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# STRENTHENING LOCAL GOVERNMENT THROUGH FISCAL DECENTRALIZATION: A CASE STUDY OF BOTSWANA

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A Research Report Submitted to the Faculty of Management, University of The Witwatersrand, in Partial Fulfilment of the Requirements for the Degree of Master of Management in Public and Development Management.

# DECLARATION

I declare that this research report is my own, unaided work. It is submitted in partial fulfilment of the requirements of the degree of Master of Management (in the field of Public Development Management) at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination at any other university.

……..

**S. FANI**

02 October 2006

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# ABSTRACT

This study investigates the challenges that local government faces in Botswana because of its over-reliance on central government for the bulk of its revenue, and gives recommendations as to how this could be minimised. Most African countries like Botswana have embarked on decentralization of services and expenditure as a means of taking development to the people; however, this has happened with very little being done regarding fiscal decentralization. By examining existing literature on decentralization and fiscal decentralization, and conducting in-depth interviews with key informants in two case studies, one urban and another a rural council, the challenges faced by local government were examined.

The findings from this study demonstrated that there are indeed challenges with respect to the reliance of local government on the central government for the bulk of its revenue. Indications are that in the present situation, the councils' collection of revenue is limited. Consequently, in order for local government to improve and reduce its reliance on the central government, it is recommended that there be capacity-building in local government; and that community participation is enhanced, particularly with regard to cost sharing. The research is informed by the fact that local government does need central government support but it is also important that it generates enough own revenue to have some degree of authority over what it does.

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## List of Abbreviations

| | |
|---|---|
| CC: | Chairman of Council |
| CEO: | Chief Executive Officer |
| DSC: | Deputy Secretary of Council |
| GCC: | Gaborone City Council |
| KDC: | Kgatleng District Council |
| MFDP: | Ministry of Finance and Development Planning |
| MLG: | Ministry of Local Government |
| NDP: | National Development Plan |
| SHHA | Self Help Housing Agency |
| SIDA: | Swedish International Development Agency |

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# CHAPTER ONE

## INTRODUCTION

Botswana is generally seen as one of the rapidly growing economies in Southern Africa. The growth in Botswana's economy has seen its per capita income rise from P70 (US$12) at independence in 1966 to P31280 (US$7,820) in 2001 (UNDP Botswana Poverty Reduction Report, 2001). The rapid development of the national economy in Botswana dictates that local government handles its own finances and performs its own fiscal functions independently from central government in order to enhance local economic viability and growth. This would be in line with decentralization trends in both the developed and developing parts of the world.

Local government theorists such as Mawhood and Davey (in Lekorwe, 1998, p. 72) have for several years advocated for the decentralization of services from central to local government, a shift perceived as 'taking development to the people'. This bottom-up approach suggests that the autonomy of local government is one of their ultimate goals. Like all ideals, the concept of decentralization has both its adherents, who dwell on its strengths, and critics who dwell on its weaknesses.

Decentralisation policy, if properly implemented, is claimed to lead to effective and efficient service delivery at the local level, and also to more responsive local government. Advocates of decentralization argue for the need for local government to be in good standing financially if it is to achieve its objectives.

### 1.1 BACKGROUND TO DECENTRALIZATION IN BOTSWANA

In Botswana, the two-tier system of government – central and local government – was introduced at independence, leading to the

establishment of local government.[1] The Botswana republic was supportive of decentralization right from the beginning. In his essay, Tardoff (1998) observed that 'the growth of strong district councils is being encouraged [by the Botswana government] and it is intended that they will increasingly become the focal point… responsible for promoting the well-being and economic development' (cited in Lekorwe, 1998, p. 74). Botswana showed its commitment in this regard through the government decentralization policy of 1984. Decentralization was greatly supported from 1979 on through the donor assistance of the Swedish International Development Agency (SIDA). The objective was to promote decentralization by enhancing the policy implementation capacities of councils.

### 1.1.1 Policy and Legislative Framework

The constitution does not explicitly mention local government. Local government exists by virtue of ordinary Acts of Parliament, and comprises four authorities: district and urban councils, land boards, tribal administration, and district administration, which is headed by the district commissioner. Apart from exercising delegated authority from central government, the district commissioner performs a co-ordinating role of planning and implementation of development programmes at district level. This study focuses on urban and rural councils, whose framework is discussed in accordance with the Local Government (District Council) Act, Chapter 40:01, and the Townships Act, Chapter 40:02.

The Acts describe the powers, duties and sources of revenue and byelaws of the councils. In line with Section 4 of the Local Government (District Council) Act, the State President has the power to designate an area a council after publishing a notice to this effect in the Government Gazette. The State President further co-ordinates the functioning of the councils

[1] Herein, local government, local authority and urban and district councils will be used interchangeably.

through the Minister of Local Government. The Minister is given powers through the Local Government (District Council) Act to approve the budget of the councils. Within the councils, there are various councillors' committees that oversee the day-to-day running of the council. These committees also monitor development projects but do not have the powers to make byelaws or set charges. The councils do not have executive committees or cabinets.

### 1.1.2 Functions of Councils

Functions of councils are the same both for urban and rural councils, apart from areas of functioning. Councils in Botswana have greater potential for development at the local level. They can provide primary health care, primary education, development, and maintenance of non-gazetted roads, village water supply, sanitation, and social welfare services. The District Councils Act, Chapter 40:01, sections 27 and 29, specify areas of responsibility for councils, and include:

- Primary education
- Primary health and sanitation
- Public roads
- Public water supply
- Establishment of market places
- Establishment and administration of parks, cemeteries and burial grounds
- Licensing of small enterprises and small modes of transport like donkey carts
- Operation and managing of abattoirs
- Operating of beer halls and depots, when the minister has approved
- Implementation of byelaws, which the minister has approved.

Additional responsibilities of councils, as of 1985, were as follows:

- Remote Area Development including drought relief projects (this is where local help with, for example, building secondary roads for a minimal salary as well as providing food packs for the poor,
- Fire extinction (a service that is not available in all the districts due to a lack of resources),
- Self Help Housing Agency (SHHA).

Overall, council employees and councillors run the business of the councils. Council elections are held simultaneously with the general parliamentary elections every five years. The Minister of Local Government nominates additional councillors on the basis of powers vested in him or her by the Local Government (District Councils) Act and the Townships Act. The Department of Local Government Management Services appoints permanent council employees, while the council's appointment committee makes the industrial class employee appointments.

Inter-governmental relations are such that councils perform these functions in liaison with central government. The line ministries have the responsibility of providing trained personnel, machinery and supplies. Councils are also tasked with assisting line ministries to implement the Acts and Regulations related to the services they provide. To carry out their duties effectively, councils form departments that focus on all the related services they provide, for example, Roads Department, or Drought Relief Department.

There is extensive debate among urban planners about the successful decentralization process that has taken place in Botswana. Some have contested this assertion on the basis that Botswana's decentralization is incomplete. During the earlier years of independence following the

establishment of councils, the capacity of physical infrastructure and expertise was limited. From the 1970s, however, Botswana began to benefit from financial assistance from international non-governmental organisations and development agencies, such as the Swedish International Development Agency (SIDA), which directed its assistance to the development of local government to introduce and strengthen decentralization. It also helped to develop the country's human resource capacity, which at the time was very poor.

