, it is fair to state that the city is, by international standards, far from being declared a financially-independent entity.

Table 10
Estimated Revenue Sources expressed in percentages (GCC)

Financial years	2001/02	2002/03	2003/04	2004/05	2005/06	Average
Own Revenues	34.24	32.43	27.90	30.86	37.00	32.51
Revenue Support Grants	65.75	67.57	72.10	69.14	63.00	67.51

On average, it is estimated that a third of the city's municipal government revenues was generated through own sources. To refocus the study, only five own revenue sources are scrutinised. These are, sewerage fees and sewerage connection fees; property rates and rates interest; Building Materials Loans (BML); interest on deposits and parking levies. These revenue sources have a complementary relationship with the city's rapid increasing population, industrial and infrastructural developments, as well as increasing incomes for the residents through employment creation. These revenue sources are therefore expected to have responded positively to rapid socio-economic and population increases.

On average these revenue sources constitute just over 86 percent of the council's own revenues during the financial years of 2001/02-2005/06. Property taxes are the highest source of the city's internally-generated revenues. Property rates and rates interest, on average, boosted the municipality's own revenues by well over 70 per cent. However, property rates did not grow consistently during the period under review. There were some fluctuations between the different financial years which are attributed to high default rates among the city's residents. The same applies to the service levy, which is inconsistent between each of the three financial years (refer to table 11). Uncertainty about the potential income in monetary form from property taxation is attributed to high property tax default levels. GCC consistently underestimated the possible amount of income to be generated through property taxes between 2001/02-2003/04 as at follows, 16.45%, 29.83% and 4.70% respectively.

In an interview with the city's senior rates officer, it emerged that inconsistencies in the actual collection of property taxes within the city emanate from several factors. Some of the factors are beyond the control of the city council. In accordance with the Local Government (District Councils) Amendment Act No 18 of 2004, second schedule, all municipal governments are required to submit their proposed property rates to the Minister responsible for local governments for approval before they are gazetted (see Appendix 4). According to the senior council official, the council has had to wait for over eight months or even longer for the rates to be gazetted, pending minister's approval. Senior government officials at MLG indicated that indeed there were delays in the gazetting of rates bye-laws, although they always submitted their recommendations to the minister on time. It emerged that the approval of property taxes is a political issue that is closely guarded by the government. According to the officials, the minister of local government carries out extensive consultations within the government, through Cabinet Memorandums, before the rates are revised. Whilst awaiting publication of revised rates, the council is often delayed and prevented from collecting rates on time.

These assertions, made by both GCC and MLG, officials corroborate the opinion held by one of the senior government official at the Ministry of Finance and Development Planning (MFDP) who concurs with the view that the government of Botswana is very cautious of the fiscal decentralisation reforms because of the potential political implications they may have on the outcomes of national elections. This is even true for GCC which has been under the control of the opposition Botswana National Front (BNF) since 1984.

According to the officer who was once in the MLG as an economic planner, there have been good proposals to devolve more revenue-generating powers to local authorities in order to enhance the principle of correspondence in local governments' service provision. This is so that the cost of such services is borne by beneficiaries, in view of their quality and quantity. Such reforms, according to the officer, would have given local authorities more discretionary powers to set property rates at the level equivalent to the quality of services, such as internal tarred roads and street lights, that enhance the value and safety of properties. Perhaps the government should only set a rates cap to ensure that such rates are within the level that the residents of Gaborone can afford to pay.

Underestimation of internally-generated revenues is a common phenomenon in GCC. Despite the city council's significant employment of capital in the provision of sewerage and sanitation services that ensured that at least 75% of homesteads were connected to the system, the council underestimated revenues generated through the sewerage-connection fees and sewerage fees by 316.36%, 1123% and 179.47% between the 2001/02-2003/04 financial years respectively. There are, however, good signs that the city will soon reap the benefits of improved sewerage services across the city, in all spectrum of society. The city is expected to derive significant income once the fees are fully applicable to different categories of the private sector (see appendix 5). These include all sectors: the business community, as well as the private residents of the city.

There is nevertheless a concern that the city council underestimated the potential revenues that it was going to recover from the residents of Gaborone. During the financial years 2002/03 and 2003/04 the total amount of revenues recoverable from the building material loans extended to the residents through the SHHA programme, was underestimated by 45% and 20% respectively. This occurred at a time (31 February 2002) when the combined service levy and Building Material Loan (BML) arrears owed to the municipality stood at close to P3 000 000 (GUDP2, 2003:20/21). The under collection of revenues on BML is mainly attributed to lack of political will on the part of the city councillors, as well as lack of effective enforcement capacity.

According to Mosha (2004:22-23), nearly half of the SHHA plot holders are in arrears with their service levy, while the collection of BML is frustrated by the councillors who are more concerned about their political popularity among their constituents. The interference of the city's political leaders in blocking and delaying legal measures that the SHHA staff intend taking against the defaulters, is blamed on the staff to prosecute defaulters (Mosha, 2004:23). The behaviour of the political representatives is nevertheless comprehensible, given that SHHA is a national programme funded through specific grants from the centre. The success or failure of the programme cannot be entirely blamed on the councillors. This is a manifestation of non-matching transfer system in practice.

The General Fund constitutes a significant portion of the city's income (see table 11).

Table 11
Trends in Estimated Revenue Sources of the Gaborone City Council (in Millions Pula)

REVENUE ITEM	2001/02	2002/03	2003/04	2004/05*	2005/06*
Advertising Signs	385,400	622,240	838,541	703,560	90,000
Building Material loans	222,180	340,850	282,007	1,663,300	1,898,170
Clinic fees	153,640	367,720	179,347	360,000	360,000
Day Care Centre	40,950	41,520	39,685	40,000	40,000
Fines-Bye Laws	10,670	10,390	4,420	10,000	11,650
Community centre fees	59,690	98,250	58427	90,000	90,000
School Hire	4,730	9,230	6,989	9,000	9,000
Home Economics	10	60	0	100	200
Beer Hall Rental					
Abattoir Fees	717,280	1,014,560	224,270	715,000	546,690
Cemetery fees	5,930	5,700	6,257	74,000	8,140
Dog licences	490	260	258	300	300
Interest on Deposit	2,671,980	1,495,730	7,271,921	3,634,250	7,000,000
Market Rent	146,350	138,840	74,244	246,310	246,310
Miscellaneous	46,260	58,440	437,778	50,000	250,000
Plans Perusal fees	161,200	243,880	213,021	200,000	200,000
Pound Fees	610	1,910	3,861	2,000	4,000
Rates Clearance Cert.	980	3,160	1,489	3,000	3,000
Rates	30,274,890	36,854,150	30,881,521	36,000,000	40,763,520
Rates Interest	1,608,430	1,795,440	2,503,080	1,737,360	1,737,360
Roads Reinstatement	4,440	15,570	21,125	20,000	20,000
Sale of Sundry Assets	20,660	54,300	28,240	50,000	50,000
Shrub sales	79,970	68,180	38,705	65,000	65,000
Sale Tax on Beer	289,230	958,590	958,590	0	0
Sanitation Services	185,900	378,280	125,375	380,000	380,000
School Work Sales				0	0
Sewerage Connection fees	87,800	1,012,060	871,551	1,000,000	1,000,000
Sewerage Fees	26,700	272,520	539,775	500,000	600,000
Service Levy	902,000	1,117,670	928,887	995,300	1,000,000
Rentals-Staff Houses	1,475,380	1,949,790	1,995,315	2,890,60	2,990,060
School Fees	258,800	285,800	0	540,600	554000
Parking Levy			0	85,000	85,000
Trade Licenses		118,450	128,321	123,400	129,640
Plant Hire			16,111	25,000	25,000
Deficit	**2,417,980**	**13,617,840**	**17,356,233**	**0**	**0**
Revenue Support Grant	**81,423,170**	**103,039,730**	**114,193,371**	**116,830,880**	**106,596,370**
GRAND TOTAL	**123,818,740**	**152,482,810**	**158,371,462**	**168,976,820**	**166,753,410**

**Estimates*

Table 12

Trends in Estimated Incomes and Expenditure (in %) for the GCC

Financial Years	2001/02-2002/03	2002/03-2003/04	2003/04-2004/05	2004/05-2005/06	Average
Own Income*	+16.62	-10.64	+18.03	+15.36	+9.84
RSG	+26.54	+10.82	+2.30	-6.05	+8.40
Expenditure trends	+23.15	+3.86	+6.69	-1.31	+8.09

* *includes deficits*

This fund is made up of revenues that accrue as a result of failure by the councils to utilise budgeted for revenues on given expenditure items by the end of the financial year (see section 3.4.2). However, this revenue source is more of an external source of income because it is controlled by MLG. Local authorities are authorised to spend only 10% of the fund. Any amount in excess of 10% can only be spent with the authority of the minister of local government. Interest on investment from the general fund was underestimated during the financial years 2001/02 by 29.08% and overestimated by 29.44% in the 2002/03. In 2003/04 such interest accruing from the moneys in the general fund was tremendously underestimated by 243%. This situation is neither effective for decentralised expenditure nor for informed planning by municipal government. Perhaps this better explains persistent budget deficits experienced by the city council, despite projected balanced financial budgets every year. Better planning is a harbinger of innovative financial management. The more limited the discretionary powers assigned local authorities in expending their financial resources. the lower the level of fiscal decentralisation and, consequently, the lower the level of local own initiatives in striving for innovation in management local government finances.

Finally, it is worth noting that despite its relatively buoyant economy, characterised by the mushrooming of industrial and office developments, as well as the erection of the largest retail centres that the country has ever experienced, GCC is not by any measure different from other urban councils in generating own revenues. The city experienced rapid budget expansions during the period under review that were not complemented by increased streams of own revenues. At least 67% of the city's revenues are from the intergovernmental fiscal transfers or Revenue Support Grants (RSGs). RSGs grew rapidly during the five year period under review (see table 11). This means that the city's dependence on national government to finance its activities increased significantly against the government's cost-recovery policy which requires that a significant portion of services in urban centres (especially cities and towns) be provided on full-cost-recovery basis. The cost-recovery policy clearly differentiates settlements on the basis of, among others, population, levels of income (employment level) and geographic location (socio-economic status). These variables are used to differentiate settlements according to their impact on the feasibility and extent of fiscal decentralisation in any given municipality. They may as well be used as good indicators for determining the expenditure needs (or costs variances between settlements) and measuring the fiscal capacity of municipal governments. Once this information is available, the national government would be in a better position to determine the vertical and horizontal distribution of RSGs in an equitable fashion such that all local authorities can implement their fiscal rules-driven budgeting and planning innovatively.

In concluding this section, it is important to point out that several indicators suggest that the national government, through its agencies, is extensively involved in the affairs of GCC. In addition to that, there is a discernible lack of political will to maximise the collection of limited own revenues in GCC, because there are no incentives present to do so – neither in the intergovernmental transfer mechanism, nor in the local political system. This is due to the extensive use of non-matching specific grants on local projects such as SHHA, the failure of which cannot be blamed on local authorities, but on the revenue source, the national government, because GCC considers itself merely the administrator of the scheme. Finally, lack of a transparent and unpredictable intergovernmental transfer system (which is the essence of fiscal decentralisation) is a serious draw-back for long-term planning at local government, because it creates a platform for *ad hoc* decision making by municipal financial management.

3.5.2 Kweneng District Council

According to the 2001 Population and Housing Census, the total population of Kweneng District Council (KDC) was 229 755 in 2001. This means KDC represents 13.7% of the country's total population. Though the population density in KDC was 6.0 people per square kilometre in 2001, most of the population is concentrated in the eastern region of the district bordering the capital city, Gaborone. That is to say, the south eastern and eastern part of the district is peri-urban. Unlike Gaborone, and other urban areas, land tenure in KDC is under the jurisdiction of the local authorities, namely the Kweneng Land Board. At least 93.6% of the land is communal whilst the remaining 6.4% is state land (Kweneng District Development Plan 6, 2003:7-8).

According to Kweneng District Development Plan (KDDP) 6 (2003-2009:8) more than 60% of the district's population is absorbed into formal employment. This is largely attributed to the fact that the east and south-eastern parts of the district are integrated into the Greater Gaborone Metropolitan area. Residents of Metsimotlhabe, Tlokweng (in South East District Council) and Molepolole, the capital of KDC commute to Gaborone on a daily basis where they are employed (see appendix 1 and 3). In fact, residents of Tlokweng, Mogoditshane and Gabane pay an equivalent of a standard local rate to commute to Gaborone. Thus, residents of these settlements enjoy the same local public charge accorded the constituents of GCC.

On a related but different note, it is important to underline the fact that the public sector of government is the largest employer within KDC. Put differently, the Government of Botswana (GoB) is probably the largest investor in the district. There are nevertheless, a number of facts worth noting that make this district unique from others. They are briefly highlighted as follows:

- the south eastern and eastern part of the KDC falls within the most attractive region in the country, forming the integral portion of the Gaborone satellite communities. During the 1991-2001 period Mogoditshane[54] (a proposed sub-district of KDC) recorded the highest population growth rate, compared to other peri-urban centres because of its close proximity to the city;
- there is an overspill of businesses into the KDC from the capital city because land is relatively cheap and accessible. Tribal land is free in Botswana. The encroachment of Gaborone into the KDC has literally left no spatial separation between the two districts except a statutory boundary;
- Molepolole (the KDC headquarters) also enjoyed rapid population and urbanisation growth to an extent that it became its position as the most populous village in Botswana for a decade (Mogae, 2001:13); and

Mogoditshane like Gabane, Tlokweng have benefited immensely from the rapid economic boom of Gaborone which was more visible between the early 1980s and 1999. These settlements have pull factors that attracted many migration-driven people who are employed in the capital city. Such pull-factors include cheap accommodation and cheap or free land. Tribal land in Botswana is free. This created a conurbation characterised by "the merger and accretion of Gaborone, Tlokweng, Mogoditshane and Gabane" (Gwebu, 2003:8) (refer to Appendix 3).

- finally, on a different note, the western and north-western parts of the district remains rural, less developed, sparsely populated and home to the economically disadvantaged groups of the society more especially, the Basarwa (San) and Bakgalagadi who largely rely on small-scale pastoral farming and cultivating arable land (subsistence farming).

From a fiscal decentralisation perspective and in particular the Bahl-Linn thesis, KDC represent two contrasting situations that cannot be treated likewise should the benefits of decentralisation be expected to filter from the governance system (political) to the ordinary citizens. Put differently, the manifestation of fiscal decentralisation is politically and economically beneficial only, as far as the Bahl-Linn thesis applies, indiscriminately. The beneficiaries of infrastructural developments and customised service deliveries should in principle be charged at the level equivalent to the services accorded them as far as possible as an incentive for them to hold to account the custodians of the local public purse. KDC as an urban area in the eastern part cannot be equated with the rural western area lest at the expense of inter-regional equity within the same local government jurisdiction because the cost of accessing the same good provided in both developed (as well as densely populated area) and rural (and sparsely populated areas is not the same) areas is not equivalent (this is discussed in section 4.2.1).

An in-depth analysis of the trends in statutory expenditures and revenue incomes of the district is analysed to assess whether it can be said conclusively that the Bahl-Linn thesis applies indiscriminately or otherwise.

Expenditure Trends[55]*:* It is estimated that KDC financial budgets consistently represented over 13% of the district councils' expenditure budgets within the five year 2001/02-2005/06 financial years. The budget expansions of the KDC appear to have tracked the budget developments of the overall recurrent district councils' expenditures. Indications are that KDC's recurrent expenditures grew rapidly before eventually subsiding between 2001/02 and 2005/06 financial years as follows: +41.44%, +6.56%, +24.43% and -7.75% (refer to table 13). During the same period, the district experienced successive budget surpluses despite indications of balanced estimated expenditures and incomes in each financial year. Budget

[55] Information is based on the district councils' recurrent budget documents during the financial years under study.

surpluses were quite high representing 19.61%, 11.08% and 17.76% of the district's budgets during the financial years 2001/02-2003/04 respectively (See Table 13 and Appendix 6).

KDC is made up of a combination of peri-urban settlements and rural areas. This implies that there are different expenditure patterns within the district. Logically, residents of the more urbanised eastern region would not require the same quality of public goods accorded those in the western region because the former have high purchasing power. Although it is difficult to discern the district's spending patterns in each region, due to lack of information, the discussion focuses its analysis on the expenditure trends in education, health, Social and Community Development (S&CD), SHHA and water/sewerages expenditure items. These expenditure items represent two opposing poles of socio-economic situations. On the one hand, the district's increased allocation of funds for sewerage and drainage systems, as well as for SHHA, may well be a sign of a high level of modernity associated with urbanisation. Urban areas enjoy a critical mass status, therefore infrastructural developments that are characteristically chargeable (mixed and private goods), or have elements of *quod pro quo,* may be reflective of the ability to pay for such services by the residents (or income levels).

On the other hand, budgetary allocations of the district on RADP and S&CD programmes may be a sign of high dependency ratio of the residents on pure public goods that are principally driven by the desire to provide social welfare goods and services to those who are not in the economic mainstream. This section of society is mainly made up of the elderly and residents of resource-poor regions (low income and high unemployment levels). It is nevertheless worth noting that all these expenditure items combined constitute over 50% of KDC's budgets over the five year period. Clinics, education, S&CD, SHHA and water and sewerage system account for 15.31%, 14.41%, 10.67%, 0.25% and 10.80% respectively of the district's budgets over a period spanning 5 years.

Preliminary indications are that SHHA constitutes the smallest percentages of the council's expenditure; yet data in Table14 reveals that the programme attracted more attention by registering the highest expenditure growth at an average of 60.48% within three years of its inception in KDC. Although SHHA was initiated by GoB in order to make housing affordable to low-income earners in accordance with the National Policy on Housing in Botswana, Government Paper No. 2 of 2000, its relatively high uptake in KDC suggests that indeed a good portion of the population of the district is employed in the formal sector. Residents of

KDC (more especially those residing in the south-eastern part) enjoy a diversity of suppliers of building materials at competitive rates because of their close proximity to the major primary centres, as well as the strategic location of such urban villages as Mogoditshane and Gabane in relation to Gaborone. It is therefore not incidental that the council devoted a significant portion of their financial resources on SHHA in order to provide its constituents with basic shelter that is highly-subsidised by the government.

Table 13: Trends in Estimated Recurrent Expenditures for the Years: 2001/02-2005/06 (Kweneng District Council)

EXPENDITURE ITEM	2001/02	2002/03	2003/04	2004/05*	2005/06*
Secretariat	13,212,280	14,851,385	17,137,848	27,669,600	24,908,540
Treasury	4,914,340	5,335,088	5,198,601	7,700,290	7,727,230
Education	12,375,360	22,717,932	21,809,980	22,845,510	21,610,316
Clinics	17,247,190	19,730,140	15,664,457	28,615,860	25,856,020
Environmental Health	1,094,290	4,467,775	5,003,079	7,701,420	6,440,410
Engineering	7,299,630	8,890,326	13,659,421	13,933,210	13,142,360
Architecture &Building	4,542,660	4,537,820	4,837,159	6,130,310	5,749,370
S&CD	10,163,160	18,533,807	11,432,030	17,971,430	16,667,620
RADP	1,669,660	3,764,128	4,208,200	4,301,210	3,782,810
RAC	1,524,260	1,651,550	3,070,483	2,534,520	1,644,290
SHHA	0	244,010	163,090	606,990	624,770
Transport	8,909,530	15,130,280	18,907,891	17,600,360	15,965,530
Water/Sewarage	10,793,160	12,736,221	20,196,570	18,201,600	18,060,040
SUB-TOT.	**93,745,520**	**132,590,462**	**141,288,807**		
SURPLUS	**18,390,350**	**14,691,156**	**25,099,712**		
GRAND TOTAL	**112,135,870**	**147,281,618**	**166,388,519**	**175,812,310**	**162,179,350**

**Estimates*

Table 14: Expenditure Growths (%) between 2001/02-2005/06 Kweneng District Council

Expenditure Item	2001/02-2002/03	2002/03-2003/04	*2003/04-2004/05	*2004/05-2005/06	Average
Education	+83.57	-3.99	+4.74	-5.40	+19.73
Clinics	+14.39	-20.60	+82.68	-9.64	+16.70
S&CD	+82.36	-38.31	+57.20	-7.25	+23.50
SHHA		-33.16	+272.18	2.92	+60.48
Water & Sewerage	+18.00	+58.57	-9.87	-0.77	+16.48

* *Estimates*

Second to it, is S&CD, which does not only indicate sustained growth, but constitutes a significant percentage of the council's budget. The budgetary allocations of the district for S&CD grew at an average of 23.50% over a period of 5 years (see table 14). Social and Community Development (S&CD) is a programme that has been deliberately created to effectively address the problems faced by vulnerable members of society. The programme directly targets destitutes, female-headed families and the elderly, amongst others. S&CD was effectively designed to improve the well-being of members of society by cushioning them against both structural and seasonal poverty. In the context of this discussion, increased allocations of financial resources towards S&CD by KDC imply that there are increasing incidents of destitution within the district. However, the question is whether the programme targets the appropriate section of the communities or, fairly, is being abused, because increased spending should be reciprocated by the empowerment of the vulnerable members of society. The discussion suggests (with limited information at the disposal) that increased spending on the programme correlated positively with an element of entitlement and/or free welfarism amongst communities within the district. That is, there is an unfair enrichment of KDC residents in the eastern belt of the district. Comparative studies on patterns of S&CD expenditures in KDC and KgDC should nevertheless shed some light on the level of redistribution of each municipal government.