Additionally, the Government, through its National Development Plan 7 (NDP 7) (1991-1997), saw the need for the delegation of greater responsibilities for development planning and implementation to local government by way of decentralization. The thrust of the NDP 7 was local development planning, local finance, human resources development, and participation. The Decentralization Policy Paper provided a blueprint for this process, which was followed by the Presidential Commission on Local Government Structure. The Local Government Structure described decentralization as:

> The transfer or delegation of authority to plan, make decisions and manage public functions, from the central government and its agencies to field organisations of those agencies, subordinate units of government, semi-autonomous public corporations or statutory derived autonomous local government units. (Decentralization Policy Paper, 1984) in the report of the second Presidential Commission on Local Government Structure in Botswana (2001, p.143)

The subsequent National Development Plan 8 cemented the previous development plan (NDP 7) and set a precedent in urging local governments to find their own sources of revenue:

> 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 (NDP 8, p. 467)

The NDP 8 also reiterates the Government's commitment to improving the responsibility, accountability, and capacity of local authorities with regard to development planning, financial controls and effective and efficient implementation. This should strengthen decentralization, which would force the Government to make a clear distinction between 'initiatives', 'actions' and 'deliverables'.

Similarly, the World Bank Development Report of 2000/2001 also acknowledges the need for locally generated income, which in this case can enable the local government to own its development initiatives.

> Local authorities need to have enough fiscal control to plan their activities. But locally raised revenues are often only a small part of the budget of decentralized units, weakening ownership of locally designed policies and threatening their sustainability (World Bank Report, 2000/2001, p. 107).

In spite of all the proclamations on paper, most parties, including government, acknowledge that Local Government's continued financial dependence on Central Government is detrimental to the ideal of decentralization, and there has been little improvement in the situation. The current financial relationships still demonstrate centralised financial controls, and the councils still have to contend with central government controls on taxes, access to credit and control of council budgets.

### 1.1.3 Local Government Sources of Revenue

Councils in Botswana do not have a wide range of sources of revenue available to them. They rely on central government for their entire development budget and for part of their recurrent budget. Theoretically, though, there are many sources of revenue for councils. Peter-Berries (1994, p. 9) outlines some of these:

- such tax as the council is authorized by law to collect from the inhabitants of the council area
- such rates as the council is authorized by law to impose
- rents from property owned or administered by the council
- all monies derived from licenses or permits issued by the council and all taxes, dues and fees imposed under lawful authority by the council
- interest on investments
- such royalties as may by law be payable to, or receivable by, the council
- donations, contributions and endowments
- reimbursements
- such grants as the government may make to the council
- any other monies which may by law be paid to, or received by, the council.

This list is not exhaustive, but sheds light on some of the challenges faced by the councils as they venture into decentralization. For example, the prerogative of setting the charges does not rest with the councils. The parent ministry sets the charges, such as, for example, the Ministry of Health setting hospital charges. Furthermore, should a council need to increase charges such as rates, it has to present its proposal to the Ministry of Local Government for approval. Even then, some of the fees that the councils charge are insufficient to fully meet the needs of the local community.

## 1.2 PROBLEM STATEMENT

The decentralization discourse is unequivocal about the importance of fiscal decentralization for the effective functioning of devolved administrative systems. In Botswana, however, local government authorities still rely heavily on Central Government for the bulk of their

revenue for both the recurrent and development expenditure. This study argues that the current means of financing urban and district councils adversely affects the way the councils perform their duties. The study is an attempt to investigate the attendant challenges that urban and district councils face as a result of their dependence on Central Government for most of their financial subsidy.

## 1.3 PURPOSE OF THE STUDY

The purpose of this study is to investigate the consequences of Central Government financing of urban and district councils. The secondary purpose is to establish whether such financing is detrimental to the local and fiscal autonomy of councils.

## 1.4 RESEARCH QUESTIONS

The research will attempt to answer the following questions:

- What are the challenges faced by councils because of centralized financing?
- Does the transfer of funds from central government undermine incentives to collect local revenue?
- How does the reliance of local government on central government for funding affect the autonomy of local government?

## 1.5 SIGNIFICANCE OF THE RESEARCH

The importance of the research is to gain an insight into the challenges faced by councils due to the current financial framework of the country's decentralised system. It also hopes to add to the existing literature on decentralization in Botswana. In his 2005 budget speech, The Minister of Finance and Development Planning (MFDP), Baledzi Gaolatlhe, called for self-reliance and financial effectiveness in order to help the government

enhance sustainable development projects. It was further observed that 'Real GDP growth is expected to slow down to between 4 and 5 per cent in both 2004/2005 and 2005/2006, mainly due to slower growth in the mining and non-mining sectors.' These challenges to the economy are bound to be detrimental to entities that rely on the central government for finance, and provide some urgency for councils to examine options for generating their own revenue.

## 1.6 LIMITATIONS OF THE STUDY

- The study had a limited time frame
- It used only 2 councils out of 17. Therefore, the results may not be applicable to all the councils in the country.

## 1.7 ORGANISATION OF RESEARCH REPORT

This research report comprises six chapters. The first chapter provides the background to the study. Chapter 2 covers the theoretical review of decentralization in general and fiscal decentralization in particular, and what each entails. Chapter 3 focuses on the research methodology, analysis and profile of the interviewees. Chapter 4 presents the research findings and interpretations. Chapter 5 offers an analysis of the findings presented in chapter 4 and some observations. Finally chapter 6 presents the conclusions drawn from the research findings and makes recommendations.

## 1.8 SUMMARY

Finance is an integral part of decentralization. Countries need to prioritise financing when decentralization is being considered. When a country is facing economic challenges, those entities dependent on central government for finances suffer; to the extent that they fail to fulfil their plans and meet the needs of their people at the local level. Fiscal

decentralization is therefore integral to the decentralization process of the entire government system.

# CHAPTER TWO
# CURRENT TRENDS IN FISCAL DECENTRALIZATION

## 2.0 INTRODUCTION

This chapter presents the theoretical frameworks of decentralization and fiscal decentralization. Particular attention is given to fiscal decentralization, which is the crux of this study. In the last two decades, most developing countries have embraced decentralization in an effort to bring services closer to the people and to give them an opportunity to determine the services they require. The first part of the discussion examines decentralization, and the second part discusses fiscal decentralization.

## 2.1 THE IDEAL OF DECENTRALIZATION

Decentralization is a multi-dimensional concept. Wettenhall (1996) asserts that decentralization is 'a way of reaching remote segments of the population particularly in rural areas' (Wettenhall, 1996, p. 13). The process of decentralization should ensure that people at the local level are provided with basic services, and that services reach everybody in the country including those in the most remote rural areas. Since the central government cannot reach everybody, decentralization is thus perceived as a way of reaching those people.

For Smith (1997), decentralization is 'the delegation of power to lower levels in a territorial hierarchy, whether the hierarchy is one of governments within a state or offices within a large-scale organisation' (cited in Hulme and Turner, 1997 p. 154). Similarly Mawhood (1983) shares this view and describes decentralization as 'the sharing of part of the governmental power by a central ruling group with other groups, each having authority within a specific area of the state' (Mawhood, 1983, p.18). A recurrent aspect in the definitions above is the sharing of power with authorities that control specific areas, while ensuring that it trickles down

to those who are often marginalized because of their non-proximity to the urban centres

These scholars contend that decentralization is a concept where people in specified areas are empowered to determine their own needs and participate in development initiatives aimed at addressing their needs as part of the decision-making structures, for example, as part of urban or district councils. Many countries have promulgated local government acts, and may even incorporate constitutional provisions for local government authorities. The Lesotho Constitution, for example, mandates parliament to establish local authorities to enable urban and rural communities to actively determine their affairs in a significant way.

Despite the definitions discussed above, decentralization may also be more specific. For instance, Wescott and Potter (n. d, p. 2) describe decentralization as 'transferring fiscal, political and administrative functions from higher to lower levels and can take on different forms depending on the degree to which independence of action is assigned to lower levels of authority.' Central to this is the scale of authority transferred to the lower level. Over the years, central governments in most developing countries have transferred some of the service delivery duties to local government. This transfer of responsibility has in most cases been done on a piecemeal basis, since local governments would prefer to not take on more than they can manage. For instance, in Botswana, most responsibilities in terms of providing services were transferred to the councils in 1985.