It is important to acknowledge that all the expenditure items under study were allocated more financial resources in KDC, relative to the budgets as compared to GCC, with the exception of primary health care and primary education. Perhaps this could be due to the externality effect of GCC's increased expenditures on primary education and primary health care. On the whole it is important to underline the fact that KDC plays a much more prominent role in the redistribution of resources than GCC, as illustrated by consistently high financial resource allocations to social welfare services than the former.

Revenue Sources: Data on hand indicate that KDC's financial independence from the national government is disproportionably weak. The municipality, on average, generated only 8.80% of own revenues during the five year period. Whereas own revenues exhibited signs of positive annual growth, such positive growth was, however, insignificant compared to the expansionary nature of the expenditures over the same period (see table 15). It is emerging that, on average, own revenues grew faster than the expenditures, albeit at a slower pace than would have been expected from a district that is associated with Botswana's rapid urbanisation and development.

Literature on fiscal decentralisation suggests that rapid urbanisation and high resource allocation on mixed and private goods should have positive correlation with internally generated revenues at municipal government level. Whilst on average, own revenues grew at 21.55% annually; there is every reason to doubt that the deployment of resources on local public goods and services has had a positive impact on the revenue-generating capacity of the district in the five year period under review. It cannot be overemphasised that the reliance of the district on interest on investment as a major source of own revenues is not a good outlook for successful decentralisation. Data in table 16 indicate that at least 53.54% of KDC's own revenues are generated from interests accruing to the General Fund. An increasing accumulation of revenues in the General Fund should not be seen as a positive development on local government finances but a regression on the development of infrastructural development and a major contribution to under-development. The General fund represents unutilised revenues as a result of (a) high vacancy rates with KDC that translates into underperformance of the local authority on assigned functional responsibilities; and (b) unused budgeted financial resources as a result of inadequate capacity at municipal level, which implies under-delivery of programmes that are supposed to improve the general welfare and socio-economic wellbeing of the constituents. Therefore, inflated expectations by the council to rely on interest accrued on invested surplus funds is but a draw-back on local financial autonomy, because the withdrawal of such funds from the bank is rigidly controlled by the Ministry of Local Government (MLG) (See section 3.4.2). Perhaps this better explains the reason why a local government finance expert in Botswana (Mosha, 2004:19) classifies the General Fund as an external source of local government income.

Another significant revenue source for KDC, which is tied to the spending decisions of the council, is water connection fees as well as fees for domestic water consumption. Both sources of income account for 13.05% of the internally-generated revenues of the district.

Data in table 16 indicate that there was an uneven, and in some instance inverse, relationship between water fee connection and water fee domestic between the 2001/02 to 2005/06 financial years. For example in the 2004/05 financial year, the council generated P865 000 through increased connection of private water users. This was the highest revenues generated within the period under review (see table 16). Logically, increased connections of private water users imply reduced use of free water from the public stand pipes. The latter is at the expense of the council. However, there was a drastic decline of revenues collected during 2004/05 in spite of increased use of privately-connected water.

According to senior council management, the unpredictable movements between financial years on the amount of incomes generated through the imposition of public charges, is a reflection of the inadequate capacity of the council to collect revenues due to them from the public users of the service. This means that the council is failing to exploit a sustainable and predictable revenue source that does not only increase with the level of development and urbanisation, but also with increased population growth. As for KDC, the more households connected the better. This would be at a lower cost to the council, because of the orderly organisation and shorter distances between homesteads (this can be measured through the number of people per square kilometre of population density which is increasing per square kilometre). Due to the council's incapacity and, probably, lack of incentive to maximise the collection of this revenue source, the amount of revenues as illustrated in table 17 is very unstable and therefore cannot be relied on for making realistic projections of potential revenues.

As already indicated in section 3.3.1, the reclassification of rural villages into urban villages came with a package of infrastructural developments and services. The decentralisation of human resources is also augmented by the provision of housing at the expense of the council. Staff housing rental as such accounted for 12.93% of the internally-generated revenues of KDC. However, this revenue source was also not reflective of the investment that the council made in constructing decent accommodation for its employees. As indicated in table 16, the amount of revenues in Pula, collected from the occupants, was fluctuating despite the fact that such houses were not vacant at any time during the 2001/02-2005/06. For example, the council managed to source P1 440 370 during 2001/02 from the occupants, while in the following year the amount declined to P963 168. It emerged during the interview that the council also charged its staff rental below the market-related prices for the accommodation provided. This is contrary to the cost-recovery policy of government. This is nevertheless debatable, because the policy only states that both tiers of governments can only recover a small portion of the cost that they incurred in providing goods and services in both urban and rural villages.

Finally, the Building Material Loan (BML) is a revolving revenue source that should largely mirror the financial resources allocated the SHHA programme. At least an average of 6.58% of the council own revenues emanated from this source. At least the BML appeared to be positively responding to the council's increased spending on SHHA. Other than these revenue sources, it is important to highlight briefly other spending tied to revenue source that could be tapped into to broaden the revenue base of KDC. Matimela fund, whilst a significant revenue source, is very unpredictable, because it is difficult to forecast the number of cattle that would go astray for collection by the council (see table 17). However, there is every reason that the council could develop an effective model to predict and generate a trend of cattle that go astray in order to maximise the collection of such cattle. Trends in revenues collected from the provision of sanitation services indicate that this source of income is also unpredictable. This is not healthy for local government financial planning.

In concluding, a discussion on the performance of own revenues within the district, it is important to bring to the fore that understanding the intricacies of each revenue source is quite a complex study to undertake. Yet, studying the longitudinal trends on the performance of internally-generated revenues can be better understood when the same is done on the intergovernmental fiscal transfers, because both revenue sources influence the performance of the other. The relationship between the two revenue sources can be inverse if the transfer mechanism is not properly designed, yet the opposite is true when the transfer mechanism complements increased own-revenue generation, while restraining local spending through an effective local political accountability system.

Table 15
Trends in Estimated Incomes and Expenditure (in %) for the KDC

Financial Years	2001/02-2002/03	2002/03-2003/04	*2003/04-2004/05	*2004/05-2005/06	Average
Own Income	+9.83	+15.29	+36.13	+24.96	+21.55
RSG	+33.30	+12.79	+3.32	-11.06	+9.58
Expenditure trends	+44.43	+6.56	+24.43	-7.75	+8.09

**Estimates*

It is important to state that this study will be incomplete and irrelevant if the most significant aspect of KDC's recurrent revenue source is sidelined from the discussion. KDC almost entirely relies on the RSGs from the national government for its day-to-day operations. Fiscal transfers from the national government contribute over 91% of the KDC annual recurrent budget on average. Until the 2005/06 budget, RSGs were consistently accounting for over 90% of the municipal's annual budgets. The fiscal transfers, during the period under review grew much faster than expenditure growths at 9.58% against 8.09% (see table 15). That the RSGs dominate the financial outlook of the KDC is without doubt.

Table 16

Trends in Estimated Revenue Sources of the Kweneng District Council (in Millions Pula)

REVENUE ITEM	2001/02	2002/03	2003/04	2004/05	2005/06
Advertising Signs		20	3,586	4,880	38,500
Building Material loans		296,093	423,945	1,760,400	1,818,380
Clinic fees	67,480	59,375	61,929	78,250	398,430
Day Care Centre	900	310	1,080	1,870	1,080
Fines-Bye Laws		14,680	4,420	7,480	25,000
Game Licences	13,000			14,300	14,300
Hiring Classrooms		85	155	500	500
Home Economics	550	1,847	24	2,750	100
Insurance Commission		1,996	29,786	41,850	46,040
Interest on investment	5,324,150	5,849,139	7,786,319	6,918,560	9,156,700
Matimela Fund	304,600	5,451	137,230	901,700	916,950
Prospecting Royalties		73,880		9,900	9,900
Miscellaneous	450	189,602	50,391	8,510	9,360
Plan Perusal Fees	169,770	273,285	345,573	257,680	178,930
Sale of sundry items	75,430	57,183	48,663	76,500	110,819
Sanitation Fee	163,500	177,004	121,187	406,130	478,090
School Work sales	2,000			2,390	2,390
Staff House Rental	1,440,370	963,168	1,092,956	3,280,910	2,099,100
Stock Sales Commission	3,470	1,168	407	1,820	2,099,100
Trade licences	92,980	10,754	69,282	122,400	180,330
Water fee-cattle	11,940	79,820	5,500	28,000	45,120
Water fee-Connection	324,590	303,035	150,210	865,000	680,900
Water fee-Domestic	875,600	1,036,597	1,477,486	738,990	2,491,900
School fee	40,150	44,500	41,374	39,000	31,200
SUB TOTAL	**9,359,430**	**10,279,898**	**11,852,049**	**16,138,540**	**20,167,850**
Revenue Support Grants	**102,776,440**	**137,001,720**	**154,536,470**	**159,673,770**	**142,011,500**
GRAND TOTAL	**112,135,870**	**147,281,618**	**166,388,519**	**175,812,310**	**162,179,350**

Information Based on the District Councils' Recurrent Budgets for the financial years under review (2001/02-2005/06)

A number of observations with regard to the RSGs are made in this discussion. Firstly, RSGs exceeded the overall actual expenditures of the district in all three financial years, 2002/02-2003/04. Secondly, financial resources required for funding the recurrent activities of the council were overstated in all three the years, 2001/02-2003/04. Thirdly, own revenues were overestimated on two occasions, during the 2002/03 and 2003/04, while this revenue category was underestimated significantly in the 2001/02 financial year. Fourthly, KDC inflated the RSGs required, in order to provide local public goods and services at over 40% in the 2003/04. Finally, as a result of a combination of all the aforementioned factors, KDC experienced budget surpluses for all three the financial years of 2001/02 to 2003/04. Budget surpluses exceeded actual expenditures by 9.97% to 16.65% (see appendix 6).

Table 17

Estimated Revenue Patterns (in %) for the KDC

Revenue Item	2001/02-2002/03	2002/03-2003/04	*2003/04-2004/05	*2004/05-2005/06	Average
Matimela	-98.21	+2417.51	+557.07	+1.69	+719.51
Water fee & domestic connection fee	+11.61	+21.50	-1.45	+97.80	+32.36
Building material	N/A	+43.17	+315.24	+3.29	+120.56
Sanitation	+8.25	-31.53	+235.12	+17.71	+229.55

**Estimates*

According to senior officials at KDC, budget surpluses in the district were due to lack of capacity to implement the entire planned-for council activities within one financial year. Lack of a transparent revenue transfer system also hampered them from anticipating the amount of revenues that they were likely to receive from the national government at the beginning of the financial year. For example, the official interviewed indicated that the financial transfers allocated the council in 2004/05 were very limited, as indicated in table 15. Yet, in the 2005/06 financial year GoB transferred a significant amount of moneys to the district. As at the end of the 2006/07 financial year, a significant amount of revenues was unutilised because the council was overwhelmed by the volume of fiscal transfers allocated to them within one financial year.

In view of the facts, briefly discussed above, this thesis suggests that the volume of the Revenue Support Grants is determined on the basis of the position of the national financial budget. That is, the transfer system is generally *ad hoc* and incremental. It also emerges in the discussion that annual RSGs exceeded the actual expenditures, it therefore the conclusion of this discussion that KDC does not have an incentive to increase its revenue-raising effort, because all the council's budgetary requirements are covered by the RSGs. It is therefore not strange that the local official stated that the collection of garbage in the entire district is at the absolute cost of the district. Hence the discussion concludes that Botswana's fiscal decentralisation system is the root cause for unrestrained increase of local public spending, dulled revenue-generating efforts, lack of own initiative and innovation on financial management, as well as decreased participation of local community organisations. There are no incentives for them to participate in local development issues, as local authorities take care of all issues through nationally-generated revenues (high incidents of free-rider and grants economies at local government level (see section 1.3 for the definition of a grant economy).

3.5.3 Kgalagadi District Council

Kgalagadi District Council (KgDC) covers 10.5% of Botswana's total area. As opposed to Central District Council it has only one sub-district. The headquarters of the district, Tsabong is located 360km from the nearest town and 530km from the capital Gaborone. The economy primarily relies on the sale of cattle to the Botswana Meat Commission in Lobatse, which is 500km away from the district headquarters (see appendix 1). Fuel wood is a major source of energy.

Population density of KgDC has remained more or less the same between 1991 and 2001 with at least less than one person per square kilometre. There are mainly two types of settlements, linear in the south and scattered in the northern part. Most villages showed decline of population, except a few major villages as a result of the migration effect to major primary centres in search of employment opportunities. Whereas the national government has invested on infrastructural developments, the district generally remains undeveloped compared to the preceding two case studies. This has had many implications on the performance of the district in delivering the services to the ordinary people who are generally economically disadvantaged as compared to those of GCC and KDC. These challenges include:

- sending vehicles to Gaborone more frequently for repairs because of the sand that blows all year long;
- lack of skilled manpower undermines policy implementation capacity. Skilled individuals find the district remote and therefore, unattractive;
- inadequate or lack of disposable income undermines cost recovery and saving initiatives, such as unsatisfactory levels of private water connections;
- programmes such as SHHA do not bring desired outcomes, because the beneficiaries have to travel more than 500 km to purchase materials. This is quite costly;
- low population translates into small market

Expenditure trends: The district's expenditures are briefly analysed by means of illustrative tables. The scope and depth of analysis is similar to the two previous case studies, except that the information has been summarised. Kgalagadi District Council's expenditures during the period under study averaged 5.85% of the district councils' recurrent budgets. The annual financial recurrent expenditures were quite inconsistent, with variances of over 100% between annual financial years. Recurrent expenditures grew by 0.64%, shrunk by -25%, before rising by 113.36% and finally slowed down by -7.8% between the financial years, 2001/02-2002/03; 2002/03-2003/04; 2003/04-2004/05; and 2004/05-2005/06 respectively. On average, the KgDC's recurrent expenditures soared by 80.43% between the periods 2001/02 and 2005/06.

The council dedicated an average of 47.34% of its financial resources on education, health, S&CD, SHHA and water and sewerage functions during the five year period under review. These major statutory functions were given more priority over other functions. The allocation of a larger portion (by the Kgalagadi district council) to the above-mentioned goods and services almost mirrored that of KDC. However, it is striking to find that the council spends slightly lower than the Kweneng district council on these major functions that in most cases reflect the redistributive role of the council on nationally raised revenues (See table 18 below).

The entire range of sectoral functions under study enjoyed positive growth over a five year period. The council gave more attention to the provision of potable water to the communities in comparison to other expenditure assignments. This could be due mainly to the fact that potable water is a scarce commodity within the district and more expensive to extract from underground sources(See table 19 below). It cannot be overemphasised that due to low density and the types of settlements found within the district, it is not uncommon that, on average, distances between far-flung homesteads are quite great. Therefore, it is economically logical to suggest that the council plough in more financial resources into connectind their constituents to private? water supply.

Table 18: Estimated Sectoral expenditures (expressed in %) against the annual budgets (KgDC)

Sector	2001/02	2002/03	2003/04	2004/05	2005/06	Average
Education	7.05	12.34	9.05	11.12	9.41	9.79
Clinics	16.69	13.20	14.87	15.88	17.18	15.56
S&CD	13.98	9.19	16.65	12.41	12.83	13.01
SHHA	-	0.09	0.37	0.36	0.35	0.23
Water & Sewerage	10.04	9.89	6.14	8.70	8.93	8.74
Total	47.76	44.71	47.08	48.47	48.70	47.34

As opposed to increased uptake of SHHA programme in KDC, the residents of KgDC council were sluggish in receipt of the programme for several reasons. Firstly, it is economically costly for them to construct their houses through the loan, because they have to travel long-distances to purchase building materials which are not readily available within the district. It is important to state the fact that the loan amount of SHHA is uniform across the country. As such it does not take into account the different costs across the regions or districts for providing the same local public goods and services. This discussion therefore suggests that the construction of SHHA residential houses is more costly in KgDC than in KDC and GCC. Secondly, it has already been indicated that poverty is more pronounced in KgDC than in the other two case studies. Due to low per capita income within the district, it is likely that the majority of the residents, who are not in the formal sector, are not eligible for the loan. It is therefore justifiable that SHHA, on average, accounted for only 0.23% of the annual budgetary allocations of the council (table 18). From a fiscal decentralisation perspective SHHA, which is a nationally-funded programme, does not address the horizontal imbalances between the resource-well-endowed districts and those that are resource-poor, in the cause for equity, but plays an important role in widening the gap between the rich and poor through a one-size-fits-all programme in favour of rich.

The assertion of the thesis is on the basis of the fact that all the citizens of Botswana who benefit from this programme, across all districts, get the same loan amount (which is P20 000), at the same interest rate and the same period of grace to repay it, yet residents from poorer districts have to incur a lot more expenses to purchase building materials from distant primary centres because of the centralised nature of development and pubic investments in Botswana.

Data in tables 18 and 19 indicate that KgDC gives more or less the same attention to other expenditure items, with the exception of SHHA and primary health care and/or clinics. The district ploughed more financial resources into clinics than KDC. Data in table 19 indicate that the average increase on primary health care spending is over 22%. Expenditure on clinics seconded that on water and sewerage provision

Revenue Sources: The major sources of own revenues at KgDC are: interest on investment; water fees and domestic connections; staff housing and matimela. More than an average of 82% of internal revenues was generated from these sources within the 2001/02-2003/04 period. The lowest contribution from these sources was in 2003/04 mainly because of a sharp fall in the interest on investment revenues. The impact of the fall on interest on investment was quite significant, so much so that it pushed down the own revenues from a total of P6 822 300 to P2 379 045. Overall the contribution of the four major sources of internally raised revenues fell from over 89% to just over 69% of the total amount of internally generated funds (See Table 20).

Table 19

Expenditure Growths (%) between 2001/02-2005/06 Kgalagadi District Council

Expenditure Item	2001/02-2002/03	2002/03-2003/04	*2003/04-2004/05	*2004/05-2005/06	Average
Education	+76.18	-45.53	162.05	-22.01	+10.67
Clinics	-20.38	-16.42	+127.84	-0.26	+22.70
S&CD	-33.84	+34.50	+59.09	-4.71	+13.76
SHHA	-	-62.16	+106.17	-11.14	+10.96
Water & Sewerage	-0.84	-53.89	202.27	-5.36	+35.55

**Estimates*

The reliance of the district on interest on investment as a major source of income cannot be overemphasised. Such reliance is nevertheless not healthy for the district, because the council does not have control over this revenue source. A sharp decline of income has a major shock effect on the own revenues of the council, as illustrated by tables 20 and 21. Between the 2002/03 and 2003/04 financial years, internally generated revenues declined by over 65%. The council overall expenditure decreased on all expenditure items during the same financial year, with the exception of S&CD (see table 19 and 21). Coincidently, RSGs from the centre also decreased significantly by more than 18%. It is however, interesting to find out that water and sewerage connection fees contribute significantly to KDC's own revenues (see table 20).

RSGs from the national government constitute the largest component of the KgDC's income. During the 2001/02, 2002/03 and 2003/04 financial years RSGs accounted for 92.10%, 90.09% and 95.48% of the KgDC budgets respectively. Own revenues were quite insignificant, to an extent that RSGs were in excess of the entire financial budgets of the district during 2002/03 and 2003/04 (see appendix 6). RSGs were in excess of the

Table 20: Major sources of Internal Revenues (expressed in %)

Revenue Item	2001/02	2002/03	2003/04
Interest on Investment	64.61	63.32	0.40
Water fees & domestic connection fees	14.62	15.15	44.41
Matimela	1.32	0.94	2.71
Staff Housing	9.29	9.97	22.36
Total	89.84	89.38	69.88

Based on District Councils estimated recurrent budgets (2001/02-2005/06)

Table 21: Trends in Estimated Incomes and Expenditure (in %) for the KDC

Financial Years	2001/02-2002/03	2002/03-2003/04	*2003/04-2004/05	*2004/05-2005/06	Average
Own Income	+42.26	-65.13	+326.78	+17.53	+80.36
RSG	+10.33	-18.86	+73.18	-10.78	+13.47
Expenditure trends	0.64	-25.76	+113.36	-7.82	+80.42

* *Estimates*

Based on District Councils estimated recurrent budgets (2001/02-2005/06) overall resources required to cover the budgeted for expenditures in KgDC. This scenario is counter-productive to the notion of fiscal decentralisation. The incentives for the council to strive for increased own income and restrained expenditures were nil because the district did not have to generate its own revenues in order to provide services to its residents because RSGs were more than enough to finance all the council's activities. Excess financial transfers from the centre are a recipe for wasteful spending at local government level.