According to Adamolekun in Fisette (1990):

> Decentralization is the organisation of the central administration's activities, outside the seat of government, taking place through administrative measures allowing for the transfer of resources and responsibilities to agents appointed either by the central administration or through political means allowing for the attribution

> by the government of powers, responsibilities and specific resources to local administrative authorities (cited in Swilling, 1997, p. 164).

This definition describes the kinds of decentralization found in most developing countries, such as, for example, Botswana, Zimbabwe and Malawi, where ministries are setting up offices in the districts to deliver locally relevant services.

Swilling (1997) observes that decentralization 'consists of a final or temporary transfer of decision-making and implementing power, from the central state to the lower level of jurisdiction' (Swilling, 1997, p. 164). For Olowu (1997), decentralization is defined as 'the process or processes designed to disperse power from the centre to the periphery' (Olowu, 1997, p. 66). Central to these definitions is the transfer of power from the centre to the bottom, local level with the aim of promoting service delivery to the people.

This strategy has been implemented in transitional countries, especially those that have undergone authoritarian rule at some stage. For example, Indonesia embarked on a decentralization drive in 2000, having realised that certain of its islands remained insufficiently developed. Based on Swilling's definition, the power given to the lower level may be taken back. This might happen in instances where the lower, local level is deemed ineffective in the provision of a particular service, despite promising policies on paper – *de jure* versus *de facto*.

For Rondinelli (1981a), decentralization is the transfer of responsibility for planning, management and resource mobilization, and allocation from the central government and its agencies to

(a) Field units of central government ministries or agencies
(b) Subordinate units or levels of government

(c) Semi-autonomous public authorities or corporations
(d) Area-wide, regional or functional authorities, or
(e) Non-governmental private or voluntary organisations.

Importantly, resource mobilization and allocation is a key factor that the centre transfers. Transfer of responsibility for obtaining of resources and resource allocation is an aspect still lacking in most developing countries in spite of the decentralization rhetoric. For the most part, the lower levels of governments are given the responsibility of providing services. Local government elections are conducted to elect political leaders, such as councillors, for the various council seats. However, most of these local authorities still rely on the central government for financing the bulk of their activities, an approach that prevails in Botswana as well.

According to Wescott and Potter, decentralization can take different forms, depending on the extent of power transferred.[2] The different types of decentralization, in this instance, are deconcentration, devolution, delegation, and privatisation, as described briefly below.

**Deconcentration** is defined as a means by which central government transfers some of its administrative functions or responsibilities to the lower levels, mainly within the central government. Central government has the power to withdraw functions it allocates to the lower levels. It can be argued that deconcentration is a way of empowering sub-national governments managerially and administratively. In the case of Botswana and Zimbabwe, this has been done primarily through the District Administrators who are appointed by the central government to co-ordinate and harness central government functions at the local level. Apart from having the District Administrators, ministries have set up district offices, whose duty is to implement projects for the ministry at the local level. In Zimbabwe, this is also evident at the provincial level.

[2] See also Rondinelli, Nellies and Cheema (1984)

**Devolution** occurs where 'local government bodies are created as legal entities by statutes of parliament' (Sharma, 1995, p. 26). The bodies draw their authority and functions from the statutes. This type of decentralization can be called political decentralization, and entails some form of financial, legal, and administrative strengthening of the entities formed. It appears to be acceptable in the sense that local communities are empowered to take part in determining their needs and developing themselves.

**Delegation** refers to the transfer of 'managerial responsibility for specifically defined functions to organizations that are outside the regular bureaucratic structure and that are only indirectly controlled by the central government' (Rondinelli, Nellis and Cheema, 1984, p. 19). In developing countries, this has been done in such a way that delivery of public goods and services is transferred, for example, to parastatals or semi-autonomous institutions. Though these entities enjoy some operational power, the policy-making power rests with central government, through Boards of Directors normally appointed by the delegating authority. This implies 'entrusting to another the execution of some power or duty vested in oneself. Such delegation also implies the transfer to another of more than a mere executionary power; discretion is also transferred' (Meyer, 1978, p. 104). This form of decentralization is evident in Botswana where parastatals are given the responsibility to supply water and electricity in urban areas.

**Privatisation** means that responsibility for the provision of goods and services is transferred to private companies. Government removes from its agenda the functions that it cannot perform and hands them to private companies. Most international financial institutions have advocated privatisation as a way of improving economic productivity and a way of reducing state dominance in the economy. Botswana is one of the

countries that has taken this route of service delivery. Several public institutions and services are earmarked for privatisation and outsourcing.

Generally, decentralization is a multi-dimensional concept, commanding a plethora of definitions. It is concerned generally with development at the local level as well as the autonomy of the local entities to self-determine their development needs and priorities. For Swilling (1997), Olowu (1997) and Sharma (1995), decentralization implies political devolution of power from the central to the lower levels of government. Ironically, this tends to promise more than it can deliver and remains wanting in terms of achieving the ideals; and unless one can demonstrate a flexible and pragmatic approach to decentralization, it will remain an empty promise.

## 2.2 FISCAL DECENTRALIZATION

Finance is a major component of decentralization. Local government needs adequate revenue to perform its functions effectively; and for any entity to be able to perform its functions effectively, it needs to be financially sound. For UN-Habitat (2002) 'financial responsibility is a core component of decentralization' (UN-Habitat 2002, p. 6). Fiscal decentralization takes different forms, including self-financing, cost recovery, or cost sharing through user charges for the services provided. In some countries, however, the user charges are sometimes minimal, making the cost of collecting them a worthless incentive for local authorities. Wunsch (2001) observes that there is no effective system to determine the actual cost of a service. This is true in the case of Botswana, where the service provider does not set charges. The negligible charges have also been attributed to heavily subsidised charges (see, for example, Bahl, 1999).

Co-financing or co-production is another form that fiscal decentralization takes. Users participate in providing services and infrastructure through monetary and labour functions. Further, revival of local revenues by giving

them incentives, for example, property or sales taxes or indirect charges can also be considered. Another common form involves ceding authorization of municipal borrowing and mobilization of national or local government resources through loan guarantees. Financial responsibility is seen as the core of decentralization. In spite of this, central authorities in some developing countries have not fully entrusted fiscal decentralization to local authorities. Developing world governments seem uninterested in engaging ways of financing local government. For example, local authorities in Botswana do not have the authority to borrow from commercial banks, despite the fact that their traditional revenue sources are not lucrative.

Fiscal decentralization is conceived as 'the devolution of policy responsibilities from central government towards local governments with regard to spending and revenue collection' (Neyapti, 2003, p. 4). Neyapti (2003, p. 4) further notes 'decentralised spending increases economic efficiency since local governments have better information about local preferences of citizens.' If the local authorities had the responsibility to collect revenue they would be better placed to know the financial status of their communities. Additionally, they would know where the money would best be spent since they would be aware of the needs of the people (see also Tanzi, 2001). Generally, when local governments are left to establish their own sources of revenue, people are more willing to pay for services, provided these services are the kind they want. They know that the proceeds will be ploughed back into their communities and find it easier to share costs with the council. (Bahl, 1999).

Hutchinson and LaFond look at fiscal decentralization as 'developing local government control over financial resources, either in terms of expenditure assignments or revenue generation' (Hutchinson and LaFond, 2004, p. 6). Furthermore, Shah and Thompson (2004) maintain that fiscal decentralization has important components, which include revenue

autonomy and adequacy. The central factor here is that revenue autonomy must be coupled with adequacy. By adequacy is meant that lower levels of governments can generate enough revenue for their operations (Shah and Thompson, 2004, p. 8).

The other important aspect is expenditure autonomy. Lower levels of government are better placed to know the needs of their electorate. If they were given expenditure autonomy they would be able to prioritise development projects in their local areas. People's needs are different, and people themselves are diverse. For example, if in an area people want a clinic but a primary school is built instead, they might not send their children to that school as they may feel that the school is not of importance to them.

Finally, another factor is borrowing privileges. Sub-national borrowing is an important factor in fiscal decentralization as a way of financing development at the local level. Smoke (2003) observes that sub-national borrowing 'comprises the assignment of responsibilities, including sectoral function as well as the assignment of own-source of revenues to sub-national governments' (Smoke, 2003, p. 10). Fjeldstad (1999) sees fiscal decentralization as 'devolution of taxing and spending powers to lower levels of government' (Fjeldstad, 1999, p. 1). Sub-national units of government mobilize resources and use them to satisfy the needs of its people. In Botswana, local governments do not have the authority to impose taxes. Initially, there was local government tax but this was abolished in the 1980s. Some are concerned this move significantly undermined local government own source of revenue (Peter-Berries, 1995), again leaving them at the mercy of the central government.

The theme of fiscal decentralization was also prominent at the Africities Summit 2000, held in Windhoek in May 2000. Gaborone was one of those cities concerned with an African Vision for Decentralization. Deliberations

at this summit were very timely, given that Africa felt the need to implement and strengthen the decentralization ethos. The summit resolved that

- Decentralization should involve the transfer to local government institutions of those powers and functions necessary to enable them to:
  a) Provide services for the local population efficiently and effectively
  b) Provide a conducive environment for local economic development
  c) Develop and manage local resources in a sustainable manner.
- Decentralization should include the provision of access to the resources needed to execute the above powers and functions efficiently and effectively, including financial and manpower resources.
- Financial resources should be available to local authorities in a manner that is reliable, adequate, predictable, transparent, accountable, sustainable and equitable.

These resolutions clearly embrace finance as a part of decentralization. However, in most African countries, financial decentralization is often difficult to implement, and tends to remain centralized. Even after 39 years of decentralized service delivery, finance functions are still relatively centralized in Botswana.

Shah and Thompson's conception of the fiscal decentralization present some important components, with fiscal decentralization seen as critical to decentralization.[3] Indeed, if decentralization is to succeed in developing

[3] See also Rondinelli, Nellis and Cheema, 1983

the people, then sub-national units must be given the power for raising revenue, which allows for financial autonomy.

## 2.3 FINANCING LOCAL GOVERNMENT

Discussions of fiscal decentralization need to articulate financing of local government, and thus sources of revenue generation. Revenue in local government can be generated through various means including user charges, fines, grants and sub-national borrowing, as well as releasing of bonds (Bahl, Smoke and Solomon, 2003).

**User Charges:** These have been described as 'charges imposed for providing current services or for the sale of products in connection with general government activities'.[4] Basically, these are charges imposed on services by local government, and can be school fees paid to government schools, clinic fees, fees towards refuse collection and use of the sewage system or connection thereof. As observed by Edmiston and Fox (2000, p. 2) these are 'levied price per unit of service consumed.' What can be deduced from this is that, for instance, there would be a particular price set for a unit of water and a consumer will be charged in accordance with the amount of water they have used. Bahl and Linn (1983) noted that user charges can be best imposed on services like water supply, electricity, housing, markets and abattoirs, sewage, land development, toll roads and telecommunications. In Botswana, fees are levied for the provision of some of the services noted above, with the exception of water and electricity, which is on a larger scale, and is provided by parastatals.

Authors like Reddy (1993) have noted that not charging for services can be detrimental to the provision thereof, and results in sections of the community not being provided a service because of lack of revenue.

[4] http://www.ncsl.org/programs/fiscal/fpufmain.htm

**Property Tax:** This is a tax that has been promoted as a good source of revenue as well as one that in some countries like South Africa meets the local autonomy test. (Bahl, Smoke and Solomon, 2003). This tax has been classified as fair on equity grounds since 'the burden of that portion of the tax that is levied on land is likely borne by land owners' (Bahl, Smoke and Solomon, 2003, p. 78) cited in Bahl and Smoke (2003)). The assumption is that landowners are best placed to afford this tax since they are considered to be in the higher income class. Bahl, Smoke and Solomon (2003) further note that the economy of administering this tax can be high. What this means is that the cost of collecting may be difficult in instances where there is a shortage of manpower. Further collection of the tax also brings about its political unpopularity, because in most cases as Prud'homme (1990) notes, collecting property tax or enacting penalties is difficult to do especially to poor people and to influential people. The cost of compliance, which required sophisticated and efficient accounting systems, is another cost factor in the collection of property tax. Collecting property tax entails certain steps such as identification of the taxpayers, assessment, record keeping, collection and audit/appeals, which may be beyond the financial and technical capability of many local governments (Bahl, Smoke and Solomon (2003) cited in Bahl and Smoke (2003)).

**Sub-national Borrowing:** This is a situation where local government is allowed to borrow funds from the market in order to finance its expenditure, especially capital projects. Alm and Indrawati (2002, p. 1) note that '... local government can use borrowing to finance capital projects that are lumpy in nature.' That is, they can finance long-term projects that will benefit successive generations. However, there is a concern that local governments may use these to embark on projects that are not economically viable. A disadvantage that has been noted by the above authors is that sometimes-local governments are not able to pay their debts, which then have to be paid by the central government.

## 2.4 SUMMARY

Finance is a very important part of decentralization. Fiscal decentralization has different aspects. Three of these aspects are revenue allocation, collection and expenditure. Collection of revenue and local government revenue assignments are important in fiscal decentralization. However, if these are ineffective, then they are bound to erode the required capacity. The Botswana local government has many revenue sources, which do not yield as much revenue as needed for the provision of services. For example, local governments are not allowed to collect property tax from parastatals, religious associations and private and public schools.

Decentralization entails more than just transfer of political and administrative powers. Financial responsibility is one factor, which has not been addressed in many countries, including Botswana. In most countries, financing is still centralised. This incapacitates local government financially. Furthermore, local government lacks the incentive and capacity to collect revenue, and continues to rely on central government for funding.

# CHAPTER THREE

## RESEARCH DESIGN AND METHODOLOGY

### 3.0 INTRODUCTION

This chapter presents the research methodology that was used to achieve the objectives and respond to the study questions noted in Chapter One. The nature of the study is explained. It then discusses the data collection methods and research tools employed. Finally, a discussion of the data analysis strategy is given.

### 3.1 NATURE OF THE STUDY

This study takes the form of exploratory qualitative research and examines the challenges faced by councils as a result of their reliance on the central government for the bulk of their revenue. It also focuses on how the various scenarios can undermine the incentive by councils to maximise their revenue collection, which inevitably impacts negatively on the autonomy of the local authority. The study is based on case studies of two councils, one urban and the other rural.

### 3.2 DATA COLLECTION

In any case study, it is important to use several data collection methods (Yin, 1994), and both primary and secondary data collection methods were used.

#### 3.2.1 Primary Data

Face-to-face in-depth interviews were considered important, as they enabled the researcher to obtain the most relevant answers. Leedy and Ormrod (2005, p. 146) state that 'interviews can yield a great deal of useful information' which makes them important. Furthermore, wherever the researcher is hoping to obtain more information, in-depth interviews provide an opportunity to uncover new ideas as well as different dimensions to the problem under study.

Five interviews were conducted for this study, two interviews per district council and one in the Ministry of Local Government. With regard to Kgatleng District Council, the respondents were the Chairman of Council, who is an elected member of council, and the Deputy Council Secretary, who is a local government official. In the case of Gaborone City Council, the Mayor, an elected member of council, was interviewed as well as the Chief Executive Officer who is the policy implementer. An official in the Ministry of Local Government was interviewed to enable the researcher to gain an insight from the central government organ responsible for providing funding to councils. The selection of the sample interviewees was based on propositions pointing out that in a qualitative research it is appropriate to select a few participants who can best shed light on the phenomenon under investigation (Leedy and Ormrod, 2001). The particular interviewees were chosen as key informants in this study as they were considered experts due to their professional knowledge and position of influence (McClain and Tibezinda, n. d).