The financial outlook of KgDC generally depicts that of KDC's in many ways. The heavy reliance of the former on RSGs to advance their recurrent expenditures, high percentage of expenditures on social safety nets and social services as well as maintained financial surpluses at the end of financial years (in the General Fund) are some of the notable similarities between the two district councils (See Tables 20 & 21 below). Notwithstanding these similarities, it is important to note that the similarities are striking in many respects. Based on preliminary data, as discussed in both case studies, it appears that there is generally more of an element of welfarism in KDC than in KgDC, because of both districts having strikingly different socio-economic dissimilarities. The former has a relatively high *per capita* income and relatively low expenditure needs based on its strategic geographical location, population, infrastructure, urbanisation, modernisation and level of employment, which translates into high income levels (see sections 4.2.1 and 4.2.2).

6 Summary and deductions

The analysis of data in this chapter indicates that:

- the institutional framework of Botswana's intergovernmental system exhibits an element of over-regulated public sector that constrains/inhibits own-initiative at local government level. This the government maintains by its extensive involvement in the affairs of local authorities. The joint provision of statutory services that has not subsided over 3 decades; centralised recruitment, training and development; centrally determined fees and charges[56]; centrally determined and conditionally determined capital projects suggest that there is physical localisation rather than decentralisation.

[56]The national parliament amended the Local government (District Councils) Cap 40:01 and Township Cap 40:02 to enable the setting of service and user fees by resolutions of each local authority in 2004. The fruits of this development are still to be realised.

Lack of institutional capacity in all the three municipal governments' case studies is a creation of an over-regulated local public sector;

- Botswana's approach to decentralisation is centralised. Rapid expenditure growth at both district and urban councils is not complemented by local capacity building. The fact that GCC remains incapable of exploiting property tax and service levies to the maximum after three decades since being assigned this revenue source, leaves more question marks than answers about the capacity and political credibility of local authorities to perform their statutory responsibilities without closer supervision and monitoring from the centre. However, this situation is created by the government's approach to fiscal decentralisation;
- the extent to which property taxation can be increased is highly dependent on the ability of the Ministry of Lands and Housing (MLH) to service and allocate residential plots to the residents. GCC's hands are tied when it gets to influencing trends in property tax growth as its critical revenue source. This indicates that local authorities are constrained by central agencies concerning the extent to which they can influence their statutorily-assigned revenue sources. This is not healthy for decentralised local government, since failure by the centre to perform their assigned mandates translates into under-collection of local governments' marginal revenues;
- there are high horizontal inequalities between municipal governments, as well as relatively significant income inequalities between regions within municipalities. As is the case in the Kweneng district council where the western underdeveloped region is not compensated through specially-designed horizontal transfers because of its low income and high expenditure needs emanating from smaller populations and settlements, as well as insignificant economic activities;
- the vertical fiscal transfer system is on an *ad hoc* basis. The oscillatory nature of fiscal transfers from the centre is such that local authorities cannot objectively prognosticate the expected Revenue Support Grants (RSGs) on an annual basis or within the six year development planning period. Lack of transparency on the determination of RSGs creates uncertainty and lack of security on the part of local authorities. This adversely affects their short-term, medium and long-term planning such that they cannot employ innovative measures to transform their limited resources into significant policy outputs and long-lasting positive outcomes;

- there are no indications of fiscal transfers meant to equalise spill-over effects that such districts as the Kweneng (KDC) and South East (SEDC) enjoy at the expense of Gaborone on education and health-related expenditure items;
- intergovernmental fiscal transfers are one-size-fits-all. There is no formula to determine a transparent criterion in allocating nationally-generated financial resources. This is counter-productive to own initiative and innovation at local government financial-planning level. The transfers do not take into account the horizontal inequalities between local authorities, and as such appear to benefit richer municipal governments at the expense of the relatively poor ones;
- KDC and KgDC do not have locally determined revenue sources. Their reliance on interests earned on invested revenues in the General Fund exposes them to budgetary shocks should the financial transfers from the centre decline significantly;
- inter-regional migration in Botswana is driven by the phenomenon of urbanisation that is an outcome of centralised public and private sectors' investment in the South-Eastern region, at the expense of regions within the periphery such as the Western region that have not attracted migrants. Hence, inter-regional migrations do not in any way reflect the Tiebout effect at work, because these migrations are not affected by attractive local public goods and services but by the national government's development strategy that is concentrated in only two regions; and
- finally, excess fiscal transfers from the centre have dulled incentives for local participation of communities because they are not provoked to participate in the development of their areas or hold to account their political representatives, because they do not bear the costs of services provided them by the councils, these being wholly covered by the national governments through RSGs. The financial transfer system appears to be having a fly-paper effect on local governments' increased spending and depressed generation of own revenues.

In concluding this chapter, this thesis suggests that the approach of Botswana's decentralisation system is flawed in many respects because it fails to address the socio-economic inequalities between municipal governments, through transfers that would have a *net additionality effect* on municipal spending. This is only possible if there are hard budget constraints on municipal budgeting. Such a scenario exists in an environment where the government has made efforts to establish the municipal governments' expenditure needs and revenue-raising capacity. Currently, the government has not established these at standardised levels. This undermines efforts towards a municipal government system that has attributes of organisations run on sound financial management principles, where prudence in managing public finances is complemented by strong business acumen (that is the application of innovative measures aimed at achieving more with limited resources).

Chapter 4

4. MULTI-LEVEL GOVERNANCE AND FINANCIAL MANAGEMENT AT LOCAL GOVERNMENT LEVEL: FINDINGS, INSIGHTS AND ANALYSIS

4.1 Introduction

National Development Plans in Botswana are generally a reflection of the government's intents. The betterment of local governments' financial management has been and continues to be a priority (theoretically) to the Government of Botswana (GoB). Several policy documents of the Government of Botswana (GoB) attest to the view that good financial management at local government is a prerequisite for sustainable provision of services to the people of Botswana. The Minister of Finance and Development Planning is on record (captured) in the National budget speech of the financial year 2004/05 as saying that, during the aforementioned financial year "*Government will ensure that the problems of financial management at the local authorities are addressed and the Local Authorities are fully accountable for the public funds*" (Budget Speech, 2004:16).

The achievement of such a goal is not an easy task because it is multidimensional, entailing factors that are not necessarily financial in nature but have implications on the level of financial management on local authorities. They may include, amongst others, lack of human resources capacity arising out of inadequate technical skills for the management of accounts (or poor institutional capacity); lack of political accountability; poorly-designed intergovernmental fiscal transfer mechanisms; lack of political incentives to maximise the collection of allocated local revenue sources and inadequate local expenditure controls. The budget speech correctly highlighted some of the overarching issues on local government financial management such as backlog of un-audited accounts and absence of management accounts (Budget Speech, 2004:16). Furthermore, the minister in the subsequent budget speech expressed the policy direction of government on broadening local government revenue base through the amendment of both the Local Government (District Councils) and Township Act in order to facilitate the introduction of cost-recovery measures (Botswana Budget Speech, 2005:19). Hence, GoB committed itself to achieving the following objectives during the NDP8 (1998-2003) and NDP9 (2003-2009), with specific reference to the decentralisation policy (devolution of spending and revenue-generating powers to local governments)[57]:

- decentralise budgeting process;
- stimulate local government own revenues generation;
- ensure equitable distribution of nationally-generated funds;
- improve capacity of local authorities to implement effectively and efficiently their development planning;
- restrain local public sector spending;
- engender the role of local communities through Community-Based Organisations (CBOs), more especially in local development planning;
- strengthen the capacity of local public-sector personnel, for the betterment of their capacity to deliver durable services on a sustainable bases;
- improve regional development planning through shared use of resources between local authorities by creating strong rural-urban linkages; and
- promote democracy and (good) governance at municipal government level.

New measures were to be implemented to give effect to these objectives. Indeed, NDP8 is profoundly associated with major local government studies aimed at public sector reforms in order to allow for decentralisation of spending decisions to local authorities. Some of the notable outputs of such studies include the decentralisation policy of 1993; the government task force on local government of 1993; the preparation of Formula-Determined Revenue Support Grants[58] (FDRSGs); the preparation of Model Bye-laws[59]; the preparation of Cost Manual[60]; the Report on the Second Presidential Commission on Local Government Structure in Botswana, 2001 (and the subsequent response to the findings of the SPCLGSB by GoB through the Second Presidential Commission on Local Government Structure in Botswana, Government Paper No. 1 of 2003); as well as the establishment of Local Authorities Public

[57] See NDP9 (2003:391); Budget Speech (2004/05); Budget Speech (2005/06).

[58] The Formula--Determined Revenue Support Grants were to be pre-determined on the basis of the size of the population under the jurisdiction of a particular local authority, remoteness of the administrative area, as well as the geographical size of the local authority (NDP9, 2003:392).

[59] Model Bye-laws were developed to review the laws, regulations and rules that are considered to be hampering the councils' attempts to collect revenues and independently set local fees for the local public goods and services (NDP9, 2003:392).

[60] MLG prepared the costing manuals listing services provided by local governments and how such services may be costed. This was intended mainly to ease the absolute dependence of municipal governments on the central government to determine the service costs for the services the former provided their constituents (NDP9, 2003:393).

Accounts Committee (LAPAC). Cost recovery policy, encompassing the entire public sector, was promulgated as well, in order to give effect to the implementation of the Privatisation Policy of Botswana, Government No. 1 of 2000[61]. These reforms were introduced in order to give the decentralisation reforms momentum and steam to address the aforementioned shortcomings of local government financial management and achieve the objectives as outlined above in bullet form.

In order to have better insights and understanding of Botswana's fiscal decentralisation strategy, the discussion now embarks on a much broader approach for describing the dynamics, inter-relationships and interconnectedness of the factors responsible for the successes and shortcomings of the system. A four-framework approach forms the basis upon which an insightful discussion would eventually establish whether the existing strategy facilitates the achievement of the objectives that the government has set, creates a conducive environment for financial probity and own initiatives at municipal level and, finally, whether the strategy enhances good financial planning (decentralised spending) at local government level. The four-framework approach is constituted by expenditure responsibilities, revenue assignments, fiscal transfer mechanisms and institutional framework guiding the preceding three issues above.

In-depth analysis of Botswana's decentralisation strategy will be done on the basis of the fiscal decentralisation theory developed in chapter 2; findings from preliminary case studies on Botswana's local government system in chapter 3; relevant information from other municipal governments that corroborate or contradict the findings in chapter 3 and, finally, such information would be assessed in order to come to scientifically irrefutable conclusions.

4.2 Expenditure and revenue assignments

The two classical principles of assigning local authorities functional responsibilities and revenue raising authority, as indicated in section 2.5.1, still hold in the analysis of local government finance. These are 'finance should follow functions' or what Bahl, in Bell and Bowman (2002:40), refers to as "expenditure first" rule and the 'beneficial principle'. The

[61] It is interesting to note that Oates, in Bennett (1990:159), likens the decentralisation of spending decisions to local authorities with shifting the provision of service-delivery responsibility to the private sector or to the privatisation phenomenon. Oates argues that "they are both functional 'divestiture' strategies aimed at controlling increase in public sector spending".

latter is premised on the correspondence theory. According to Schroeder in Bahl and Smoke (2003:23-45) it is important that whenever a review and restructuring exercise of local government functional responsibilities and revenue raising authority is undertaken, at least four critical questions should be given attention. First and foremost, it is essential to ascertain whether all municipalities should be accorded equal treatment or not. Secondly, the restructuring exercise should determine the level of autonomy that local authorities should be given. Thirdly, the assignment of functional and revenue-raising powers should define the extent to which local authorities should be instruments of redistribution. Finally, such powers and functions assigned to local authorities should be clearly divided between districts and sub-districts in the constitution or acts establishing local governments.

The discussion therefore embarks on an assessment and analysis of the functional responsibilities and revenue-raising powers assigned to local authorities in Botswana with reference to the four analytical frameworks, as briefly discussed in the preceding paragraph. The aim of this assessment is to establish whether the assignment of functional and revenue-raising responsibilities to different categories of municipalities in Botswana (a) enhances allocative efficiency in the provision of local public goods (beneficial principle) and (b) appreciates the regional socio-economic inequalities between local authorities. It should be stated at the outset that such analyses are based on limited information on *per capita* income-taxable income within municipalities in Botswana, as well as assumed costs of providing services in different categories of local governments.

4.2.1 Expenditure needs per municipal government

International literature and experience indicate that regional disparities are one of the major characteristics differentiating local authorities in various countries. This applies to both developed and undeveloped countries. The United States of America offers an illustrative example of economically-segregated regions. However, inter-regional or inter-municipal inequalities are more pronounced in developing countries. According to Prud Homme (1995:202) economic development that characterised economic growth in many of the developing countries over the past few decades, did not eliminate economic disparities. Therefore, in order for decentralisation reforms to achieve allocative efficiency in a given country, they must take into consideration regional economic inequalities.

According to Prud Homme (1995:209), different municipalities should be treated differently during the implementation of the fiscal decentralisation reforms, depending on several features defining them. Such features include the geographical size, population size and levels of economic development. The critical mass notion advocates for more decentralisation of local government units that have the potential to benefit more from the reforms on the basis of the three key factors, population, activities and income. As such, large cities are preferably better candidates for decentralised units, as opposed to smaller jurisdictions, although they may all be enjoying the same legal status (Prud Homme, 1995:209). Therefore, this thesis holds the view that there is positive correlation between critical mass notion (sufficiently large income, population and economic activities) and extent to which functional responsibilities and revenue-raising powers could be decentralised.

For the purpose of establishing whether there are different expenditure needs (defined as expenditure needs *per capita*) and different financial capacities (defined as potential taxable income per capita) between municipal governments in Botswana, this study encompasses an analysis of limited data on population distribution, income and economic activities in the three case-studied municipalities. The discussion also relies on secondary information on other municipalities, other than the case study ones, in order to draw broader conclusions on whether the assignments of functional and revenue-raising powers achieve allocative efficiency and increased revenue-raising at municipal government level.

First and foremost, it is important to state that councils in Botswana are differentiated by the Acts establishing them. The Township Act and the Local Government (District) Act establish urban councils and district councils respectively. This means that all district councils enjoy the same legal status. The same applies to city, town and township councils. However, data in sections 3.5.2 and 3.5.3 indicate that the Kgalagadi District (KgDC) and Kweneng District Councils (KDC) have both been assigned the same functional responsibilities. In addition, their total budgetary allocations on five selected expenditure items were more or less the same, with a few exceptions. KDC spent at least an average of 14.41% on primary education while KgDC expended 9.79% on the same. Furthermore, both councils each allocated almost (more or less) equal shares of their budgets to five expenditure items accounting for at least 50% of their entire budgets (see table 21). The implication created by the expenditure patterns and budgetary allocations of both councils on selected expenditure items is that both authorities have equal per capita local expenditure needs. That is, the monetary cost of providing the same local public goods and services is equal in both municipalities.

However, available data on population distributions, relative to the land area (population density), indicate that KDC has a higher population density of six people per square kilometre while KgDC has a population density of fewer than one person per square kilometre. Furthermore, at least 60% of the KDC constituents are absorbed into the formal employment sector against less than 20% in KgDC. Part of KDC is within the Gaborone metropolitan area, while KgDC is located over 530km away from Gaborone. Whilst KgDC remains a rural area after the 40 years since Botswana attained independence and is experiencing an outward migration effect, KDC falls within a region that has over 50% of Botswana's urbanites. This means KDC did not attract migrants by default, but by design, since the district is home to a significant industrial base of Botswana's manufacturing industries or, alternatively, a significant host of the population spill-overs of Gaborone (See sections 3.3.1; 3.5.2; 3.5.3 for details).

From an economic point of view, the expenditure needs of providing similar local public goods and services in KDC should be significantly lower than those in KgDC, because the former enjoys economies of scale emanating from high population density and high-income levels relative to the latter. Two local public goods provided by both councils illustrate this.

(a) SHHA: According to Kgalagadi District Development Plan (2003:41), almost all the building materials for the construction of SHHA projects are bought outside the district because of its remoteness. Gaborone is the preferred source of materials yet, it is located more than 500km away from KgDC. Beneficiaries end up spending more on transportation costs than on building materials required for their structures. This impacts negatively on the rollout of the programme, because it fails to achieve the reasons for which it was established. That is, providing subsidised housing loans to low income earners who do not qualify for market-priced loans. Notwithstanding this, the total amount of a loan allocated to residents of KgDC is equivalent to that of KDC and, for that matter, any other district or urban council, including GCC. Conditions for repaying the loans are also the same (see section 3.2.1 for conditions of the SHHA programme).

It is therefore logical that the uptake of the programme grew much faster, at an average of 60.48%, in KDC against 10.96% in KgDC (See table 22). This creates the wrong perception that KDC is more successful in rolling out the programme, without taking into consideration the socio-economic differences between the two districts in terms of the level of economic activities and development. KgDC can effectively be defined as having high *per capita* expenditure needs and a low taxable income *per capita* while KDC can effectively be defined as having relatively low expenditure needs *per capita* and high income *per capita* compared to the former. These differences should be reflected by varying budgetary allocations on each expenditure item over an extended period of time (finance-follows-functions principle), but that is not the case. Budget allocations are made as if the two district councils have the same level of expenditure needs *per capita*.

(b) Water Supply: The ability of the council to supply potable water to the communities does not solely depend on the capacity of personnel in its employ, but the financial capacity to sustain the durability of this service over time. KgDC has made efforts to apply cost-saving measures through the introduction of privately connected water supplies. The major problem in rolling out the private water connections to the communities, stems from the fact that there are hardly any populated settlements in the district which mostly has sparsely-distributed homesteads. The cost of providing private water connections in KgDC is high *per capita*, compared to that of KDC (more especially in the south-eastern part) where the district is densely populated.

This thesis therefore suggests that the assignment of functional responsibilities in Botswana is not differentiated in accordance with the characteristics of each district (more especially with reference to the critical mass principle) in order to achieve allocative efficiency. Rather, a uniform approach to the assignment of expenditure responsibilities has contributed to the entrenchment of pre-independence regional disparities. It is also important to bring to attention the fact that almost the entire budgets of both districts are covered by the national government through RSGs (See sections 3.5.1; 3.5.2 and 3.5.3). It is therefore justifiable to argue that the decentralisation or devolution of expenditure responsibilities to local authorities in Botswana is not properly designed to achieve regional equity, but to maintain the status quo and, worse, to actually exacerbates inter-municipal inequalities.

Expenditure needs-critical mass diagram

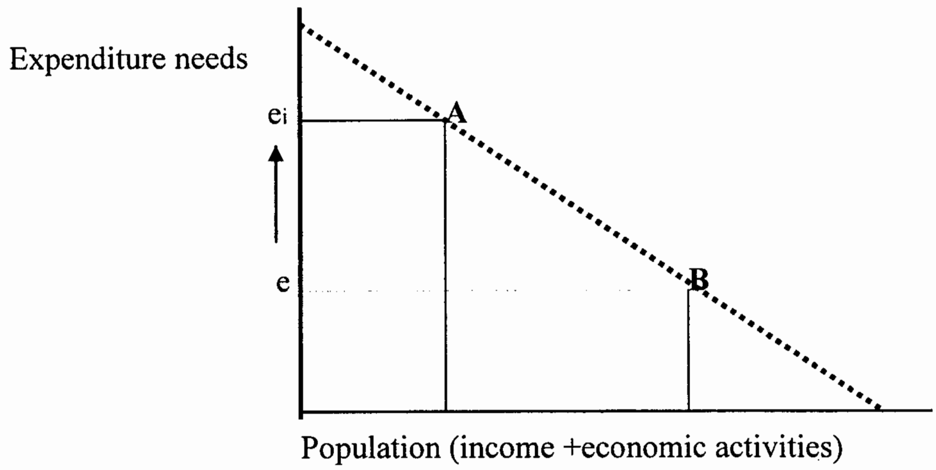


Diagram 1

The expenditure-needs (or needs-critical) diagram above, modelled on the critical path notion illustrates that the higher the population the lower the costs of providing local public services. This study assumes that the cost of providing local public goods and services in Kweneng District Council (KDC), whose population and economic credentials are represented by B in the expenditure needs-critical mass diagram, would cost the district e while the same services may cost KgDC e_i at population A. This model applies satisfactorily to Botswana's situation because an increase in regional populations in the country is associated with urbanisation and other economic pull factors that improve the standards of living for residents through highly-centralised public and private investments (See section 3.3.1). Mosha, in Edge and Lekorwe (1998:290), validates this view of their analysis of the impact of urbanisation in Botswana. According to Mosha in Edge and Lekorwe (1998:290) 73% of the Financial Assistance Policy[62] (FAP) funds went to projects located in the urban areas, creating at least 20 000 jobs, while the 71% of the Accelerated Land Servicing Programme (ALSP) also went to the same.