To set up the interviews, the researcher initially contacted the selected interviewees to invite them to participate in the study. Following this, a letter of introduction (Annexure 1), explaining the study, its purpose and time frame, was sent to the participants. Somchittra Kraikosol (n.d) notes that in interviews it is important that interviewees are given information on the study beforehand to enable them to gather information that could be needed in the interview, and to say whether they are comfortable participating in the research or not.

The interviews were open-ended and employed both structured and unstructured questions. In conducting the interviews, particular attention was paid to the words used by the participants and the meaning they might attach to such words. In order to minimise chances of changing the meaning intended through the responses given, detailed notes were

taken. This also minimised the possibility of introducing researcher's bias. The researcher was also cautious during the interviews to not lead the interviewees in their responses.

The fact that interviews can be time-consuming was taken into account and there was strict adherence to the time allocated to each interview. As Somchittra Kraikosol (n.d) notes, this can affect the availability of the interviewees and the number of questions the researcher can ask. Each interview lasted about 60 to 90 minutes. At the same time, it was important to ensure that the quality of the interview was not compromised. While the interviewees did not express a preference as to location, all the interviews were conducted in their offices. This presented some challenges in that the interviews were interrupted by telephones calls. In the case of politicians, there were not many interruptions and conversations with them were a bit longer than the other interviewees.

### 3.2.2 Secondary Data

Secondary data such as Acts of Parliament, government reports and plans, articles, seminar papers and electronic as well as multimedia sources were used in the study. Voss and Brown (1997) in McCaslin and Tibezinda note this as information gathered for the purpose other than the immediate. These were considered important as they enabled the researcher to have multiple sources of evidence, and to check the validity of the data collected through triangulation.

## 3.3 RELIABILITY OF THE STUDY

There is no guarantee of the reliability of this study especially since different people were interviewed who hold different perceptions and different political inclinations. However, as a way of improving the reliability, the researcher used the same interview guide for all interviews.

## 3.4 DATA ANALYSIS

Qualitative research methods are dynamic and complex and are contested sites of multiple methodology and research practices. Qualitative research contains several techniques, such as grounded theory, ethnography, life history, and conversational analysis. It is therefore not a single entity but an umbrella term, which encompasses enormous variety (Silverman, 1993). Data is usually found in the form of transcripts, observations and documents. In qualitative research, the researcher captures data, and extrapolates meaning from it. In addition, qualitative research analysis proceeds by extracting themes or generalisations from evidence, allowing one to arrive at reasonable conclusions. It organises data to present a coherent, consistent picture.

In this study, questions that guided this research were used in the data analysis to organise the data collected. Firstly, the data that addressed the question on the challenges of centralised finance was consolidated. The next set of data was derived from the questions on the effects of centralised finance on the collection of revenue. The final category of data is that which sought to provide answers on the effects of central finance on the autonomy of local government.

The key findings, incidents and strong statements emerging from the interview were categorised according to the question posed. The collated data from the interviews was cross-referenced against other sources such as institutional brochures, reports, Acts, periodicals and policy documents.

## 3.5 CONCLUSION

This chapter gave an overview of the research methodology, which took into consideration the need for a method that would both answer the research questions and address the purpose of the study. The researcher encountered problems during the data collection especially when

interviewing the council officials whose work schedules were always full. The research findings are presented in the next chapter.

# CHAPTER FOUR
## RESEARCH FINDINGS

### 4.0 INTRODUCTION

This chapter presents the research findings. Firstly, it discusses the financial profiles of the councils, especially their revenue and expenditure. Secondly, it examines the challenges which councils face with regard to financing.

### 4.1 THE FINANCIAL PROFILE OF THE COUNCILS

The financial profiles of the councils are important because they provide an insight into the prevailing revenue streams, especially the allocations from central government. Urban councils have relatively more sources of revenue than the rural councils, and obtain about 60% of their revenue from the central government. Rural councils get 90% of their revenue from the central government.

#### 4.1.1 Sources of Revenue

Councils finance their capital expenditure and the costs of service delivery. They use their own sources of revenue, deficit grants, and development grants to do this. They also have sources of revenue that contribute significantly towards their income. Revenue streams that contribute significantly to the Gaborone City Council coffers are rates, building material loans for the Self Help Housing Agency (SHHA) scheme, interest on bank deposits, sanitation services, sewerage connection fees, and sewerage fees, among others. The payment of rates remains the Council's most vibrant source of income. It can be deduced from the revenue estimates of the council that the rates have gradually grown over the

years. The percentage growth in the financial year 2004/2005 was 1.8% from 19.50% estimated from the financial year 2003/2004. This growth has been noted in the financial year 2005/2006 where the rates accounted for 24.45% of that year's revenue estimates, being a percentage growth of 3.15% from the previous financial year. One other revenue source that contributes significantly to the Council's coffers is Building Material Loans, which showed an increase over the financial years under discussion.

Gaborone City Council also relies significantly on the deficit grant, otherwise known as the Revenue Support Grant (RSG). The City gets about 60% of its recurrent budget from the central government, and 100% of its development funding comes in the form of a grant from the central government. Mosha (2000) raised a concern with respect to the RSG being 'subject to a high degree of control from the centre' (Mosha, 2000, p. 19). The central government controls councils through budgetary controls, as it has the sole task of approving councils' budgets. The RSG has gradually been reducing from 72.1% in the 2003/2004 financial years – where the council could only contribute 27.9% from its own revenue sources – to 69.14% in the 2004/2005 financial year and 63.92% in the 2005/2006 financial year.

Unlike Gaborone City Council, Kgatleng District Council does not boast of any such variety of sources of revenue. Whereas the GCC relies on rates as its most significant own source of revenue, the KDC relies heavily on interest from savings, which have generated at least 4% of the total revenue for the district (see Table 1). One aspect of this could be that the Council is building up reserves and not utilising these as it is supposed to, which could be detrimental to service delivery. Apart from this source, other sources of revenue generate approximately 1% for the Council. The KDC is only able to draw between 10% and 12% of the council revenue from its own sources of revenue, resulting in 90% of the budget coming in as the RSG. This notwithstanding, the KDC's RSG, like that of the GCC,

declined from 92.88% in the financial year 2003/2004 to 87.56% in the financial year 2005/2006.

Table 1 gives both Gaborone City Council and Kgatleng District Council revenue estimates in millions of Pula for the financial year 2003/2004 to the financial year 2005/2006.