On the basis of the expenditure needs-critical mass notion, the thesis suggests that municipalities are not clearly differentiated in order to establish their expenditure needs, each according to economic status, land area vis-à-vis population and geographic location. Hence, a blanket approach to the allocation of resources on nationally-funded programmes (functional responsibilities) at municipal level at the expense of the marginalised districts.

[62] FAP was a government empowerment programme that allocated financial grants to the citizens in order to start up their businesses. The programme justifiably benefited urban areas because investors were interested in large, ready markets for their produce.

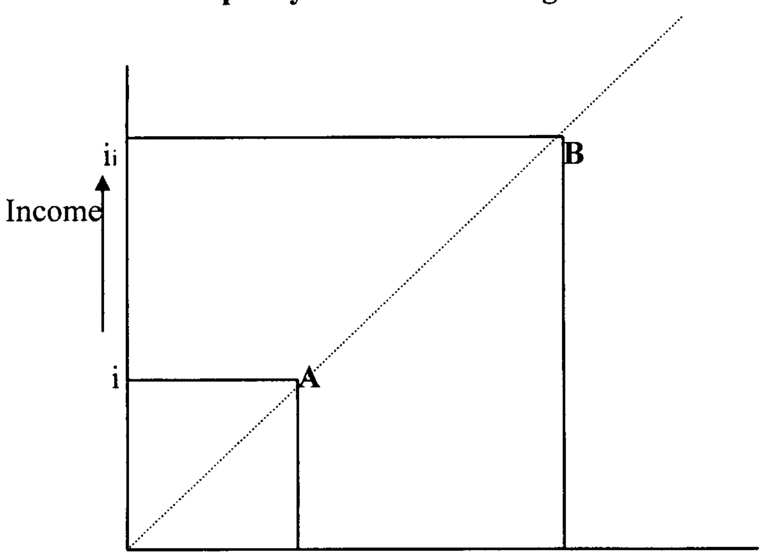
4.2.2 Financial capacity

The revenue-raising authority, assigned to local authorities, in essence reflects the extent of control they have in their own affairs. Put differently, the more revenues local authorities generate, the more control they have on how it is utilised for local services or their assigned functional responsibilities. The main reason behind significant own revenues for municipal governments is to ensure that they provide services that mirror the preferences of their constituents in such a way that the costs of local services fall on the service beneficiaries. This arrangement is credited for successfully depressing incidents of free riders and enhancing political accountability. Residents are then provoked to gauge the quality of services they receive against the charges that they pay in return to their respective local governments.

Generally, the revenue-raising authority of local authorities tends to be unchanging over time. However, due to the technological revolution and innovations, as well as the changing economic conditions, it has become important to review the revenue-raising authority of sub-national governments from time to time (Tanzi, 2001:8). This is meant to ensure, among others, that there is production efficiency in the provision of local public services. This line of reasoning coincides with the view held by Prud'Homme (1995:210) that different sectors should be treated differently on the basis of the externality, chargeability and technicity factors. Goods prone to externality effects are not good candidates for decentralisation, yet those that can be financed by charges and provided with the lowest available managerial and technical capacity at local government level are best candidates to be decentralised. Services which easily lend themselves to charges can play a significant role in enhancing the revenue-raising powers of local authorities or enhance fiscal decentralisation.

The assignments of revenue raising powers in Botswana are more or less the same for all district councils and urban councils (see section 3.4.3). The difference between urban and district councils' revenue sources lies in the fact that only the former have access to property taxes and sewerage connection fees. However, despite the same revenue sources allocated all district and urban councils, the extent to which each unit can benefit from the decentralisation is varied and should be reflected by varied fiscal capacity between urban councils themselves and among district councils. This argument is premised on the critical-mass notion that holds that the higher the population within the local government unit, the higher the income generated due to frequency of economic activities taking place. Hence a more densely-populated local authority reaps most benefits of the decentralisation reforms. This view would generally apply to Botswana's situation, due to major demographic changes associated with urbanisation and economic development in the south-eastern region, encompassing both GCC and KDC.

Fiscal capacity-critical mass diagram



Population (total expenditure/economic activities)

The fiscal capacity-critical mass diagram above illustrates how the higher the population, the higher the local internally-generated revenues[63]. This model as well applies satisfactorily to Botswana's situation, because, despite the fact that the revenue generating powers of urban councils are the same as provided for by the statutes establishing them, their financial capacity is hypothetically different. In fact, the Botswana National Settlement Policy (1998: clearly demarcated primary centres into three categories such as Primary Centre I; Primary Centre II and Primary Centre III[64]. Primary Centre I should have at least 100 000 people. Table 5 in section 3.5.1 indicates that only Gaborone city (among other urban councils) qualifies as a Primary Centre I. Lobatse Town Council (LTC) in the vicinity of GCC has a population of 29 689. This means LTC is more than six times smaller than GCC, in terms of the population (refer to appendix 1 to see LTC). In essence, LTC is not by any means more developed than

[63] According to Mosha, in *Edge and Lekorwe* (1998:290), the disposable cash income for urban villages was US$265.60, while that of rural villages is US$147.10. The average monthly consumption expenditure was US$417.60; US$224.10 and US$130.50 for towns, urban villages and rural villages respectively.
[64] Primary Centres II and III are expected to have at least 50 000 to 99 999 and 20 000 to 49 000 respectively.

GCC. At population A, LTC can only generate i revenues as opposed to GCC that is capable of generating ii Pula with a population of B[65].

There is evidence that GCC is the largest base for Botswana's manufacturing industries (Mosha in Edge and Lekorwe, 1998:290). This means the city is in an advantageous position to maximise the collection of revenues due to it, such as property taxation and sewerage collections and user-fees at relatively lower administrative costs. However, this is not the case. (Refer to section 4.3.1.1 for reasons why the GCC fails to maximise its own revenues.)

In concluding this section, the discussion argues that Botswana's fiscal decentralisation strategy is rather more concerned with the allocation of local revenue-generating sources than establishing each authority's financial capacity on the basis of the revenue sources already allocated them. (See appendix 4 for additional revenue sources allocated local authorities, despite their failing to put to good use the already existing revenue sources.) Although this conclusion is based on secondary sources, due to lack of adequate available information, generally, urban councils generate at least 30% of their own sources, despite variances between their populations and level of economic development. Nevertheless, empirical evidence in sections 3.5.1 and 3.5.2 indicates that, despite varying economic statuses, population distributions and incomes, Kweneng District Council generates as little own revenues as Kgalagadi District Council.

Revenues generated through user charges are quite unstable from year to year. Such public charges for community centre services, sewerage connection fees, sewerage fees, service levies and parking levies were not predictable. Variances between two financial years for these chargeable services are so inconsistent that district or national government authorities cannot prognosticate the possible revenues that can realistically be generated through them. Such is the situation in GCC that it is difficult to reconcile the estimated and actual revenues generated at the end of the financial years as highlighted in all the three case studies. This is a wide-spread problem across the urban councils such as in Jwaneng Town and Francistown City Councils (Office of the Auditor General Report, (Jwaneng Town Council) (2002:63); Office of the Auditor General Report, (Francistown City Council) (2000:4).

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[65] Gaborone, Francistown and Selibe-Phikwe have population densities of more than 1 000 persons per square kilometre (Mogae, 2001:12). This is a strong point for designing different strategies for intergovernmental relations between government and urban areas as well as between government and rural areas

4.2.3 Redistribution role of councils

The Household, Income and Expenditure Survey (HIES) of 2002/03 states that 23.8% of Botswana's labour force were unemployed (Midterm-Review NDP9, 2006:5). Midterm Review NDP8 (2000:6) in turn identified lack of income as an immediate cause of poverty. Lack of income is associated with lack of wage employment and limited employment opportunities. The decline of the labour-intensive agricultural sector and the rapid expansion of the capital-intensive mineral sector resulted in limited employment opportunities in the economy. Although poverty has steadily declined since independence, HIES indicate that 30.3% of citizens live below the poverty datum line (Midterm Review (NDP), 2006:6). The Government of Botswana, through various intervention programmes such as Remote Areas Development Programme (RADP), Social and Community Development (S&CD) and community development, among others, has injected a significant amount of resources to cushion the impacts of poverty on vulnerable members of society. To this end, the government has been generally successful, although there is still room for improvement.

Rural areas are the most affected by incidents of poverty. In fact, Mosha, in Edge and Lekorwe (1998:340), contends that incidences of poverty are increasing in rural areas despite reported decline of poverty country-wide. The most affected being the rural districts of Ghanzi and Kgalagadi. Hence there is a need for the government to intervene through life-sustaining and sustainable programmes. GoB through the Mid-Term Review NDP8 (2000:6) strove to target policies systematically at individuals and groups of people who needed such assistance and so avoid abuse of the programmes. Therefore, local authorities as the government closest to the people, and being in a better position to reap the benefits of allocative efficiency, play a significant role in the redistribution of nationally generated resources.

The role of district and urban councils in the redistribution of centrally-financed expenditure assignments cannot be underestimated in Botswana. Local authorities are key players in the provision of (a) merit goods (primary education and primary health services); (b) social safety nets (RADP); (c) drought relief services (LIPWP); as well as (d) the community development orientated functions (S&CD). The extent to which each locality is involved in the redistribution of nationally-raised revenues is dependent on various interrelated factors: (i) the level of socio-economic development of each locality; (ii) level of urbanisation and modernity; (iii) the level of poverty within each municipality and (iv) its prime (strategic) or remote location from the major primary centres.

Notwithstanding these, it emerges that GCC on average spent 31.87%, KDC 51.44% while KgDC allocated 47.34% of their resources on the redistribution of nationally-financed expenditure items. To the extent that Gaborone, as the capital city, the financial and business hub of the country, expends at least a third of the budget on these expenditure items, it is justifiable. However, it is difficult to deduce from the case studies the reasons justifying the allocation of well over 50% of the KDC budgets on these expenditure items. This is contrary to the findings of the Study of Poverty and Poverty Alleviation in Botswana, that indicate that rural areas are inhabited by 62% of the poor or very poor citizens of Botswana, 24% were resident in urban villages, while only 14% of urbanites were poor (Mid-Term Review, NDP8, 2000:5).

A larger section of KDC residents certainly fall within the urban villages' bracket that has lower poverty incidences as compared to rural villages that characterise KgDC.

Table 21 Average Sectoral Expenditure Growths (in Percentages)

District/Urban Council	Education	Health	S&CD	SHHA	Water & Sewerage
GCC	7.34%	13.13%	3.61%	2.42%	5.37%
KDC	14.41%	15.31%	10.67%	0.25%	10.80%
KgDC	9.79%	15.56%	13.01%	0.23%	8.74%

Table 22 Average Sectoral Expenditure Growths (in percentages)

District/Urban Council	Education	Health	S&CD	SHHA	Water & Sewerage
GCC	26.70%	69.79%	16.24%	-15.56%	47.64%
KDC	19.73%	16.70%	23.50%	60.48%	16.48%
KgDC	10.67%	22.70%	13.76%	10.96%	35.55%

However, reconciling the budgetary allocations per district on S&CD expenditures raises more questions than answers. Table 22 indicates that the budgetary allocations for S&CD in GCC and KDC are increasing at a faster rate than in KgDC. In fact, the rate at which KDC is allocating financial resources to S&CD can be interpreted as indicating that the rate of poverty incidences is increasing faster than that of the other two councils. Yet, 82.6% of the population of KDC are residents of the four major settlements (Molepolole, Gabane, Mogoditshane and Thamaga) within the urbanised eastern corridor. These areas are considered the economic hubs of the district. However, this is not to suggest that there is no urban poverty in Botswana, but to suggest that there is a logical expectation that rural districts on the outskirts should be seen to be allocating a larger share of their budgets to equity-inclined services than urbanised settlements whose residents have more employment opportunities.

This thesis, suggests that in order for councils to equitably allocate nationally-generated resources, expenditure needs should be established first. Secondly, the demarcation of sub-districts can be an important factor in ensuring that the programmes are targeted enough to avoid abuse of resources, yet achieving equity in their distributions (see section 4.2.4).

Lotz in Ahmad (1997:202) defines expenditure needs as "expenditure a given authority would have to incur to supply all its services at the costs equal to the national average – not better and not poorer, but *average*". Establishing expenditure needs would justify high expenditures on certain services in district A and lower expenditures in district B without necessarily compromising the national average costs on those services. The local government system in Botswana does not have a standard measure of each district's expenditure needs on statutory functions assigned. This has given the councils leeway to expend their resources in an unsustainable fashion.

According to the Report on the Second Presidential Commission on Local Government Structure in Botswana (2001:28-29), the social aspect of RADP was more successful than the community development aspect because it involved the much easier issuing of handouts. Councils are said to have failed to avail themselves of technical support.

Councils are said to have failed to avail themselves of technical support required for community development projects, thus leading to their failure, because they were preoccupied with issuing the handouts (to their constituents) that are not facilitative to the sustainable developmental objectives of the programme. The issuing of handouts by the councils is reminiscent of what Bennett (1990:4-5) terms the "principle of entitlement". Increased handouts have indeed fuelled the expectations of the local communities to such an extent that community development projects are just not given the same priority by their local political leaders. The widespread view that it is a moral responsibility for the state to provide handouts through local authorities has not only contributed to an increased free rider problem but caused a Samaritan's dilemma. The expectations tend to have been raised beyond the national average individual's households poverty levels.

Although there is no adequate information to calculate the exact percentage of resources that should be allocated each district, limited data is suggestive of the relative abuse of the social safety nets in councils without regard for the overriding element of allocative efficiency as a justification to assist those in need through decentralised expenditure. This is as a result of the following interrelated factors:

- the central government (MLG) has not been able to establish expenditure needs per locality and the financial capacity and/or taxable resources per locality; and
- welfare benefits are under-provided in economically disadvantaged rural district councils, in contrast to the peri-urban district councils that, by virtue of being classified district councils, enjoy as much equitable revenues from the national government whilst their level of income is quite high as a result of diverse economic opportunities, hence higher disposal incomes. This means that there are high incidents of free-rider elements and welfarism in strategically located, peri-urban-dominated districts, as compared to the remotely-located district councils.

4.2.4 Demarcating and defining the roles of sub-districts

Deciding on the size of municipal governments is a dilemma that requires a trade-off between economies of scale and production efficiency enjoyed by larger councils and the Pareto-efficient output or allocative efficiency that tie expenditure decisions to resource costs in smaller sub-national governments (See section 2.3.1). Considering the facts that the major reasons for undertaking fiscal decentralisation reforms in Botswana are to achieve allocative efficiency, decentralised budgeting and service deliveries, political accountability and equitable distribution of nationally generated resources, it is justifiable that this thesis analyses the demarcation of sub-districts from this perspective.

The Report of the Second Presidential Commission on Local Government Structure in Botswana (2001:125) discovered that the degree of delegated authority varied among councils in each sub-district. Their mandates were not clarified either. In most cases, decisions of sub-districts were found to be tied to those of the district headquarters. Furthermore, there are no guidelines that define the level of authority for sub-districts (SPCLGSB, 2001:126). Within the districts are large traditional villages which have achieved the status of urban villages. The report of the commission found that the juxtaposed arrangement of development funds for urban villages, in relationship to the rest of the settlements within districts, created an imbalance in the distribution of the funds. The political (numerical) advantage the former enjoyed at the council chamber favoured them whenever projects allocations were made (SPCLGSB, 2001:126-7).

The concentration of development expenditure in districts' and sub-districts' headquarters contributed to the failure of the districts to bring services closer to the people, because people from rural areas have to travel long distances in order to access council services in urban villages. This invariably results in congestion of constituents at the service points (SPCLGSB, 2001:129-30). This discussion therefore suggests that allocative efficiency has not been achieved, because there appears to be centralised choices within the districts that lead to uniformity of service provision, without taking into account the existing variations in preferences between urban and rural settlements within the districts. Given the disparities in the levels of development between settlements within districts, there appears to be loss of Pareto efficiency in the provision of local public services, because preferences of residents from different settlements vary markedly. Perhaps this is the reason why it has been difficult for the government to establish reasonable estimates of expenditure needs and fiscal capacity of municipalities, as well as finding it difficult to ensure that social safety nets specifically target those in need.

The argument for properly delineated sub-districts is not only to achieve allocative efficiency, but to strive for, amongst others, tax innovation as well as public charges innovation. These innovative measures are only possible when differences within the political jurisdiction vary little. Given the vastness of districts in Botswana that have internal socio-economic differences, thread-bare in many respects, sub-districts may be used as innovative hubs for tax and cost recovery innovations at local government level. The prospects of generating property taxation are much better in Mogoditshane and Molepolole than they are in Metsimotlhabe (see appendix 3 for these settlements). The designation of Mogoditshane as a sub-district or administrative centre would empower it to become a service point for smaller settlements within its vicinity. This would ensure that technical efficiency and economies of scale are achieved at the same time. It is important to indicate that the demarcation of councils does not only apply to district councils but may be a useful tool, in urban centres that are characterised by abject poverty in the midst of affluence, to address horizontal inequalities within the councils and to find innovative ways of generating revenues so that councils operate at minimum cost (technical efficiency). This view is based on the notion that 'what get measured gets managed.' This is discussed in section 4.3.2.

In concluding this section, this thesis suggests that the current arrangement of districts and sub-districts is not sympathetic to the achievement of allocative efficiency and Pareto efficiency, because district-wide choices, that result in the uniformity of services, create loss of consumers' surplus[66]. As such, the main reason for which sub-districts have been created, that is to bring services closer to the people according to their peculiar needs arising out of their unique preferences, is not achieved. Hence the demarcation of sub-districts tended to be counterproductive to the notion of local political decentralisation to the margins.

4.3 Local government own revenues

Revenue-raising authority assigned to municipalities is fundamentally a critical measure of the powers allocated to them. They should be run their own-affairs to the extent they are able to self finance their statutory expenditure functions except for bridging finances from the centre. Reference is thus made to the fact that low-mobility taxes and area specific benefit-motivated user-charges should finance, as much as possible, a significant amount of functions assigned local authorities so as to reinforce municipals' sovereignty and political significance for their voters-cum-taxpayers (see section 2.4.2).

Bahl, Smoke and Solomon (2003:72) state that a good revenue system should strike a balance between budgetary needs (based on expenditure assignments); the cost of producing local public services and, finally, "the combined amount of local taxes, charges and intergovernmental transfers". Finding equilibrium between budgetary needs and all revenue

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[66] According to Bailey (1999:20) loss of consumer surplus is caused by mismatch between consumer preferences and variations within a locality.

sources at the disposal of the municipality, requires a flexible tax system that tracks the expenditure patterns and that equivocally reflects the socio-economic status of the municipal's residents. Thus, their ability to finance the expenditure functions of the government closest to them, would ensure an equitable tax system (horizontally and vertically) that ensures that the beneficiaries of the municipal expenditures (financed by taxes) directly bear the costs associated with services they enjoy (principle of correspondence). In this regard, Bahl, Smoke and Solomon in Bahl and Smoke (2003:72) generated the following norms of good taxation:

(a) tax assigned should generate revenues adequate to cover budgetary needs;
(b) local tax revenues should be responsive to the effect that they grow or decrease in proportion to the expenditure needs' growth or reduction;
(c) the tax should be equitable horizontally (should be reflective of inter-municipal inequalities) and vertically (tax should match the basic municipal budgetary needs);
(d) there has to be an element of correspondence "between those who bear the burden of the tax and those who enjoy the benefits of expenditure financed by the tax";
(e) the tax assigned should be administratively feasibly; and
(f) Local taxes should be structured in manners that gives local governments some degree of fiscal autonomy.

According to Bennett (1990:20) there has been an intriguing trend recently in developed countries that has stimulated tax innovations that are "redirecting attention towards a cost-benefit relationship". These are called tax benefits. In this regard two principles of taxation have so far characterised local government taxation. These are (a) the ability to pay taxation; and (b) taxation according to benefits. The former has a redistributive intent while the later has quasi-charging intent (Bennett, 1990:20). In view of these fiscal decentralisation innovations in local government taxation this discussion briefly analyses Botswana's taxation system.

4.3.1 Local government taxes

It is important first and foremost to acknowledge that local governments in Botswana do not have access to any sort of taxes, except for urban councils which have been assigned property taxes. This gives them an upper hand (because they have marginal revenue source that is not available to district councils) on internally generated revenues. The implication is that the all the countries to strengthen it as the most common revenue source. This is for the reason that property taxes are considered to have a strong element of a good revenue system. Property tax is considered a relatively stable revenue source compared to other potential taxes because:

- it is income inelastic (that is, it changes slower than income) (Bell, 1999:2);
- "real estate markets reflect long-term assert values, which tend to respond more slowly to annual changes in the level of economic activity than economic flows like business turnover or wages" (Bell, 1999:2);
- moderate property tax base fluctuations, as a result of periodic assessment practices (as opposed to annual assessments), capture changes in real estate values completely (Bell, 1999:2);
- it is easy to administer locally (Bird, 2004:1);
- it does not raise the problem of competition or harmonisation between sub-national and national governments (Bird, 2004:1).

The Local Government Township Act, Section 7, empowers the urban councils in Botswana to levy rates and fees on land and properties by bye-laws. They may, according to this Act, "*provide for the fixing and levying of different rates upon different classes of land*". In order to come to a scientific conclusion, the discussion made an empirical analysis of the urban property taxation system in Botswana (GCC as a case study) by adopting a six-major function property analytical tax system, developed by Kelly (2000) for evaluating Kenya's property system as follows:

(a) **Tax base identification**[67]: All residential and commercial plots[68] in GCC are subjected to property rates, with the exception of the old SHHA plots (refer to section 3.5.1) which are charged service levies. The rates cover both land and buildings.

(b) **Tax ratio[69]:** Tax rate is uniform across the city, determined by the municipal government by way of a bye-law which is approved by the Minister responsible for Local Government.

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[67] It is defined by Government Policy as to what is and what is not taxed.

[68] Except those listed in chapter 3: churches, parastatals, government properties and others

[69] Tax ratio measures the tax amount per value of the property, taxing encompassing the area--rating system for example.

(c) **Coverage ratio:** According to Kelly (2000:41) coverage ratio is "the amount of taxable property captured in the fiscal cadastre divided by the total taxable property in a jurisdiction". Officials in the GCC are adamant that the coverage ratio of the property tax is around 70% within the City Council. The remaining 30% is not valued and captured in the valuation roll, for the reason that the city does not have the capacity to value commercial properties (such as the Game City Mall[70] that has not been valued since 2001) and in some instances residential land is valued at the exclusion of residential properties for the same reason.

(d) **Valuation ratio:** the frequency of land and property valuation indicates the valuation ratio of the property tax policy system. It is a standard practice to value land and properties every five years. However, this is not always the case. As at the middle of 2006, valuation was last conducted in 1997 and approved in 1999. This means it has been nine years since valuation was last conducted within the fast-paced, growing city of Gaborone. In fact, the valuation of land and properties is done by the Department of Lands, within the Ministry of Lands and Housing, on behalf of GCC, because the latter does not have the capacity to perform this function.

(e) **Collection ratio:** tax revenues collected against the total tax liability within a financial year represent the collection ratio. Government officials at the GCC estimated that the collection ratio stood at around 60% within their area of jurisdiction. As it has already been indicated in section 3.4.3, urban councils in Botswana experience a high rate of tax defaults from their residents, in the process pushing down the collection ratio of their municipal governments.

The administration of property taxation requires that there is at least adequate local information, as well as moderate administration costs, such as a cadastre that would be used to predict potential revenues payable to local authorities with fair accuracy over an extended period of time (Arora and Norregaard, 1997:8). From the analysis carried out above on the revenue productivity and efficiency of property taxation in Gaborone City council (GCC), several issues emerge. Tax productivity in GCC is constrained by inadequate administrative capacity within the council to capture necessary data on the extent, value and ownership of land and taxable properties. In addition to that, the so-called dilemma of indifference and incompetence appears to have negatively affected GCC's tax productivity because the

[70] Game City is the largest commercial mall in Botswana.

frequency of valuation within the city is quite infrequent. Valuation is done by the Ministry of lands and Housing, which has the competence to undertake the work, yet is less inclined to put more effort in order to ensure that the city's tax revenues reflects the value of taxable properties. The city council's hands are tied by its own incapacity to rescue the situation for the betterment of its revenue stream.

As a result of this inability to take advantage of the potential stable revenue stream property taxation offers, the city fails to achieve its purported objective of ensuring that it has considerable control over its marginal revenue and, in turn, tax innovation. The benefit-costs notions of property taxation have therefore not been achieved, chiefly as a result of government tax policy choice and administrative action (see sections 4.3.2 and 4.3.3 for a brief analysis).

High default rates, over an extended period of time, that go unpunished, coupled to low coverage ratios and low collection ratios, seriously reduce the significance of property taxation, within GCC, as an important local political issue tying the tax ratio to benefits received by the electorate in the form of services. The latter would include secondary tarred roads, streets lights and other community services. These services enhance the value of land and properties within given locations. As such the political significance of property taxes has failed to provoke local communities to gauge the level and rate of developments carried out by the council vis-à-vis the rates charged them via property taxes. In other words, property taxes in GCC have not lived up to the expectations of encouraging feedback to local officials from the service recipients as a political control mechanisms at local level; the quintessence of fiscal decentralisation theory (see sections 3.5.1 on GCC own revenues).

4.3.2 Government's tax policy choices

According to Kelly (2000:38) the revenue productivity of property tax cannot be de-linked from the government policy choices on the tax-base definition and tax ratio. As a matter of fact, a bye-law on tax rates in the GCC, like in other urban councils in Botswana, is approved by the Minister responsible for local governments after extensive consultation with the national Cabinet. This often causes delays before the rates are finally approved and published in the Gazette (see section 3.5.1). According to the officials at the Gaborone city council, the property rates bye-laws are normally not approved until six months into the new financial year. Having to wait for MLG to gazette new tax rates, more often than not, delays the council's collection of its revenues on time.

From a fiscal decentralisation perspective, property taxation is optimally assessed on the basis of, among others, its revenue productivity, neutrality, simplicity and equity (Bell, 1999:2-4). However, for the purpose of analysing the government's tax policy on property taxation from a fiscal decentralisation perspective, the discussion briefly assesses only the neutrality and equity aspects of property taxes in the Gaborone City Council (GCC).

Bell (1999:3) states that properly-designed taxes should be difficult to avoid. This ensures that they do not have an impact on (private economic decisions) explain concept?. Because property taxes are assessed against immovable, real properties, there is little that owners can do to avoid them, hence property taxes tend not to distort (private economic decisions)?. For these reasons, property taxes are generally seen to be neutral when compared to many other taxes. However, the tax-based definition of property taxes in Botswana fails to take advantage of the neutrality of property rates because it excludes potentially buoyant sources of this tax. The exclusion of the national government buildings, and more especially public enterprises, denies GCC revenues due on properties within its jurisdiction. This thesis therefore suggests that the tax base definition is not broad enough to take advantage of property developments that have taken place in the past 40 years. It limits the revenue-raising powers of the city and inhibits the city's endeavours to build its financial capacity by not giving it the leverage to control the greater part of the city's development trajectories without having to recourse to the national government to finance services that should be funded through internally generated revenues.

Whereas tax ratio is uniform[71] across all types of properties within the city, the determination of tax rates by the minister responsible for local authorities, undermines the notion of tax legitimacy. Property rates should be seen to be legitimate by the service recipients. Thus, the rightful authorities to ensure that tax is legitimate are the councillors. This ensures that local authorities own up to the quality (or lack thereof) of the services vis-à-vis the rates level. The national government should rather set the rates cap in order to protect local voter-cum tax payers from exorbitant property rates.

[71] Uniform tax ratio is credited for its simplicity to administer, as compared to selective tax system.

The second dimension of government tax policy choice on property taxation is how the element of equity is integrated into the local property taxation system. Bell (1999:4) argues that equity in property taxes can be achieved across jurisdictions and across individuals within the same jurisdiction. For the purpose of analysing GCC's property taxes, this discussion restricts the government's policy choice on the equity of the urban property rates across the range of individuals within Gaborone.

Government's policy with regards to distributing the tax burden across different income classes, in part reflects different abilities of residents to pay taxes. "The ability-to-pay principle[72] of taxation stipulates that the burden of financing ....general community services should be distributed across property owners in relation to the value of their property, which is proxy for ability to pay" (Bell, 1999:4). A significant portion of property tax is generated from high-income groups, who receive income from capital. In this way property tax is considered to be progressive and proportional across income classes, because it is by nature tax on housing consumption (Bell, 1999:4-5). It is therefore logical to argue that, in order for municipalities to be innovative in setting different tax rates across different income groups, the physical planning practices should be supportive to ensure that the tax rates are progressive and reflect the benefit-charges principle. According to the benefit principle, local governments should provide a variety of goods and services to their constituents according to the benefits received by the latter. Such benefits would also reflect the cost incurred by the council (Bell, 1999:5-6).

The 1963 Gaborone development plan segregated residencies according to the income levels of residents. "Housing development was polarised with high and medium cost on one side and low cost on the other". The government reversed this development strategy in 1984 in favour of the mixed development (Maundeni, 2004:15). Whilst this is a welcome development from a government's social and philosophical perspective of balanced development that does not appear to sideline those who are economically disadvantaged, it has placed many limitations on the discretion of GCC to increase the revenue productivity of property taxes and to

[72] According to Mosha (2004:32) around 40 000 people in the capital city live below the National Poverty Datum Line. One third or seven per cent of these people are very poor. In order for social safety nets to be targeted enough and for these needy people to be exempted from paying property taxes or paying subsidised taxes at an administratively lower cost, they should not be juxtaposed with medium and high income groups.

indiscriminately enforce property tax that has a redistribution effect for the low-income groups at lower administrative costs.

First of all, property tax is generally expected to be visible. Property owners expect to receive a package of goods and services commensurate with the taxes they pay. The goods and services received by the residents are assumed to be having a positive impact on the value of their properties. The juxtaposition of different income groups within the same location would mean that the value of high-income group properties depreciate because of their relative close proximity to low income properties. Under this scenario the city council would have difficulty charging progressive tax on different properties within the same location, because the high-income groups would consider themselves to be overtaxed if they are taxed according to the market value of their properties that are subjected to the same quality of goods and services provided to the low-income groups within the same location. The tax rates, therefore, would be seen to be lacking political legitimacy by high-income groups because the determination of the tax rates through the valuation process on mixed properties may not be easily subjected to the market forces in order for the tax base and tax rate to be understood by tax payers[73].

Secondly, the idea of social mix may complicate the city council's endeavour to implement its redistributive policies in a targeted fashion when relatively disadvantaged city residents are mixed with high-income groups. Relieving under-developed members of the city from paying property taxes may very well be an administratively costly exercise when they are within the same location as high and medium-income earners. This tax system is said to have failed the notion of simplicity and may very well lead to conflict between different income groups who receive the same receive bundle of goods and services whilst paying different rates.

This thesis therefore suggests that the government policy choice on urban property taxation should not promote equitable prices of property taxes for different income groups (it lacks an element of fairness) because it would probably under-tax the high and medium-income groups

[73] There is already a growing concern from the residents of Botswana's most premier residential area (Phakalane states) that they do not get value for money from the Gaborone City Council. Phakalane Estates is the preferred residential area for Botswana's high-income group yet construction companies have turned it into a dumping site. GCC has this far failed to protect the area from illegal dumping because the city council is preoccupied with other areas in the city. This is despite the fact that Phakalane generate the highest revenue income through property taxes that "reflect" the value of expensive mansions. The Managing Director of Phakalane Estate is quoted by the local newspaper saying: "I have tried to talk to the city council but they are turning a deaf ear. They do not seem to know that I am the goose that lays them golden eggs". This a practical result of treating different areas equally (Sunday Standard, 2007:1-2).

because of the difficulty to establish the market value of their properties. Hence, the ability-to-pay notion does not apply. Furthermore, tax rates lack legitimacy when they do not reflect the quality of goods and services that the city councils provide its residents. It is therefore argued that the administrative action of the council to maximise its property revenues, is in part constrained by the government's policy choice as discussed below (see section 4.3.3).

4.3.3 Administrative action

The three remaining variables of tax policy (coverage ratio, valuation ratio and collection ratio) indicate the administrative capacity and capability of the local governments to: (a) efficiently identify and capture data on all properties; (b) measure the accuracy of property valuation against the market value; and finally (c) enforce compliance through an efficient collection of rates.

Whilst property rates are generally a stable source of revenues for local governments, their income elasticity is influenced by base elasticity, collection rate elasticity and the rate elasticity. These factors entail the revenue productivity of the property tax system. According to Bell (1999:3) base elasticity is a measure of the responsiveness of assessed property value to income changes. In essence, the tax base elasticity mirrors the valuation ratio or the frequency with which land and properties are valued. The fact that as at the end of 2006, valuation was last done in 1997, indicates that the current property rates at GCC do not reflect the changes to the economic base of Gaborone city of the past nine years. Hence, current tax rates on land and housing do not reflect the current market value of these rateable properties. This means urban housing is under taxed in Gaborone. The city council fails to capture all tax revenues due to it.

The rate elasticity on one hand "reflects the extent to which increases in assessed value are translated into property tax collections" (Bell, 1999:3). The increasing defaulters on valued land and properties indicate that the assessed values of properties and land have not been transformed into collectable revenues for the council. This has been highlighted by several reports of the Office of the Auditor General. Tax defaults are common across urban councils in Botswana other than Gaborone (Annual Report of the Auditor General, 2001:52; Annual Report of the Auditor General, 2000:4). The collection rate elasticity, as defined by Bell (1999:3) as changes on property tax collections on account of the collection efficiency measures, the extent to which the collections of tax have increased because of changes in tax liabilities. Table 11 in section 3.5.1 indicates that there have not been significant changes to the total amount of tax collected between the financial years 2001/02 to 2003/04. This was corroborated by a senior local authority official who indicated that the collection ratio stands at 60% (see section 4.3.1.1).

The administrative dimension of property taxation within GCC, indicates that there is lack of political will to enforce the taxes as instanced by high defaults rates, as well as lack of technical proficiency at GCC to effect a valuation process, that is both transparent and insulated from political interference, by professionally-trained people in the employ of the city council.

In concluding this section, the view presented in this thesis is that the current government policy on property taxation and administrative action fail to give local authorities the discretion to be innovative with taxes in order to improve their productivity. The tax system lacks an element of benefit-cost notion, a critical political-accountability mechanism for fiscal decentralisation reforms. However, lack of political will to increase the collection ratio of property taxes is traceable to the intergovernmental fiscal relation system as discussed in section 3.5.1 (see section 4.5.1 for applied illustration of budgets estimations).

4.4 Public user charges

There is a growing recognition of user-charges as alternative revenue sources for local governments. Public charges evince the principles of benefit and correspondence of 'prices[74]' to services provided through the "willing-to-pay-for-particular-services" model (Bird, 1999) that implies such elements as the ability to pay and the willingness to pay for public services because consumers are charged explicitly. This, according to Bird (1999), ensures that public services are valued at marginal cost to citizens. For the purpose of this discussion it is important to note that functions of public charges are (Bailey, 1999:132) to achieve allocative efficiency, raise revenue, cover the costs of service delivery, meet the financial targets (or required rate of return on asserts) and the need to target subsidy in the pursuit of equity.

[74] The use of the word charges as opposed to prices is a recognition of the administrative determination of payments rather than through the market forces (Bailey, 1999:125).

It is nevertheless essential to acknowledge that the main economic rationale for user charges, is to promote economic efficiency with which the governments make use of resources, without necessarily promoting over-consumption of public services or under-pricing services financed through public finances. The major challenge in public charges is setting the right price, because of the public nature of services provided at municipal level which cannot be subjected to market forces. However, marginal-cost pricing is preferred in the public sector in order for the public services to be provided efficiently. However, there is no consensus on the best model in setting the right prices for public services (Bird, 1999).

Economists who prefer charging for services in relation to costs, propose that prices be set equal to the long-run marginal costs, while those who favour charging services in relation to benefits are of the view that there is a requirement of accurate information of service costs and service take-up. On the basis of lack of consensus on the correct pricing mechanism, Bailey (1999:129) concluded that "public choice theory has failed to integrate charging policy and practice into its own analytical framework". However, this does not rule out the significance of charging as an effective mechanism to achieve economic efficiency in the production costs and quality as well as quantity outputs of services. Such requires an increased input of consumers (Bailey, 1999:136-137). User charges have been used successfully in the United States of America, more especially on services that are least discretionary, such as sewerage and refuse collection which households and business cannot do without (Bailey, 1999:143). Therefore, larger cities have a better chance to succeed in introducing user charges, more especially on those services that are tied to real properties.

The Government of Botswana, through the Cost-Recovery Policy (1996), exhorted the municipal governments to introduce cost-recovery measures following the completion of the Report on the Second Presidential Commission on Local Government. The government of Botswana subsequently responded (*vide* the Report on the Second Presidential Commission Paper No. 1 of 2003 and the Local Government (District Councils) (Amendment) Act No. 18 of 2004 as well as through the Township (Amendment) Act No. 20 of 2004). The Acts categorised the services upon which public charges are applicable into two. Second schedule of the amended Acts comprises of local public goods and services that municipal governments set user fees by way of bye-laws (which require an approval from the Minister of Local Government) while the third schedule lists local public goods and services that gives municipal governments the authority to set local public charges through council resolutions (without having to consult with the MLG officials) (See Appendix 4). These include among others the plan-perusal and building-control services, sanitation services, sewer-connection services, sewerage services and water-connection services, as well as staff house rentals.

According to the Botswana National Settlement Policy (1998:14) it is the government's policy thrust to recover all costs associated with the provision of services in all towns and recover part of the costs in villages with low average incomes. However, only a small portion of the costs have thus far been recovered in villages, including urban villages. As indicated in sections 3.5.1; 3.5.2 and 3.5.3 councils have generally not taken advantage of user charges in order to achieve economic efficiency and allocative efficiency in the provision of local services. The report of the Second Presidential Commission on Local Government Structure in Botswana (2001:49-55) established that local authorities set their public charges below the costs incurred by the authorities when providing services. They also poorly manage revenue sources such as the collection and custody of stray cattle. During the interview with officials at the KDC, it emerged that no user charges had been instituted since the introduction of the cost-recovery policy. A policy to this effect had been drafted although it had not been presented to the council for approval. By middle 2005, GCC had shown significant resolve to take advantage of strong real properties (houses) within the city by introducing user fees on services, tied to land and housing properties (See appendix 5). Such user fees include among others sewerage fees that residents and businesses cannot do without (the more infrastructure developments within the city the higher the revenues for the municipal government through user fees tied to land developments (more especially housing properties).

The success of the implementation of cost recovery would be a major step towards achieving allocative efficiency and economic efficiency on local public services. In addition, effective user charges that are instituted with clear mechanisms of revenue collections and clear punitive measures for defaulters, would build strong political-accountability lines between residents and councillors. Until then it would be difficult to experience the positive spin-offs of fiscal decentralisation at local-government level through restrained local public sector expenditure, increased local revenues (allocative efficiency and economic efficiency) and active participation bi residents in local political decision making. It is thus concluded that local authorities in Botswana are generally lagging behind in instituting public charges, partly because of lack of political will but also because of limited administrative capacity, as indicated by the officials interviewed at three municipal governments.

4.5 Inter-governmental fiscal transfer mechanism

Centrally-generated revenues distributed as Revenue Support Grants (RSG) constitute the largest amount of municipal revenues (both urban and rural) in Botswana. This is the most important aspect to scrutinise when analysing Botswana's fiscal decentralisation system, because nationally-determined financial transfers can be detrimental or facilitative to innovative financial management at municipal governments, by promoting good or, at worst, bad financial governance. The need to deconstruct or reconstruct the intergovernmental fiscal transfers system is precipitated by the objective which it is intended to achieve. Theoretically, the mechanism takes into account the vertical imbalances between the national and local governments; horizontal inequality (inter-municipal socio-economic inequality); externalities; and finally the rightful sphere of government to administer taxes assigned. Achieving a balance between these competing and complementary factors is not too easy a task to achieve because "Local government structure is never at an ideal state" (Lotz in Ahmad, 1997:185). In essence, the intergovernmental fiscal transfer mechanism should always be in transition in order to remain relevant to the (a) local political changes; (b) socio-economic development (new needs at municipal level); and (c) changes in spatial distribution of populations. Perhaps that is why Webb in 1912, as quoted by Foster, Jackson and Perlman (1980:173), remarked that grants cause "*chaos which practically no one understands*".

Botswana deliberately chose a centralised taxing system in order to achieve an equitable distribution of nationally-raised revenues to all districts. To achieve such an objective requires of the government to have established basic expenditure needs, as well as the revenue-raising capacity of each municipality in order to ensure that the financial transfers from the national government closely mirrors the 'needs-capacity gap' at local government. This is meant to avoid pure grant financing of local governments, which is counter-productive to good financial management and accountable governance at municipal level. To make informed conclusions on the economic inefficiency or efficiency of Botswana's intergovernmental transfer mechanism, the discussion briefly analyses the budget variables at local government level below.