**Table 1: Revenue estimates for Gaborone District Council and Kgatleng District Council in millions of Pula**

| | Gaborone City Council | | | | | | Kgatleng District Council | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **REVENUE ITEM** | **2003/04** | **%** | **2004/05** | **%** | **2005/06** | **%** | **2003/04** | **%** | **2004/05** | **%** | **2005/06** | **%** |
| Abattoir Fees | 224,270 | 0.14 | 71,500 | 0.04 | 546,690 | 0.33 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Advertising Signs | 838,541 | 0.53 | 703,560 | 0.42 | 90,000 | 0.05 | 3,586 | 0.00 | 4,880 | 0.00 | 38,500 | 0.02 |
| Building Mat Loans | 282,007 | 0.18 | 1,663,300 | 0.98 | 1,898,170 | 1.14 | 423,945 | 0.25 | 1,760,400 | 1.00 | 1,818,380 | 1.12 |
| Cemetery Fees | 6,257 | 0.00 | 7,400 | 0.00 | 8,140 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Clinic Fees | 179,347 | 0.11 | 360,000 | 0.21 | 360,000 | 0.22 | 61,929 | 0.04 | 78,250 | 0.04 | 398,430 | 0.25 |
| Comm. Centre Fees | 58,427 | 0.04 | 90,000 | 0.05 | 90,000 | 0.05 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Day Care Fees | 39,685 | 0.03 | 40,000 | 0.02 | 40,000 | 0.02 | 1,080 | 0.00 | 1,870 | 0.00 | 1,080 | 0.00 |
| Dog Licences | 258 | 0.00 | 300 | 0.00 | 300 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Bye-Laws Fines | 11,652 | 0.01 | 10,000 | 0.01 | 11,650 | 0.01 | 4,420 | 0.00 | 7,480 | 0.00 | 25,000 | 0.02 |
| School Hire | 6,989 | 0.00 | 9,000 | 0.01 | 9,000 | 0.01 | 155 | 0.00 | 500 | 0.00 | 500 | 0.00 |
| Home Econo Sales | 0 | 0.00 | 100 | 0.00 | 100 | 0.00 | 24 | 0.00 | 2,750 | 0.00 | 100 | 0.00 |
| Interest on Deposits | 7,271,921 | 4.59 | 3,634,250 | 2.15 | 7,000,000 | 4.20 | 7,786,319 | 4.68 | 6,918,560 | 3.94 | 9,156,700 | 5.65 |
| Insurance Comm. | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 29,786 | 0.02 | 41,850 | 0.02 | 46,040 | 0.03 |
| Market Rent | 74,244 | 0.05 | 246,310 | 0.15 | 246,310 | 0.15 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Matimela Fund | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 137,230 | 0.08 | 901,700 | 0.51 | 916,950 | 0.57 |
| Miscellaneous | 437,778 | 0.28 | 50,000 | 0.03 | 250,000 | 0.15 | 50,391 | 0.03 | 8,510 | 0.00 | 9,360 | 0.01 |
| Plan Perusal | 213,021 | 0.13 | 200,000 | 0.12 | 200,000 | 0.12 | 345,573 | 0.21 | 257,680 | 0.15 | 178,930 | 0.11 |
| Plant Hire | 16,111 | 0.01 | 25,000 | 0.01 | 25,000 | 0.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Pound Fees | 3,861 | 0.00 | 2,000 | 0.00 | 4,000 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Rates Clearance Cert. | 1,489 | 0.00 | 3,000 | 0.00 | 3,000 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Roads Reinstatement | 21,125 | 0.01 | 20,000 | 0.01 | 20,000 | 0.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Shrub Sales | 38,705 | 0.02 | 65,000 | 0.04 | 65,000 | 0.04 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Sundry Assets Sales | 28,240 | 0.02 | 50,000 | 0.03 | 50,000 | 0.03 | 48,663 | 0.03 | 76,500 | 0.04 | 110,819 | 0.07 |
| Sales Tax on Beer | 958,590 | 0.61 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sanitation Services | 125,375 | 0.08 | 380,000 | 0.22 | 380,000 | 0.23 | 121,187 | 0.07 | 406,130 | 0.23 | 478,090 | 0.29 |
| Sewerage Conn Fees | 871,551 | 0.55 | 1,000,000 | 0.59 | 1,000,000 | 0.60 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Sewerage Fees | 539,775 | 0.34 | 500,000 | 0.30 | 600,000 | 0.36 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Service Levy | 928,887 | 0.59 | 995,300 | 0.59 | 1,000,000 | 0.60 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Rental Staff Houses | 1,995,315 | 1.26 | 2,890,060 | 1.71 | 2,990,060 | 1.79 | 1,092,956 | 0.66 | 3,280,910 | 1.87 | 2,099,100 | 1.29 |
| Trade Licences | 128,321 | 0.08 | 123,400 | 0.07 | 129,640 | 0.08 | 69,282 | 0.04 | 122,400 | 0.07 | 180,330 | 0.11 |
| Parking Levies | 0 | 0.00 | 85,000 | 0.05 | 85,000 | 0.05 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| School Fees | 0 | 0.00 | 540,600 | 0.32 | 554,000 | 0.33 | 41,374 | 0.02 | 39,000 | 0.02 | 31,200 | 0.02 |
| Rates Interest | 2,503,080 | 1.58 | 1,737,360 | 1.03 | 1,737,360 | 1.04 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Rates | 30,881,521 | 19.50 | 36,000,000 | 21.30 | 40,763,520 | 24.45 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Water Fee-cattle | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 5,500 | 0.00 | 28,000 | 0.02 | 45,120 | 0.03 |
| Water Fee-conne | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 150,210 | 0.09 | 865,000 | 0.49 | 680,900 | 0.42 |
| Water Fee-domestic | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 1,477,486 | 0.89 | 738,990 | 0.42 | 2,491,900 | 1.54 |
| **Sub total** | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 11,852,049 | 7.12 | 16,138,540 | 9.18 | 20,167,850 | 12.44 |
| **R S G** | 114,193,371 | 72.10 | 116,830,880 | 69.14 | 106,596,370 | 63.92 | 154,536,470 | 92.88 | 159,673,770 | 90.82 | 142,011,500 | 87.56 |
| **Total** | 158,371,462 | 100.00 | 168,976,820 | 100.00 | 166,753,410 | 100.00 | 166,388,519 | 100.00 | 175,812,310 | 100.00 | 162,179,350 | 100.00 |

Source: MLG, Recurrent and Expenditure Estimates 2006 (p.82)

### 4.1.2 Council Expenditure

The Gaborone City Council's expenditure has increased over the years in order to cope with the city's growth (see Table 2). According to official population census figures, Gaborone had 3,855 people in 1964, third highest after Francistown and Lobatse. Its population has grown remarkably over the years, reaching 186,007 in the 2001 census, mainly because of the migration of people from the rest of the country (Gaborone Urban Development Plan 2, 2003). Gaborone was initially a village but over the years has developed into the administrative, commercial and industrial hub of Botswana. Its meagre resources thus had to be spread thinly. The Council's expenditure spread across various services such as primary health care, primary education, water and sewage, and social and community development. In Table 2 we note that GCC expenditure seems to be higher on health, and this may be attributed to the fact that most people from surrounding districts like KDC go to Gaborone for health care, since it has better health care facilities. This is also seen in the fact that expenditure on health is much lower in the KDC. Both councils, however, show management/secretariat expenditure gradually increasing over the period under review.

Despite the fact that one council is rural and the other urban, both have similar expenditure totals. This could be attributed to differentiated spending; for example, because the KDC is a vast district its transport expenditure is relatively higher that that of the GCC. Another factor is that the KDC needs to use transport in order to collect revenue from villages where there are no council revenue offices. In fact, the council revenue offices for the district are in one village that is the district capital. The KDC also appears to spend a lot more on water than the GCC. This is because the KDC needs to buy water for its people from the Department of Water Affairs to serve through standpipes, whereas the GCC has not used standpipes in the city since 1998/1999.

Access to land in the Kgatleng District Council is very easy, to the extent that some people migrate from Gaborone to Kgatleng District Council to get land and basically use the district as lodging while they continue to work in Gaborone. According to the Kgatleng District Development Plan 6, (KDDP 6) 2003-2009, about 3 558 people as individuals and households migrated from Gaborone to Kgatleng District Council in 2001. The district, in order to improve its services, has seen its expenditure increasing rapidly; in the financial year 2005/2006, however, this decreased which may be attributed to the fact that the transport and clinic expenditure had gone down.