4.5.1 Budgeting at local governments

Despite political statements made and governments' written policies and strategies on fiscal decentralisation and its intended objectives, a major indication of the 'actual and political aims' of the government are quite deducible from the budgeting dynamics at municipal level. Reference is thus made to the case studies in sections 3.5.1; 3.5.2 and 3.5.3.

(i) **Estimated Expenditures vis-à-vis Actual Expenditures**: There is a clear trend of overestimation of expenditure requirements by District Councils to justify increased transfers of RSGs from the national government. During the financial years 2002/03 and 2003/04 KgDC overestimated its expenditure requirements by 23.17% and 50.05% respectively. For three consecutive years, KDC as well overestimated its expenditure requirements for the same reasons. During the financial years 2001/02, 2002/03 and 2003/04 KDC overestimated its budgetary needs against the actual expenditures as follows: 15.11%, 10% and 16.32% respectively. This practice is not only confined to two District Councils but quite widespread. This is highlighted in the Audit Report and Accounts of the South East District Council, Office of the Auditor General (2000:4). On the other hand, GCC slightly underestimated its budgetary needs for all the three financial years, 2001/02-2003/04 possibly because of unexpected sharp increases in health-related expenditures (see appendix 6).

(ii) **Estimated own revenues vis-à-vis actual revenues:** in order to attract as much RSGs from the national government, District Councils underestimated their projected internally generated revenues. For the two financial years (2001/02-2002/03) KgDC underestimated expected flows of internally generated revenues by over 32% and 26% respectively. The same practice is replicated in KDC. (See Annexure 6). On the other, GCC in most cases overestimated expected flows of own revenues because of a high default rate on property taxes, service levies, as well as on BMLs, which were not recovered from the residents within the planned financial years.

(iii) Estimated RSG vis-à-vis Actual RSG: Of all three Districts, KgDC is the only one which made overly-optimistic estimations on RSGs from the national government, ranging between 17% and over 42% (See Annexure 6).

These three variables of budgeting provide better insights of analysing Botswana's intergovernmental fiscal relations system. First of all, a wide vertical fiscal imbalance between the national and municipal governments creates what Pisauro (2001:5) calls the *common pool problem*. According to Pisauro (2001:8) this phenomenon arises as a result of the "mere presence" of the national government at municipal level through financial transfers that have "an insurance element" directly affecting budgetary decision making at grassroots governments. This insurance element and, at worst, the "bailout element" exposes the intergovernmental fiscal relation system to a "moral hazard" or fiscal indiscipline (Pisauro, 2001:8).

This is quite evident in the three case studies above. The deliberate overestimation of budgetary needs, inflated RSGs needs and the persistent underestimation of projected internally generated revenues within municipalities, are major syndromes of the common-pool problem in Botswana. These syndromes in turn generate the *soft-budget constraint* in local governments budgeting. According to Pisauro (2001:8) this constraint occurs when local authorities do not take into account the "true social marginal cost of taxation but rather choose an excessive level of expenditure"[75].

Increased spending on dependency-syndrome generating components of programmes such as RADP (food rations or food give outs) rather than on the community-development components, which will help ease local spending once local residents are empowered to sustain their lives, indicates that councils prioritise "black-hole spending". That is, councils prefer to spend more on goods and services that increase with time rather than slow down spending, because the higher the rate of poverty rates, as a result of poverty inducing spending, the faster the rate of spending on such expenditure items. The major thrust of RADP is to empower local communities to sustain, themselves rather than encourage a dependency syndrome. On account of the fact that most local spending is funded from the

[75] Kgatleng District Council decided to buy an expensive BMW X5 for the Council Secretary at the expense of other deserving development projects.

centre, there are no incentives for local governments to take into account the true social marginal cost of taxation.

The overall consequence of the soft-budget constraint has been incremental budgeting at municipal governments, increased spending on entitlement-oriented programmes and the purchase of unnecessarily costly motor vehicles. The outcomes of the soft-budget constraint are indicated by very optimistic expectations of RSGs from the national government by the council from one financial year to another; lack of political-will to enforce the cost-recovery policy on such revenue-raising sources as the property taxation in urban areas and other internal sources[76]as well as the under-utilisation of traditional revenue sources such as matimela, for the reason that there is not a standard requirement for marginal revenues at municipal level. There is no incentive either on the part of local authorities to optimise own revenues, because RSGs in most cases exceed the annual expenditure requirements for district councils (See sections 3.5.1; 3.5.2; 3.5.3 and appendix 6).

The impact of a common pool problem in Botswana is manifested in many ways at municipal government level as indicated above. Notably, the fly-paper effect is quite evident. Empirical evidence in sections 3.5.1; 3.5.2 and 3.5.3 consistently indicate that aid from the national government significantly increases local expenditures, while lowering own revenues (refer to tables 10, 15, 16 and 21). Deller and Maher (2005:213) define the fly paper effect as "the phenomenon where increases in unconditional aid have a stimulatory effect on recipient government expenditures greater than equivalent changes in personal income". Thus, the fly-paper effect literature compares with the fiscal decentralism view that local governments are more likely to restrain their spending when their own revenues constitute a larger share of total spending. The opposite is correct when aid from the central government maintains a positive trend. Therefore, this thesis holds the view that increased spending at municipal level is a reflection of increasing aid from the centre through RSGs.

One of the major setbacks of RSGs in Botswana, is the absence of a transparent formula that informs the vertical transfer mechanism. In the mean-time GoB has extensively applied an *ad hoc* transfer mechanism that largely reflects the availability of centrally-raised revenues on an annual basis. This arrangement, while providing the central government with the maximum

[76] See Reports of the Office of the Auditor General (Audits and Accounts of the Jwaneng Town Council, 2002:66; Audits and Accounts of the Gaborone City Council, 2002:)

flexibility to ensure a balanced, and in most cases surplus budgets at the national level, it compromises the medium-term economic planning and informed budgeting at municipal governments because (a) there is no transparent and predictable formula that can be relied upon for long-term planning and budgeting at local government; (b) there is great uncertainties at local governments every financial year, and that is why the difference between the estimated financial expenditures and actual expenditures differs markedly. The Ministry of Finance and Development Planning (MFDP) uses this system to reduce the RSGs allocated local authorities mid-way through the year to balance projected budget deficits at the national level. In the process there is an inevitable disruption of locally-planned activities and programmes. This concern was raised more often than during the interviews with local governments' officials.

It is intriguing to note that, despite a concern by local authorities about inadequate finances to carry out their statutory mandates, there is a general trend of unspent revenues at the end of the financial years, as reflected in the General Fund. Whilst it was not possible to get the latest data on the amount revenues in the general fund, the report of the Second Presidential Commission on Local Government Structure in Botswana indicated that all councils harboured P73 702 243.44 during the 2000/01 financial year. GCC, KgDC and KDC each had over P20 000 000, P1 500 000 and P7 200 000 respectively. Officials at the ministry of local government stated that this trend has not subsided. Nevertheless, it is important to state that unspent revenues at the end of the financial years, are as a result of lack of a transparent transfer system, as well as poor institutional capacity at local government which indicates a poor fiscal decentralisation strategy that does not take into account the capacity of local authorities to allocate expenditure responsibilities, as well as allocating revenues from the centre.

In the overall, the current fiscal transfer system impedes good financial management and realistic budgeting at local government level. In fact, as Martin (1982) (adapted from Watson and Hassett, 2003:87) agued, the precursors of serious financial problems are overly optimistic projections. Botswana's local authorities exhibit syndromes of poor availability of information for budgetary decision making. Crucial information for budgetary decision making and good financial management is undermined by the non-observance of the core management functions such as *strategic planning*, *performance measurement* and *program evaluation* that have never been carried out. In fact, none of the councils under study had a strategic fiscal plan. The trio are referred to as the 'manage by fact' due to the 'nearly perfect' budgetary decision-making (own citation).

In concluding this section, it is important to draw attention to the view that the common pool problem in Botswana's vertical intergovernmental transfer, manifests itself in several but interrelated ways. The soft-budget constraint encourages incremental spending at municipal level without giving attention to areas of priority. Municipal governments are tempted to attract as much RSGs as possible, in order to allocate more resources to the already existing programmes. In addition, elements of innovative financial management, as well as decentralised budgeting process are dulled by RSGs that are not transparent and predictable over time. Thus the spending decisions and revenue-generating efforts are influenced by aid from the centre, hence the fly-paper effect.

4.5.2 Development budgeting at local government level[77]

Local governments' development/capital spending constitutes a significant portion of Botswana's national budgets. Local development spending is 100% funded through conditional grants by the national government. Due to inadequate information, the discussion briefly analyses the implementation of the Labour Intensive Public Works Programme (LIPWP) at municipal level. LIPWP is generally a voluntary programme deliberately created to cushion the effects of drought on affected communities country-wide. This programme has significantly been transformed from a relief programme into an accelerated implementation mechanism for planned projects as contained in the District Development Plans (DDPs). Because drought is declared almost every year in Botswana, the implementation of LIPWP has become almost a normal and annual development phenomenon at municipal government level.

The operational costs of LIPWP, including wages and salaries, are funded by the government at the centre. Local authorities prepare project memorandums for approval at MLG. Such memorandums are expected to contain a significant number of projects from DDPs and any

[77] When this thesis was being finalised, a draft evaluation report or a performance audit report on drought relief LIPWP by the Office of the Auditor General (OAG) (Botswana) was being finalised. The findings of the report mirrored the general view held by this thesis on LIPWP. However, the report could not be used as a reference because it was not yet published for public consumption. The report is written by Mr. Zachariah Kwada for OAG.

other projects as specified by a directive from the Office of the President declaring the implementation of LIPWP. The programme is expected to last for a duration not exceeding 12 months, although this hardly ever happens.

During a workshop organised by MLG for councils to draft the implementing guidelines of LIPWP, several issues emerged. Firstly, a significant number of nonviable projects were implemented through the programme, more specifically large community halls in small settlements. Such halls are seldom utilised and have turned into white elephants. Yet, there are outstanding development projects across the country that have not been implemented as a result of 'lack of financial resources'. Secondly, MLG does have criteria to distribute the total pool of revenue allocated to it by the Ministry of Finance. During an interview, local officials quizzed the method used by MLG to allocate them development funds for the LIPWP. Officials from MLG also acknowledged that there is no clearly-established criterion to distribute drought relief funds among district councils. It appears that the revenues allocated to councils through the LIPWP reflect the historical priorities of the programme rather than the current priorities. Thirdly, there is inadequate commitment from the councils to implement approved projects within the time and cost, as indicated in the project memorandums, because the government is often compelled to release more funds to ensure such projects.

To illustrate that LIPWP funds were utilised without regards to the notions of efficiency, effectiveness and economy a national coordinator of the drought LIPWP stated that during the 2005/06 financial year, the drought unit in Kasane (Chobe district) procured building materials from as far as Gabane in KDC. For unknown reasons council officials went beyond Francistown, the nearest primary centre (see appendix 1 for Kasane and Gabane). Because councils are not expected to contribute anything to the projects financed through LIPWP, they tend to give little, if any, attention. As a result of uneconomic spending of funds released for LIPWP projects, MLG incurs high administrative costs in an effort to monitor the activities and progress of the programme. Although there was no data to verify this assertion, the frequency of trips by MLG officials to district councils. as well as the nature of decisions they have to take on specific projects, indicate their level of involvement. For example, MLG have had to instruct councils to abandon certain projects because they were no longer viable to undertake because they were badly initiated.

Time and cost over-runs characterise projects implemented through LIPWP. Following an analysis of cost and time overruns in KDC and KgDC it was established that excessive spending and poor cost effectiveness were effected in the implementation of projects undertaken through LIPWP. The grants, in reality, were based on *ex post* costs because cost overruns were a common phenomenon.

In concluding this section, the thesis suggests that because of lack of political ownership of LIPWP the programmes appear to have most of the disadvantages of conditional grants. These include high administrative costs incurred by MLG through the monitoring mechanisms, as well as poor cost-effectiveness and excessive spending. This is not justifiable in view of the fact that municipal governments have considerable infrastructure backlog owing to limited resources to undertake projects proposed by their constituents (as contained in the Urban/District/National Development Plans. This is an illustration of centralised-determined spending decisions, funded through non-matching conditional grants. Such grants do not have an element of political commitment because there are literally no incentives to be cost-effective, as there is a guarantee that incomplete projects would finally be funded by the national government. Local authorities do not account for projects as they often blame the national government for under-funding the programme. Hence the discussion concludes that inappropriately-designed grants are counterproductive to allocative efficiency, decentralised planning and budgeting, as well innovative ways of achieving more public outputs with fewer or limited inputs.

4.6 Institutional framework

According to the International Monetary Fund (IMF) (1999:26) (quoted from Pisauro, 2001:11) a good institutional framework for intergovernmental fiscal relations defines the powers and responsibilities of each sphere of governments based "on stable principles and/or agreed formulae and that they should be clearly stated". Spelling out the powers, functions and responsibilities of each sphere of government is not always explicit. It in most cases reflects the macroeconomic stance and philosophy of the government that may rope in or side-line different policy actors in economic decision-making. The policy-making process, role and influence that different actors harbour in local policy-making may significantly facilitate fiscal decentralisation through the active role and inputs of local politicians on local issues whilst over-interference of central government officials and politicians may seriously undermine the purpose for which fiscal decentralisation reforms were initiated.

In addition, the institutional capacity as well as the manner with which financial transfers are determined, impacts on the spending behaviour and efforts of municipal government to generate own revenues. Finally, the intergovernmental transfer mechanism and the role players involved in determining and allocating grants to municipal governments impact on the extent to which fiscal decentralisation achieves its envisaged objectives.

An extensive discussion of the theory of central-local relations by Blom-Hansen (1999) about the interaction of the three types of policy actors serves as aid to understanding of the institutional framework and its implications on municipal financial management. According to Blo-Hansen (1999:237) the policy actors in central-local relations is constituted by the "*expenditure advocates*", "*expenditure guardians*" and "*topocrats*" "whose abilities to pursue their self-interests are constrained and facilitated by the structure of the inter-governmental policy networks" (Blom-Hansen, 1999:238). Topocrats[78]represent the views and interests of local government within the policy-making process, while expenditure advocates who in most cases form "professional bureaucratic complexes" are interested in increased sector-specific expenditures and policy through new public programmes, as well as the expansion of funding for existing programmes. On the other hand, expenditure guardians are more concerned with constrained public expenditure and public sector activities in the interest of macroeconomic control (Blom-Hansen, 1999:239-241).

Botswana's central-local relations in policy-making certainly resemble the tendencies of macroeconomic control at the expense of the two other policy actors. The central government is capable of maintaining its control over local government decision-making (policy-making) due to a highly-centralised economic planning and management; inadequate capacity of the local authorities to run their affairs or assigned functions on their own without recourse to the national government for assistance. In fact, the expenditure responsibilities of local authorities have been expanded regardless of their constrained capacity to perform those already assigned prior to the newer ones; lack of political will to actualise the initiatives aimed at ensuring that local authorities play a significant role in the economy; vested political interests in local

[78] 'topocrats' is from the Greek, *topos,* meaning place or locality. Kratos means authority. Beer as referred by Blom-Hansen, 1999:239).

affairs by the national government to maintain its political influence. In fact, one government official stated that the national government does not want to let go of the councils, because of the political repercussions that may not work in favour of the sitting government or vested national government officials' interests in local government affairs to amass their power and influence at municipal government level.

It is therefore reasonable to argue that the more the dominant role of the actor, the more the political system pursues this actor's policy goals. Blom-Hansen (1999:243) is quoted describing this phenomenon as follows:

"Formally, the policy goals of the weak actor may be adhered to, since these may be legitimate, but the pursuance of such goals easily turns into symbolic politics". President Festus Mogae of the Republic of Botswana is quoted as saying that "local authorities must start sharing costs of development and other services with consumers and beneficiaries" (Quoted from Maundeni, 2004:19). However, the government through a White Paper on the Second Presidential Commission of Local Government Structure in Botswana, Government Paper No. 1 (2003:35) rejected a recommendation by the SPCLGS that advised the government to repel a statutory authority of the Minister of Local Government to approve Council bye-laws. The approval of bye-laws on property rates have a negative impact on the political significance of property rates, because they do not necessarily reflect the local political decision making that can be challenged by local communities but that of the national government.

GoB's policy goals, with regard to the development of local government as an important tier of government for economic development, have been explicitly expressed in almost all NDPs policy documents, albeit without deterministic approach to actualise their role. The minister of Finance and Development Planning remarked that "*Government remains committed to the principle of decentralisation to the Local Authorities and communities to ensure that they have effective control over their destiny and are held accountable for their actions*" (Budget Speech, 2004:16). Despite this assertion by the minister, the government rejected a further recommendation by the SPCLGSB that suggested that municipalities be acknowledged as autonomous governments established and created through a constitutional clause (White Paper on the Second Presidential Commission of Local Government Structure in Botswana, Government Paper No. 1, 2003:35).

"Since actors cannot be expected to be altruistic, it is crucial who makes the balancing act, and this is where the structure becomes important. Policy networks may be so closed that some actors are virtually organised out of politics, while others are organised in. Structure thus constrains or facilitates the actors' pursuit of interests" (Blom-Hansen, 1999:242). This is a fair refection of the multi-year development budgeting in Botswana that appears to extensively involve councils in the drafting of the DDPs/UDPs, yet these policy documents reflect the views and aspirations of the local authorities from a national perspective (see section 3.4.1).

The determination of intergovernmental transfers lacks transparency. This is worsened by the fact that each ministry funds or finances development projects at municipal level that are under its mandate. Notwithstanding this, MLG coordinates all activities of other ministries at municipal level. This ,more often than not, creates confusion and conflicts because various ministries interpret policies differently. For example, all ministries fund the functional activities that they have decentralised, such as the roads department and the Ministry of Health for HIV/AIDS activities. The Office of the President (OP) is the overall national coordinator of disaster management, although it has decentralised a significant portion of disaster activities to municipal level. OP expects all municipal governments to integrate disaster management into their development planning, in order to prevent, mitigate, and be prepared to respond, should a disaster strike. Local authorities in turn expect OP to fund all the disaster-management-related activities and create a unit at municipal level solely responsible for this function. Municipal governments expect OP to fund the commemoration of the international disaster day at local government level as an awareness programme. Local authorities are not prepared to undertake these activities, because they consider them as unfunded mandates. MLG appears to be of the same view. This illustrates that one concept can be understood differently by different stakeholders and eventually undermine the reasons for which the decentralisation reforms were undertaken.

Moreover, the funding mechanism for such departments as that of roads at municipal government level, does not reflect genuine decentralisation. SPCLGSB had recommended that funding that was intended for roads construction should be allocated to councils at the beginning of each financial years in order to facilitate forward planning rather than the current practice of disbursing funds in blocks whenever they are available. The government rejected this recommendation as well on the basis that such funds are released whenever they are available (White Paper on the Second Presidential Commission of Local Government Structure in Botswana, Government Paper No. 1, 2003:35).

Finally, the employment, development and promotion of local governments' permanent (and critical) staff by the national agencies, as well as the replication of nationally developed training programmes, do not augur well for the development of autonomous local governments that should account to the electorates without blaming their failures on centrally-developed programmes. The rollout of the Work Improvement Teams (WITs) and the recent Performance Management System (PMS) (meant to promote employees' productivity in the work place) bear testimony to a centrally-controlled local public sector. Both programmes were implemented at the national level and later replicated at municipal government level, without having been necessarily tailor made for the environment prevailing at the districts/urban councils. It is therefore, not strange that WITs did not achieve its intended objectives. (Kaunda, 2004). It is also justifiable that there are some scepticism as to whether PMS would bring any positive changes to local governments including the councillors (Botswana Press Agency, 2006:1-3). Lack of institutional capacity ?? a clear initiatives by the government to build institutional capacity at municipal government is a drawback for fiscal decentralisation.

The discussion above represents some of the indications of an overly-controlled local public sector. Nevertheless, this is not to suggest that the list has been exhausted. The execution of capital and/or development projects that are funded through specific transfers and the setting of fees on their behalf by the sectoral ministries leave the district and urban councils with no power and authority to direct their developmental trajectories but rather to observe the instructions from the centre without taking into consideration the financial implications against their governments in the long-term. This finding is corroborated by the Report of the Second Presidential Commission on the Local Government Structure in Botswana (2001:23, 30-31).

This discussion thus concludes, on the basis of available data, that the institutional framework defining the interactions between the national and local government indicates an element of grandmotherly government that interferes on almost every aspect of local affairs. This is even more pronounced in local government policy making (more especially the preparation of

DDPs/UDPs) as well as the appointment of a large number of councillors without constituencies to represent. This undermines the notion of political accountability and democracy as major *sine qua non* for legitimate governments that strive to serve the preferences of their constituents accordingly within the limited resources at their disposal. This does not embody fiscal decentralisation that is aimed at inducing innovation in the delivery of local public goods and services as well as finding the most innovative means of generating significant revenues for their governments in order to perform their statutory functions efficiently. Hence this situation effectively being described as fiscal decentralisation in regression.

4.7 Summary and deductions

In order to make an objective measurement of the performance of local government within the period under study (NDP8 and NDP9) reference is made to the objectives that the Ministry of Local government had set to achieve at local government level.

Firstly: Budgeting has not been decentralised to the municipal governments because they still rely heavily on financial transfers from the centre. The transfers lack elements of revenue certainty and predictability in the short and the long term. Thus forward and informed budgeting is not practical at municipal government level, due to the absence of a transparent formula that distributes revenues according to a standardised formula that is known to all role players. This means that municipal governments prepare their budgets on a trial-and-error basis and, at most, their budgetary estimations reflect the rule of thumb rule, because each expenditure item appears to be attracting increasing revenues (incremental budgeting) on an annual basis without any sign of redirecting revenues to newer demands and challenges brought about by increased populations and the phenomenon of urbanisation;

Secondly: Extensive use of specific transfers leaves local authorities without the authority over their development budget. Such programmes as the labour-intensive, public-works programme has been implemented since the 1980s, but local authorities have not perfected their capacity to deliver it according to the expectations of the electorates and the national government. Lack of cost-effectiveness and good time management are traceable to the extensive use of non-matching specific grants, because such projects, although designed to benefit local governments implementation have not been integrated into municipal governments' organisational structures. Lack of political ownership of this programme also contributes to significant time and cost overruns. This in turn has primed MLG's officials to spend more time enquiring about physical and financial reports concerning projects implemented through LIPWP. This is a costly exercise;

Thirdly: The capacity of the local authorities to implement their assigned statutory functions remains far behind the sophisticated nature of their expenditure-assigned functions, because increase of functional assignments was not complemented by improved local institutional capacity;

Fourthly: Lack of revenue-raising effort and limited avenues of generating revenues from local communities impede the development and role of Community-Based Organisation (CBOs) and/or civil society in local economic development, because there is nothing motivating them to participate in the development of their areas. High default rates of SHHA loan repayments in urban areas as well free services like water and garbage collection in rural areas have resulted in a weak civil society (creating a dependency syndrome at local level). This situation has blunted an element of local political accountability in Botswana's fiscal decentralisation strategy because even chargeable services that have low technicity levels are provided at no cost to the communities, as if they are social goods and services (displacement);

Fifthly: National aid from the centre has a fly-paper effect on local government spending and revenue generation. Increase in grants from the centre has had a complementary impact on the spending patterns of municipal government, yet is restraining their revenue-raising efforts and actual revenues;

Sixthly: Lack of data on expenditure needs and revenue-raising capacity per municipality have resulted in inequitable distribution of nationally-generated resources to councils. Highly populated districts, which happen to be urbanised, benefited most from the fiscal transfers, because the determination of aid is predominantly based on the overall population of each district, rather than on the fiscal capacity and expenditure needs of each locality. This promoted elements of dependency syndrome among residents and dulled councils not to find innovative ways of generating own revenues because aid from the national government often exceeded their total expenditure at the end of financial years;

Seventhly: The demarcation of sub-districts, administrative districts and service centres benefits larger villages (district and sub-district headquarters) at the expense of smaller settlements, because the former continue to attract more development funds yet such funds are generally assumed to be equally benefiting the entire district. This means that there is centralist approach to decentralisation within districts. That is, districts fail to serve the different preferences of their constituents within their large jurisdictional areas. Allocative efficiency, targeted cost recovery and redistribution of nationally-generated resources are difficult to achieve because there is inadequate decentralisation within districts[79];

Eightly: Government tax policy choices on property taxation undermine the revenue productivity, simplicity, equity and neutrality of urban taxation to the extent that the administrative action (the amount of tax collected or collection ratio, coverage ratio and valuation ration) was below the economic potential of the urban areas;

Ninethly: The appointment of a large number of unelected councillors undermines good governance and democracy because the criterion for such an exercise is known only to the minister responsible for local government. This is counterproductive to the notion of fiscal decentralisation that views political accountability to constituents as a reflection of thriving democracy, when it engages politicians and their voters-cum-tax payers on issues of interest to both parties; and

Tenthly: There is extensive involvement of national government on local government affairs through policy making that gives them an upper hand on issues that can better be addressed by local authorities such as the employment, training and promotion of local personnel by central structures as well as the preparation of local development plans that largely mirror the perception of national government on the critical development challenges of municipal governments. The presence of District Commissioners (DCs), as overall coordinators for the preparation and implementation of DDPs, undermines the philosophy of autonomous local authorities as tiers of governments accountable to their electorates, as opposed to the current

[79] It must be noted that for decentralisation to be effective there has to be limited differences of tastes within a defined jurisdiction, as well as large differences between two demarcated jurisdictions. This is applicable to large districts that have characteristics of urbanised and rural regions within their statutory boundaries.

arrangement where they account to employees of the national government (DCs) (see section 1.2.1);

Finally: Local authorities cannot account for the financial resources in their custody because they continue to fail to produce their audited accounts in time as a result of lack of political will and incapacity because of limited human resources (See Appendix 7). This does not reflect well on municipal governments as tiers of government that can be entrusted with more responsibilities and more financial powers to generate and manage financial resources for the benefit of their communities through good governance practices.

CHAPTER 5

REINVIGORATING BOTSWANA'S INTERGOVERNMENTAL FISCAL RELATIONS SYSTEM: CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The analysis presented in this thesis has thus far generated an inter-related set of findings and conclusions that could be instrumental in reinvigorating the current intergovernmental fiscal relations in Botswana.

5.2 Summary

Firstly: The discussion found that the current institutional framework of Botswana's intergovernmental system exhibits an element of an over-regulated public sector that inhibits and constrains own initiative at local government level. This, the national government maintains:

- through centralised economic planning that constrains the role of municipal governments in the economic developments of their localities;
- by ensuring that policy making at municipal level is unduly influenced from the centre through the appointment of unelected councillors by the minister responsible for Local Government as well as by the presence and influential role of DCs;
- through an intergovernmental structure that places influential authority in the hands of government officials, more especially those in the Ministries of Local Government and Finance and Development Planning at local government decision-making level. Thus furthering their vested bureaucratic interests at the expense of genuine decentralisation that could have brought about the management of own affairs at local government level;
- through an ambiguous definition of the roles of District and Urban Councils in various sectors of the economy, as well as the role of the government ministries at municipal level. This undermines coordinated approaches to decentralisation at the expense of the autonomy of local authorities;
- through lack of institutional capacity building in municipal governments which translates in failure to implement all assigned functional responsibilities without assistance from the central government; and

- through a centralist approach to fiscal decentralisation, with grandmotherly tendencies by the national government towards municipal governments on matters of local policy making.

Secondly: The fiscal transfer mechanism is done on an *ad hoc* basis. The oscillatory nature of fiscal transfers from the centre is such that local authorities cannot objectively prognosticate the expected Revenue Support Grants (RSGs) on an annual basis or for the six-year development planning period. In fact, the government officials confirmed that there is currently no formula for the determination of vertical and horizontal equalisation transfers. The fiscal transfers are determined incrementally at the beginning of every financial year. This arrangement results in:

- ineffective multi-year budgeting or fiscal rules-driven budgeting that relies on unstable intergovernmental transfers that inhibit long-term planning at municipal level;
- budgeting at municipal level that is not based on revenue certainty and security from the central government. As a result local authorities do not have room to exercise their innovative discretions to ensure that such financial transfers have a *net direct additionality* impact on local spending rather than an *indirect net additionality impact*, as is the case currently;
- the absence of strategic fiscal policy within municipal governments;
- incremental budgeting that at most creates optimistic expectations at local governments about the amount of potential transfers from the centre. In short, finances do not follow functions;
- high welfarism and an element of entitlement at district and urban councils, because the transfers do not take into consideration their capacities to generate own revenues. In fact Revenue Support Grants are greater than municipal budgets in some district councils, leaving them without any incentive to optimise their effort to finance their statutory functions. It is for this reason that municipal expenditures on social services that are not development oriented increases with time;
- RSGs mechanism that is outdated and irrelevant to the current developmental stages of most, if not all, district and urban councils;
- soft-budget constraints in local government budgeting as indicated by budget surpluses and significant unspent revenues in the general fund; and

- fly-paper effect on local government spending and restrained generation of own revenues.

Thirdly: The expenditure assignment of functional responsibilities is one-size-fits-all for all municipalities, large and small. The expenditure assignments fail to categorise municipalities according to their human and potential financial capacities. The national government has not established the expenditure needs of each local government and thus they are not categorised according to their peculiar characteristics that may constrain or optimise their financial and human resources capacity to implement efficiently their statutory and permissive expenditure assignments. As a result:

- the government is not in a better position to classify municipalities according to their budgetary or expenditure needs to deliver their mandates efficiently;
- there is increased utilisation of welfare services that are not development oriented, even in areas that do not need increased expenditures on such services, because of their constituents' access to the economic opportunities that could sustain their livelihood;
- expenditure assignments do not reflect the economic or development status, nor the level of urbanisation within the localities. As a result the spending decisions of municipal governments do not reflect the contradictory needs, tastes and preferences of residents within different regions of municipal governments. Large urban villages obviously have different preferences when compared to those of smaller settlements. This means that sub-national spending is centralised;
- the joint provision of such services as internal and tertiary roads is not subsidised in favour of local authorities because of lack of capacity-building initiatives for the benefit of all municipal governments. There is as well a duplication of efforts and inefficiency in the provision of water by up to three different authorities within the same areas[80];

[80] There are inconsistencies in the supply of water, in part- reflecting such factors as the capacity constraints on the part of municipalities, historical and institutional mandates and boundaries demarcating districts. Four authorities are involved in the supply of water within a small area. Water Utilities Corporation supplies the Greater Gaborone, Department of Water Affairs supplies Tlokweng in the South East District and Mogoditshane in the Kweneng District, while Kweneng District Council supplies Gabane, Mmopane and Metsimotlhabe. Kgatleng District supplies Morwa, Oodi and others within the district. See Appendix III Map 2 for these areas.

- the assignment of expenditure assignments is not concomitant with their financial and human resources capacity, but a reflection of the national government's expectations from them; and
- there is significant increase of local spending which is incrementally driven by significant increases of government's aid to local authorities.

Fourthly, the analysis found that local own revenues are too limited to finance their own affairs without recourse to the national government for financial assistance. The insignificance of internally-generated revenues has created grant economies at local government level. All districts councils depend on a centrally-generated and administered tax system, while urban councils have access to property taxation. The discussion thus concludes that:

- the local government revenue reforms did not take into account the capacity of the districts/urban councils to exploit the widened revenue sources and that is why their willingness to utilise such revenue sources assigned to them has not been fruitful. (incompetence and incapacity). Refer to Appendix 4 for local government revenue reforms;
- while sources of local revenues are limited to finance local government functional expenditures, local authorities lack political will to maximise revenue sources at their disposal because national grants are more than enough to cover their budgetary needs;
- centrally-transferred revenues at most reflect the aspirations of national policies at the expense of the local governments;
- the significance of urban property taxation is small partly as a result of national government's insensitivity to the right of access to this revenue source on time and without unnecessary delays from the central political powers;
- the insignificance of property taxation as a local political tool is a disincentive to the active participation of local residents in the affairs of their governments without unnecessarily resorting to the involvement of national political representatives to solve small local issues that could be better left to the elected members of municipal governments;
- lack of a stable sources of own revenues and revenue certainty thereof, remains a major incentive for under spending at municipal level. This is exacerbated by the aim of generating more interests for the councils on unspent end-of-year surpluses; and

- cost recovery or public charges have not been institutionalised at municipal level. Such services as garbage collection are funded through transfers from the national government in district councils. This is called displacement of intergovernmental transfers.

5.3 Conclusion[81]

Overall, the discussion did not deny the effort that the Government of Botswana has invested in signifying the role of the local government as an important partner in delivering public services to the people of Botswana, rich and poor. However, the discussion concludes that the *common pool* approach to intergovernmental fiscal transfers and the *soft-budget constraint* impacts created grant economies that pork-barrel local welfare policy is not development oriented, but in turn heighten an element of entitlement from the councils as well as their politically unprovoked constituents. This more often than not comes at a high cost, as a result of high economic inefficiencies that are generated by an incomprehensive and outdated fiscal decentralisation system governing the relations between the national and local governments in Botswana. Therefore, this thesis concludes that the institutional framework is not conducive to a successful implementation of fiscal decentralisation reforms that would ensure that local authorities enjoy the same privilege or even more privilege from local policy making. The determination of RSGs for each municipal government is also not supporting truly decentralised spending. There is, as well, considerable revenue uncertainty, because the total amount of transfers fluctuates frequently on an annual basis. Finally, lack of data on expenditure needs and a limited revenue raising capacity in each locality complicates the determination of fiscal transfers that are due to municipal government.

5.4 Recommendations

It is recommended that the following, with regards to the institutional framework, intergovernmental financial transfers, expenditure assignments and local internal revenues should be implemented, in order to bring about economic efficiency, political accountability

[81] The thesis did not discuss borrowing at municipal government as an important instrument of developing local development because this is outside the scope of the discussion. However, this is an important factor in local government finance therefore more research should be done on this issue because it may unlock the much needed and untapped private capital into urban cities' development projects that are in backlog.

and achievement of the envisaged objectives, as outlined in section 4: 4.1 above, in an innovative fashion.

5.4.1 Institutional framework

In order to ensure an autonomous local government tier in Botswana, that is politically accountable and efficiently run (economically), this thesis recommends that a comprehensive redesign of the intergovernmental relations be put in place. The following should be observed when carrying out such a politically-sensitive process:

- the government should set a specific time-frame to devolve more decision-making to local authorities, without unnecessary interference from the centre, more especially on statutory functions and finances assigned to them. Such an arrangement operates practically within an environment where the right of existence of each tier of government is established and circumscribed. Hence, it is recommended that local governments should be creatures of the Constitution of Botswana with their statutory functions clearly outlined and differentiated from those of the national government. This will ensure that there is integration and coordination of functions as well as adaptability of the local authorities on changing circumstances that have governmental and financial implications; and
- local governments' budgets should be separated from that of the Ministry of Local Government in the national budget speech. This will allow for capacity building at municipal level to complete realistic estimations confidently and through bargaining skills from their governments at national level rather than through the MLG officials.
- the government should create an agency that would determine objectively each locality's expenditure needs and fiscal capacity and ultimately recommend how the total distributable pool, as well as the equalising transfers, should be determined for each municipal government.

5.4.2 Intergovernmental financial transfers

It is important that the government acknowledges that intergovernmental fiscal decentralisation requires a political champion to take a lead in directing it through bureaucratic obstacles that may arise from senior civil servants who may be reluctant to ensure that the reforms actually see the day.

Financial transfers form an integral part of local governments' finances in Botswana. Revenue Supports Grants (RSGs) from the centre should be designed in such a manner that they ensure revenue security and certainty at municipal governments. This requires that a transparent and predictable formula be generated to facilitate strategic fiscal and long-term planning at local governments. The formula should take into account the following, in order to facilitate financial accountability, whilst provoking and encouraging the constituents to take interest in the financial management of their government closest to them:

- the level of urbanisation must be enhanced (as well as development) and thus the capacity to generate own revenues. Through this mechanism, the Government should be in a position to calculate the level of fiscal effort exercised by each government within the available avenues of revenue sources. This will avoid soft-budget constraint at municipal level, which indicates excess transfers from the centre that ignore the capacity to utilise them within the stipulated timeframe, and offer well-increased capacity to generate own revenues; and
- the transfer mechanism should take into consideration the distance of the municipality from the major primary centres such as Gaborone and Francistown (the cost of providing local public goods and services). This will ensure that those peri-urban districts that are within the vicinity of primary centres do not unfairly benefit through spill-over effects at the expense of those that are remotely located.

It is further recommended that the transfer system should have guidelines that clearly indicate gap filling (or vertical transfer mechanism) as well as the equalisation of horizontal inequalities among all municipalities.

5.4.3 Expenditure assignments

The efficient implementation of the local government statutory functions requires that they should have an informed idea of their expenditure needs in order to guide the Government in allowing them to perform permissive functions within their financial and human capacities. The expenditure needs of the districts should thus take into account their sizes in terms of population and land sizes as well as their urban and rural status. All these factors having been taken into consideration, an average income of residents will be instrumental in ensuring that municipals tap into specialised services, based on the residents' ability to pay within their areas of jurisdictions. This discussion therefore recommends that:

- the government should classify local governments based on the financial and human capacity; and
- the arrangement of joint provision of services, more especially on such services as potable water that have the potential to generate stable internal revenues for districts, should be scaled down within a given time framework for larger municipalities. The government should build up the human capacity of local authorities and thus transfer the provision of water in urban villages to them so that they could widen the internal revenues cost-effectively where yards are not as dispersed as in rural villages;
- the government should further allow for decentralised expenditures at municipal government level by allowing local authorities to further redemarcate their areas of jurisdictions into smaller and manageable sub-districts and administrative districts so that they may serve the differing, peculiar tastes of their constituents. However, in order for the government to compensate for lost economies of scale, closer relations and better sharing of resources between different districts in neighbourhoods should be encouraged;

Capacity-building is the most fundamental aspect of the intergovernmental fiscal decentralisation reform. It sets the platform for a balance between the capacity to implement (or the extent to which municipalities are ready for devolved functional and financial decision making) and thus the ability to manage own financial affairs through increased authority to generate and implement locally-generated policies. This discussion recommends that the Government should set a clear time-frame within which more devolution of financial decision making on specified standard statutory functions should be fully managed at local government level. This should be in conformance with the categorisation or differentiation of municipalities in terms of the extent to which they could fully manage their own affairs.

5.4.4 Local internal revenues

No matter how insignificant own revenues are, it is important that local governments have marginal revenues that they have control over. Local government tax and property tax are the most appropriate revenue sources that could be topped up by user charges. It is therefore recommended that:

- local government tax be re-introduced;
- property taxes should be introduced in peri-urban areas and specially selected urban villages. To ensure that this is politically acceptable and successfully implemented the following should be observed:
    - property taxes should be centrally administered to ensure cost-savings through economies of scale;
    - the structure should be standard country-wide to ensure that a large pool of qualified personnel could be attracted without inter-regional inconsistencies;
    - however, this should be a temporary arrangement that should within a specified period of time be decentralised to local authorities[82]. Capacity building is thus the most determining factor;
- the government should reform its tax policy choice so that the tax base identification is broadened to cover government and public enterprises real properties because they benefit from the local public goods and services. This will give urban local governments more control over their resources. Hence decentralised expenditures.

Capacity building in property administration and management will certainly ready municipalities to optimise the already allocated, new revenue sources that they are currently under-utilising due to incompetence; not because they are not prepared.

In conclusion, it is critically important that the Government of Botswana should develop a strong policy framework, build a strong consensus within the political and bureaucratic circles, coordinate and integrate these reforms through strong capacity building mechanisms at local governments. Finally, the capacity of the national government to monitor the process

[82] Dillinger (1991:29) calls this a decentralisation dilemma: "A trade-off between indifference and incompetence". It is the responsibility of the government to remedy the incompetence in tax administration at local government level and thus fully decentralise.

cannot be overemphasised. That is, the decentralisation process should initially be centralised with gradual decentralisation processes to allow for flexibility, well aware of the fact that: decentralisation structures are always in transition.