## Table 2: Expenditure estimates of Gaborone City Council and Kgatleng District Council in millions of Pula

| | Gaborone City Council | | | | | | Kgatleng District Council | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Item** | **2003/04** | | **2004/05** | | **2005/06** | | **2003/04** | | **2004/05** | | **2005/06** | |
| Secretariat | 18,988,805 | 11.99 | 22,170,660 | 13.12 | 20,340,220 | 12.20 | 17,137,848 | 10.30 | 27,669,600 | 15.74 | 24,908,540 | 15.36 |
| Treasury | 13,050,543 | 8.24 | 11,982,890 | 7.09 | 10,461,440 | 6.27 | 5,198,601 | 3.12 | 7,700,290 | 4.38 | 7,727,230 | 4.76 |
| Education | 12,795,060 | 8.08 | 12,957,910 | 7.67 | 11,154,990 | 6.69 | 21,809,980 | 13.11 | 22,845,510 | 12.99 | 21,610,316 | 13.32 |
| Clinics | 23,332,498 | 14.73 | 35,608,450 | 21.07 | 36,348,240 | 21.80 | 15,664,457 | 9.41 | 28,615,860 | 16.28 | 25,856,020 | 15.94 |
| Enviro. Health | 12,257,655 | 7.74 | 20,431,100 | 12.09 | 22,580,510 | 13.54 | 5,003,079 | 3.01 | 7,701,420 | 4.38 | 6,440,410 | 3.97 |
| Engineering | 24,677,247 | 15.58 | 24,519,710 | 14.51 | 24,123,970 | 14.47 | 13,659,421 | 8.21 | 13,933,210 | 7.93 | 13,142,360 | 8.10 |
| Arch & Building | 3,759,013 | 2.37 | 7,123,050 | 4.22 | 6,213,250 | 3.73 | 4,837,159 | 2.91 | 6,130,310 | 3.49 | 5,749,370 | 3.55 |
| Soc. & Comm. Dev. | 3,842,224 | 2.43 | 5,062,120 | 3.00 | 5,084,000 | 3.05 | 11,432,030 | 6.87 | 17,971,430 | 10.22 | 16,667,620 | 10.28 |
| Fire Service | 4,279,204 | 2.70 | 4,800,940 | 2.84 | 6,694,690 | 4.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| SHHA | 4,683,288 | 2.96 | 6,029,970 | 3.57 | 4,526,430 | 2.71 | 163,090 | 0.10 | 606,990 | 0.35 | 624,770 | 0.39 |
| Transport | 12,879,102 | 8.13 | 9,087,230 | 5.38 | 9,280,470 | 5.57 | 18,907,891 | 11.36 | 17,600,360 | 10.01 | 15,965,530 | 9.84 |
| Water/Sewerage | 6,470,590 | 4.09 | 9,202,790 | 5.45 | 9,945,200 | 5.96 | 20,196,570 | 12.14 | 18,201,600 | 10.35 | 18,060,040 | 11.14 |
| **Sub total** | 141,015,229 | 89.04 | 168,976,820 | 100.00 | 166,753,410 | 100.00 | 141,288,807 | 84.91 | 0 | 0.00 | 0 | 0.00 |
| **Shortfall** | 17,356,233 | 10.96 | 0 | 0.00 | 0 | 0.00 | 25,099,712 | 15.09 | 0 | 0.00 | 0 | 0.00 |
| **Total** | 158,371,462 | 100.00 | 168,976,820 | 100.00 | 166,753,410 | 100.00 | 166,388,519 | 100.00 | 175,812,310 | 100.00 | 162,179,350 | 100.00 |

Source: MLG, Recurrent and Expenditure Estimates 2006 (p. 85)

Without the RSG, both councils would fail to meet their recurrent expenditure. The councils' collected income is not enough to meet their recurrent expenditure, and they may not use their meagre income to finance development projects. In this financially compromised position, it is inevitable that councils suffer from external pressures exerted by the central government.

## 4.2 CHALLENGES

All interviewees admitted to facing challenges mostly based on their dependence on central government for funding. Fiscal decentralization remains a dream, given the councils' centralised financing.

### 4.2.1 Release of funds

Both the Gaborone City Council and the Kgatleng District Council said that the major challenge is the long delay in central government releasing funds. For example, the Mayor of Gaborone commented that bad roads in the city could not be repaired quickly because *'the ministry has not provided funds despite the numerous requests for same*.' The Mayor further noted that '*the plan in 2003/2004 was for the council to upgrade Mabutho and Nyerere roads at the cost of P10 million but no single Thebe was released to date.*' This means that eventually the city's ratepayers are affected adversely as they have to make do with the bad roads and other failing infrastructure.

Another aspect that has emerged is that even after the ministry has released the funds; a certain percentage of it may be recalled. Recalling the funds leaves the council with very few options. Sometimes it forces them to abandon some of the projects. The Deputy Council Secretary indicated that they were powerless as a council regarding the frequent recalling of funds by the ministry. He explained that:' *We do not have an option but to oblige'* when the ministry recalls funds. Furthermore, for the

2004/2005 financial years, the MLG cut both urban and district councils' recurrent funds by 10 per cent, which forced councils to reduce their budgets by the same percentage.

### 4.2.2 Local Participation

In this context, participation by residents is considered as no more than their making payment for services provided by the council. Conceptually, this means that rates defaulters limit the councils' chances of cost sharing with their communities. Bahl (1999) notes that when local governments are left to establish their own sources of revenue, it is with the hope that there will be a greater willingness on the part of the community to pay, since they can see the benefit to themselves. The respondents indicated that they are faced with a high number of defaulters in the payment of rates. In the case of the rural KDC, residents often default in paying their water bills. Furthermore, people are not prepared to pay what they consider high tariffs for council services. The DCS in this regard indicated '*that people in the district would rather burn refuse than pay the council a mere Two Pula (P2.00) for refuse collection.'*

### 4.2.3 Delayed Project Implementation

Both Councils have indicated that they experience delays in the implementation of projects, stating that the process of obtaining funding is unduly long because of the bureaucracy involved. The Councils have to prepare project memoranda, which go through the parent Ministry before the Ministry of Finance can release the funds. As a result of such delays, by the time the funds are released the cost of a particular project has often increased, making the project unaffordable and untenable for the council. The Mayor noted that, in Gaborone, the Council had plans to connect formerly SHHA areas to the city's sewage system but this project had over the years been consistently delayed; the escalating costs meant that the Council in the end could no longer afford it. When opening a session of the Council early in 2006, the Mayor of Gaborone noted that '*Gaborone*

*City Council was faced with serious challenges in the implementation of its policies, regulations and resolutions due to a shortage of funds or the central government's reluctance to release funds for urban development.*'

Due to lack of funds and the bureaucratic delays in accessing project memoranda, the KDC has indicated that the District loses potential income because it cannot provide for the needs of investors. For instance, the DCS noted that '*Pilane industrial site has a high potential for economic diversification, but this cannot be tapped as it is not fully serviced and this has been in the plan twice but could not be achieved due to financial constraints.'* It is for this reason that most industries that could locate to the KDC and create employment in the area chose to locate themselves in Gaborone, even though the KDC is in the vicinity of a railway line going from north to south as well as the main road connecting the country from north to south. The KDC also borders South Africa at a village called Sikwane, which makes it a convenient gateway into South Africa.

### 4.2.4 Responsiveness

The respondents indicated that the responsiveness of local governments to their constituents' needs was compromised by the fact that finances are centralised. The local authorities stated that they could not readily provide for the needs of their constituents because they had to obtain the necessary funds from the central government. As indicated in the earlier example relating to the repair of roads in Gaborone, the Mayor stated that the council could not readily address the matter because, although the roads clearly needed to be repaired, the central government had not released the necessary funds. The council was thus perceived as being unresponsive to the needs of the constituents. In another instance, both the GCC and the KDC had built clinics that they hoped the Ministry of Health would equip, but this took a long time, and people were forced to seek alternative health facilities outside their designated districts,

notwithstanding the fact that the local authorities had intended to bring services closer to the people.

## 4.3 REVENUE COLLECTION INCENTIVES

This section presents findings with regard to the question that sought to establish whether the central government funding of councils erodes the incentive to collect local revenue.