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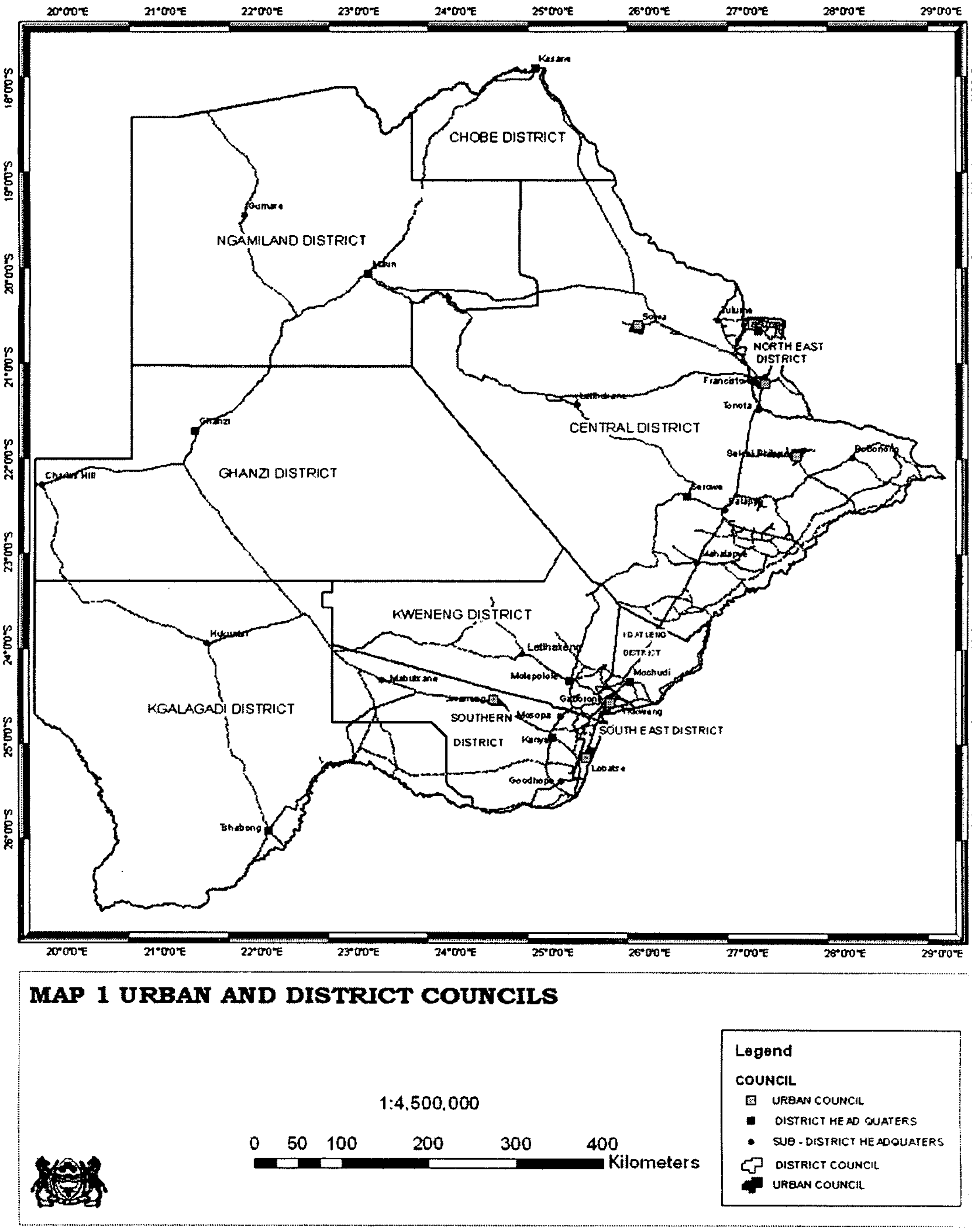
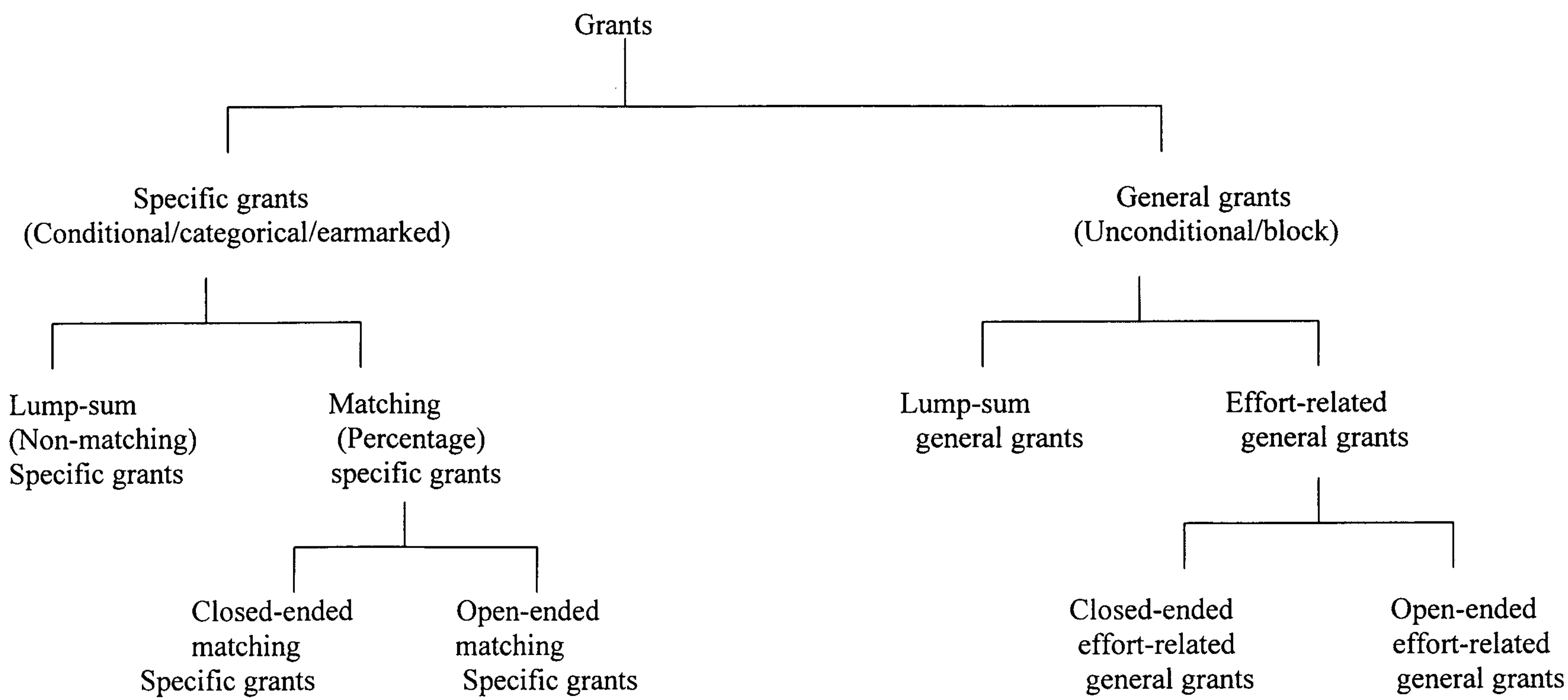
Interviews

1. Dr. M. Nyathi. Director of Budget Administration and Finance. Ministry of Finance and Development Planning. 26 May 2005
2. Mr. O. Moipisi. Ministerial Economic Planner. Ministry of Local Government. 28 September 2005
3. Ms. T. Poni. Chief Financial Officer. Ministry of Local Government. 15 June 2006
4. Mr. Motewarera. Former Economic Planner. Kgalagadi District Council. 12 June 2006
5. Ms. L. Fidzani. Senior Rates Officer. Gaborone City Council. 21 June 2006
6. Mr. N. Maputu. Senior Economic Planner. Kweneng District Council. 5 January 2007
7. Mr. M. Morapedi. Drought Coordinator. Kweneng District Council. 5 January 2007
8. Mr. S. Siabatho. Economic Planner. Kgalagadi District Council. 15 January 2007
9. Mr. D. Malinga. National Drought Coordinator. Ministry of Local Government 18 June 2006.

APPENDIX 1: MAP OF BOTSWANA

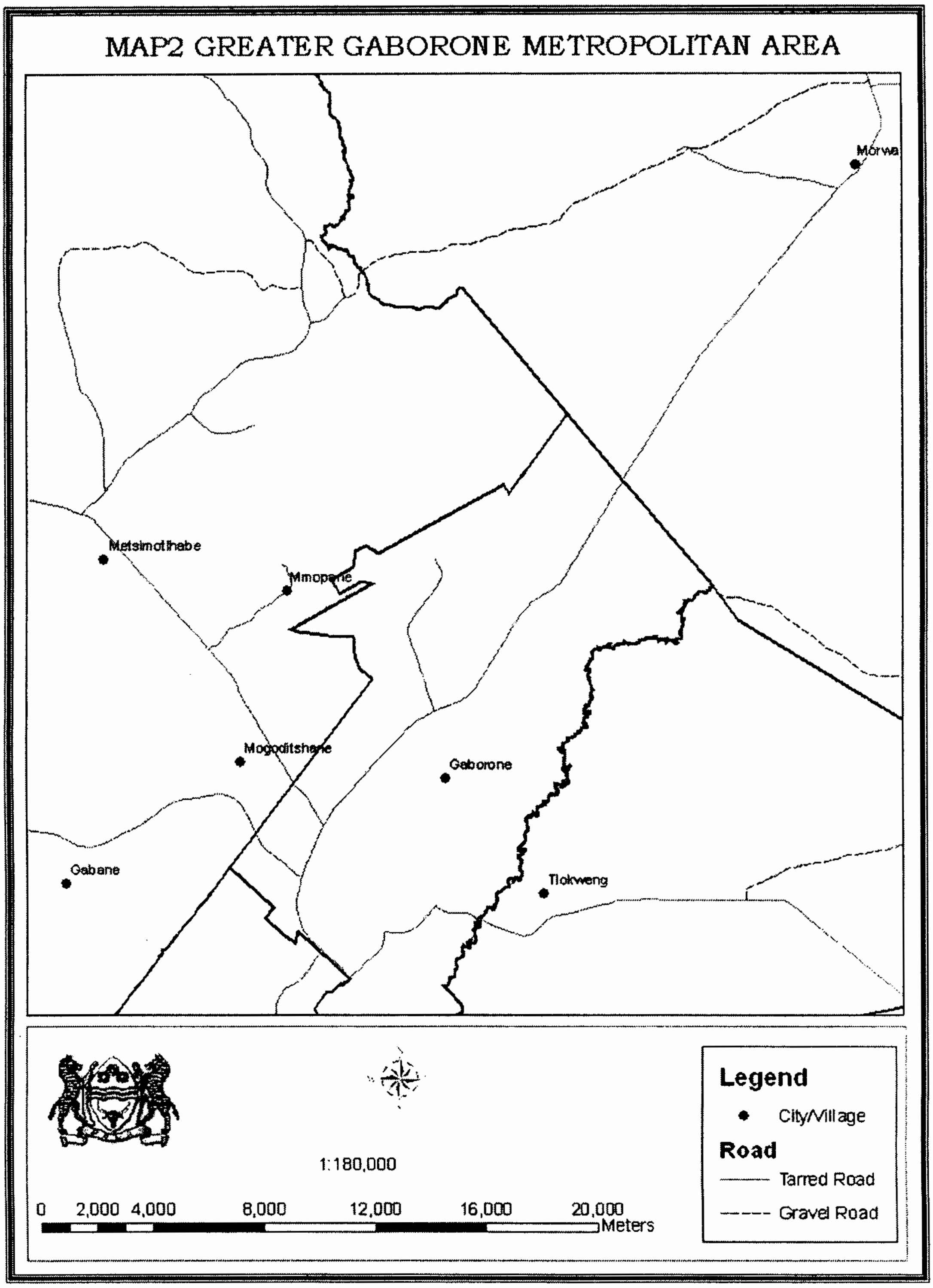


APPENDIX 2: A typology of intergovernmental grants



Source: Bailey (1999:181)

APPENDIX 3: THE GREATER GABORONE METROPOLITAN MAP



APPENDIX 4

SECOND SCHEDUELE
(Section 6 (1)

Services for which service and user fees shall be set by bye-law

NO.	SERVICES
1.	Abattoir services
2.	Certificates of rights conversions
3.	Clinical services
4.	Matimela or pound services
5.	Property rates services
6.	School services
7.	Issuing of trade licences

THIRD SCHEDULE
(Section 7A)

Services for which service and user fees shall be set by resolution of a township authority

NO.	SERVICES
1.	Advertising signs
2.	Cemetery services
3.	Community services
4.	Day care centre services
5.	Hiring of classrooms
6.	Provision of markets or factory shells
7.	Pest control services
8.	Plan perusal and building control services
9.	Plant hire services
10.	Refusal removal services
11.	Road reinstatement services
12.	Sanitation services
13.	Septic tank emptying services
14.	Sewer connection services
15.	Sewerage services
16.	SHHA services
17.	Shrub and plant sale services
18.	Stadia sport facilities
19.	Staff house rentals
20.	Stock sales commission
21.	Surveys and plans services
22.	Leasing of boreholes
23.	Water connection services

APPENDIC 5: GABORONE CITY COUNCIL SEWERAGE SERVICE FEES (Source: Botswana Press Agency, 2005:22)

CATERGORY / TYPE OF SERVICE	CHARGE	UNIT	REMARKS
1. Sewer Connection Fee			
a) Serviced and Un-serviced SHAA Plot	P300.00	Per lot	One time payment
b) Small Size Plot (area up to 45 M^2)	P750	Per lot	One time payment
c) Medium Size Plot (area 451 to 700 M^2)	P1000.00	Per lot	One time payment
d) Multi-unit development (more than one Town House/Flat in one plot)	P750.00	Per lot	One time payment
e) Large Size Plot (area 701 M^2) and above	P1, 500.00	Per lot	One time payment
f) Civic and Community Plot (Church, Community Center, School, Day Care Center, Clinics etc)	P2, 500.00	Per lot	One time payment
g) Commercial Plot (Shop, Bar, Restaurant, Laundry, Filling Station, Motor Garage, Office, etc)	P2, 500.00	Per lot	One time payment
h) Industrial Plot (any type of Industry including Hotel and Hospital)	P5,000.00	Per lot	One time payment
2. Council Vacuum Tanker Service Fee			
a) Septic Tank at non SHHA Plot in non SHHA areas	P150.00	Per load	Prepaid at Council Revenue Office
b) Septic Tank at non SHHA Plot in non SHHA areas	P50.00		Prepaid at SHHA Ward Office
c) Pit Latrine	P20.00		Prepaid at SHHA Ward Office
3. Private Vacuum Tanker Service Fee			
a) Registration Fee for Vacuum Tanker	P500.00	Each year	Calendar year
b) Wastewater discharge fee to Sewege Treatment Plant	P10.00	Per M^3	Prepaid Coupons of different denomination according to vacuum Tanker capacity available from council Revenue Office
4. Yearly Sewerage Service Fee			
a) Civic & community Plot (Church, community center, school, day care center, clinics etc)	P600.00	Per plot	Yearly invoice to be sent to plot owner/ occupier every year for payment
b) Commercial Plot	P600.00	Per plot	Yearly invoice to be sent to plot owner/ occupier every year for payment
c) Shopping Mall			
(i) Any type of shop	P200.00	Per unit	
(ii) Restaurant / Shop with butchery / Shop with cooking facility and take away	P1000.00	Per unit	
d) Lodge	P1000.00	Per plot	Yearly invoice to be sent to plot owner/ occupier every year for payment
e) Hotel			Yearly invoice to be sent to plot owner/ occupier every year for payment
i) Up to and with 50 rooms accommodation	P2500.00	Per Hotel unit	
(ii) Hotel with more than 50 rooms accommodation	P5000.00	Per Hotel unit	
f) Industrial Plot			
A) Industrial Plot (with non-production activity / facility)	P600.00	Per plot	Yearly invoice to be sent to plot owner/ occupier every year for payment
B) Industrial Plot (with production activity / facility)			
i) Discharge up to 3, 000 M3 per month	P0.75	Per M^3	Quarterly metered invoice to be sent to plot owner / occupier for payment
ii) Discharge between 3,001 to 15,000M3 per month	P1.00	Per M^3	
iii) Discharge 15,001 M3 per month and above	P1.25	Per M^3	
5. Conveyance and treatment of Wastewater received from other Councils	P0.50	Per M^3	Quarterly metered invoice to be sent to plot owner / occupier for payment
6. Reuse of reclaimed water			
a) Bulk consumers with own pumping and conveyance facility	P0.60	Per m^3	Quarterly metered invoice to be sent to plot owner / occupier for payment
b) Retail consumers taping from Council facility	P1.50	Per m^3	Prepaid at Council revenue office
7. reuse of Sludge			
a) Normal Size Backkie	P5.00	Per load	Prepaid at Council revenue office
b) Two (2) ton truck	P10.00	Per load	
c) Five (5) ton Truck	P20.00	Per load	
d) Seven (7) ton Truck	P25.00	Per load	
e) Ten (10) ton Truck	P30.00	Per load	

Appendix 6:

Kgalagadi District Council

Expenditure estimates and actual expenditures

- 2001/02: real expenditure underestimated by 2.60%
- 2002/03: real expenditure overestimated by 23.17%
- 2003/04: real expenditure overestimated by 50.05%

Revenue estimates and actual income

- 2001/02: real income underestimated by 32.56%
- 2002/03: real income underestimated by 26%
- 2003/04: real income overestimated by 65.18%

Estimates Revenue Support Grants (RSGs) and actual RSGs

- 2001/02: real transfers perfectly matched the projections from the district council
- 2002/03: the district council's projections of RSGs were overestimated or 17.19%
  over-optimistic against real transfers
- 2003/04: RSGs were overestimated by 40.42%

Deficits/Surplus

- 2001/02: 0.04% deficits
- 2002/03: 12.08% budget surplus
- 2003/04: 15.57% budget surplus

NB* RSGs were greater than the overall budget for financial years 2002/03 and 2003/04 by over 9% per annum in the Kweneng District Council.

Kweneng District Council

Expenditure estimates and actual expenditures

- 2001/02: real expenditure overestimated by 15.11%
- 2002/03: real expenditure overestimated by 10%
- 2003/04: real expenditure overestimated by 16.32%

Revenue estimates and actual income

- 2001/02: real income underestimated by 18.19%
- 2002/03: real income overestimated by 0.48%
- 2003/04: real income overestimated by 17.8%

Estimates Revenue Support Grants (RSGs)) and actual RSGs

- 2001/02: RSGs perfectly matched the projected financial transfers from the centre
- 2002/03: RSGs perfectly matched the projected financial transfers from the centre
- 2003/04: Kweneng district council overestimated RSGs by 40.42%

Deficits/Surplus

- 2001/02: 16.65% surplus
- 2002/03: 9.97% budget surplus
- 2003/04: 14.86% budget surplus

NB* 2001/02: RSGs were 8.79% more than the overall annual expenditure of the KDC

2002/03: RSGs were 3.22% more than the overall annual expenditure of the KDC

2003/04: RSGs were 8.57 more than the real overall expenditure of the district

Gaborone City Council

Expenditure estimates and actual expenditures

- 2001/02: real expenditure underestimated by 9.13%
- 2002/03: real expenditure underestimated by 6.59%
- 2003/04: real expenditure underestimated by 2.56%

Revenue estimates and actual income

- 2001/02: real income underestimated by 14.8%
- 2002/03: real income overestimated by 4.80%
- 2003/04: real income overestimated by 28.41%

Revenue Support Grants (RSGs) projections and real RSGs

- 2001/02: GCC underestimated real RSGs by 3.64%
- 2002/03: GCC was 1.68% overoptimistic in their annual projections of RSGs against those received from the centre
- 2003/04: RSGs received were 2.27% less than those budgeted for (overestimated).

Deficits/Surplus

- 2001/02: 1.95% annual deficit
- 2002/03: 36.19% budget deficit
- 2003/04: 10.96% budget deficit

NB* Income was overestimated in all the financial years because of under collections of revenues from the Building Material Loan (BML), property rates and service levies.

The gap between actual annual expenditure and the estimated expenditure in the Francistown City Council (FCC) was so wide that the report of the Auditor General opined that budgeting was not prudent while in the South East District Council (SEDC) high default rates on house rents and under-expenditures characterised annual budgets. Under expenditure in the district was largely a product of the desire of the authorities to maximise interests on investments.

Appendix 7: Status of Accounts and Reports for LAPAC as at 07/10/05

CODE	**AUTHORITY**	**ACCOUNTS PUBLISHED UP TO**	**REPORTS AVAILABL FOR LAPAC**
C1	CENTRAL DISTRICT COUNCIL	2002/03	1999/00
C2	CITY OF FRANCISTOWN	2002/03	-
C3	GABORONE CITY COUNCIL	2003/04	-
C4	GHANZI DISTRICT COUNCIL	2001/02	-
C5	**JWANENG TOWN COUNCIL**	**2004/05**	**2001/02**
C6	KGALAGADI DISTRICT COUNCIL	2001/02	-
C7	KGATLENG DISTRICT COUNCIL	2003/04	-
C8	KWENENG DISTRICT COUNCIL	2001/02	-
C9	**LOBATSE TOWN COUNCIL**	**2004/05**	-
C10	**NORTH EAST DISTRICT COUNCIL**	**2004/05**	**(96/97)-03**
C11	NORTH WEST DISTRICT COUNCIL	2003/04	1998/99
C12	SELIBE-PHIKWE TOWN COUNCIL	2003/04	2001/02
C13	SOUTH EAST DISTRICT COUNCIL	2002/03	-
C14	SOUTHERN DISTRICT COUNCIL	2001/02	-
C15	SOWA TOWNSHIP AUTHORITY	2003/04	2001/02

Source: An extract from the Local Government Audit Section, Office of the Auditor General (Botswana)