### 4.3.1 Meeting Collection Projections

The respondents generally felt that receipt of finance from the central government does not erode the incentive to collect revenue. The KDC in this regard was clear that their collection of revenue is not affected; however, the DSC noted '*we just do not meet our collection projections.'* The DSC further argued that as a council, they do not have enough capacity to collect the projected revenue. For example, collecting water fee charges in certain parts of the district required employees of the council to go out to the villages to collect the fees. This means that there is need for transport as well as monies to pay the overtime for those officers collecting revenue. Transport on this scale is expensive and the Chairman of council explained that, as a result, they would rather wait for the people to come out to the main village where the council offices are located to pay for their water. He then explained that some people took advantage of this and went for years without making payments.

### 4.3.2 Low Charges

On a different note, respondents from the KDC noted that the service charges they need to collect are quite low, and this tended to defeat the objective of collecting service charges. For example, for waste collection, the council charges Four Pula (P4.00), and the reality is that not every household in the district utilizes this service. Therefore, it is uneconomical to spend time collecting the meagre fee. Further, some people perceive the charges as being too low to warrant the time they spend in queues to

make payments for the service. The GCC Chief Executive Officer, unlike the DSC, felt that the charges were fair given that the district is traditional with very few people having a stable source of revenue since they most rely on non commercial farming as a source of income. The GCC Chief Executive Officer was unwavering on this matter and felt very strongly that the central government must provide finance. The chairman of council insisted that '*going around collecting 4 pula is not worth it, but this cannot be increased so central government needs to provide more funds or provide free services that are funded by the government.'*

In the interview with the Mayor of the GCC, he explained that while the charges in comparison with the market prices may seem relatively low, the city was providing a service to people where the majority could not afford higher charges.

### 4.3.3 Collecting for Others

The respondents noted that the incentive to collect revenue is not eroded; but rather that some of the revenue collected is for use by other departments. Councils also have a duty to enforce byelaws and ensure that businesses operate in accordance with their licences. However, when defaulters are charged in court, the fines they pay do not go directly to the council coffers. Reacting to this, the DSC observed that '*in enforcing the bye-laws, we as councils spend so much on transport and overtime for employees yet the penalties in the form of fines are not paid to the council.'*

### 4.3.4 Poor Revenue Collection System

It is often easy for councils to recover or collect revenue from people working for both the local and central government recovered from their salaries. Councils also maximise collections of rental, although rentals, according to the Deputy Secretary, did not generate much income for the council, which has very few houses that it rents out. Collection of user

charges such as water and refuse collection is therefore not organised since it is not directed at salaries. It 'makes it rather tedious to collect.'

The Gaborone City Council is fortunate to have property rates as a source of revenue. If tapped well, property rates can yield good income for the GCC, unlike the Kgatleng District Council, which does not have the power to collect property rates. A concern of the GCC is that rates are not always billed or collected timeously. Furthermore, the 'publishing of billing rates is not done in time' due to bureaucratic delays in the Ministry of Local Government.

For instance, Gaborone City Council has in the recent past failed to collect rates amounting to over 20 million Pula, going as far back as 1994. According to the Clerk, this failure adversely affects the council budget, since rates are one of its most reliable sources of income. The council itself faces some systemic challenges, such as poor record keeping, and a poor monitoring system to the extent that defaulters cannot be quickly identified, and even when identified, action is not taken quickly to recover outstanding monies. This means that even though they may remain indebted, the defaulters continue to enjoy services provided by the council.

### 4.3.5 Cost Recovery

The collection of revenue by the councils is negatively affected by the fact that the public is generally indifferent to the cost recovery programme. This is partly influenced by politicians who tell their constituents that it is not necessary to pay for services. The DSC noted 'populist politicians feel that the country is in such good economic standing that people should not be asked to pay for basic services.' He further noted that when they as the officials of councils try to instil a culture of cost-sharing with the public the politicians on the other hand play down this concept. The Chairman of KDC noted that Botswana has many poor people, making it difficult to

enforce charges, and explained that: 'we stand as representatives of poor people and our conscience does not allow us to suck money from them.'

GCC has noted that cost recovery has not been fully achieved, a situation to that of the KDC. Cost recovery in the city is a contentious issue with the city political leaders providing limited support to the officers in the council charged with the collection of rates and levies. The Clerk noted that with regard to SHAA and property rate payments, politicians make it difficult for the council to take defaulters to task, as they are openly opposed to action being taken against their constituents. However, it can be noted from the data collected that it is not only the poor or those without regular income who do not pay the council, but also those with regular incomes and holding positions of responsibility. In 2004, the council published a list of property rate defaulters, a list that included the names of parliamentarians and councillors.

## 4.4 LOCAL AUTONOMY

Shah and Thompson (2004) argue that revenue and expenditure autonomy are important aspects of fiscal decentralization. The discussion below presents findings on the extent to which local governments in Botswana rely on central government for funding, and how this affects the autonomy of local government.

### 4.4.1 Revenue Autonomy

Council revenue consists mainly of fees charged for services rendered. Line ministries and the parent ministry, on behalf of the local authorities, set fees charged for services provided by councils. In this regard, the Deputy Secretary of Council explained that 'this makes it difficult for us because even where the charges are low our hands are tied because it is not our call.' Olowu and Wusch (2004, p. 93) with reference to Botswana, have noted that this system tends to undermine the initiatives and the

development of local democracy that thrives when there is an adequate degree of local autonomy.

### 4.4.2 Expenditure Autonomy

The Ministry of Finance and Development Planning has the overall responsibility to determine all projects undertaken by local authorities but is not obliged to consider the priorities of the local authorities. Constituents' problems are addressed if the ministry considers them important (Olowu and Wusch, 2004). This means that councils cannot avoid making plans that encapsulate whatever is in the NDP since this is what gets financed. Nordas, Sekgoma and Somolekae (1998) maintain that the successive six multi-year budgeting system is top-down planning, and is highly centralised. Thus, centralised planning to some extent unavoidably erodes local government autonomy.

The 'parent ministry', the Ministry of Local Government, acts as the link between local authorities and the central government, and distributes the allocated funds to the various local authorities. This leaves the ministry with the duty of supervising and ensuring that the funds are used appropriately. This erodes the capacity of local authorities to run their affairs according to their particular needs. The ministry plans, audits and budgets for councils. The NDP 8 (1997) shows that this financial dependence on the part of local government breeds an unhealthy reliance upon the central government; as a result, local authorities do not show initiative but look to the central government for direction on every matter. The Mayor of Gaborone City Council observes in his own words that '*the central government was nowhere near embracing a new paradigm of devolving more legal and financial autonomy to councils. This is bad for the autonomy of the council as it leaves a mayor as just a ceremonial figure.*' Despite this pronouncement by the Mayor of Gaborone, the Ministry of Local Government officials are of the view that their involvement in the activities of the local authorities do not impose on them or undermine their autonomy, but are rather a means of 'giving guidance'

because the 'district level mechanisms require greater commitment and central authorities to take more positive interest and give guidance to the district level.' They feel that this is necessary in order to ensure that 'proper standards of integrity and performance are maintained by the local authorities.'

An official in the ministry explained that the government's NDP8 (1997/1998) had embarked on a number of measures to give local authorities greater autonomy, particularly in the field of finance. This was done by means of introducing cost-sharing and cost recovery. However, many local authorities are still not doing enough to ensure that they collect the levies and fees due to them. One area in which local authorities are failing is in managing defaulters. Consequently, local authorities need to be monitored closely in how they manage contracts. For example, in 2005 the Gaborone City Council awarded a local company a tender of Twenty-four million Pula (P24 million) for cutting grass, which the council could not pay. Eventually, the company took the Gaborone City Council to court for failure to pay, and the ministry then had to provide the necessary funds to the council to service the debt. The ministry official said this was just a sign of '*inefficient management of the city*.'

## 4.5 CONCLUSION

The objective of the interviews and the study of policy documents and reports in this research were to find answers to the research questions that mainly focus on the consequences of centralised finance on the local authorities. The findings demonstrated similar trends between the urban and rural local authority. Although the grant support they get from the central government is not the same, the experiences of the councils are similar, with both the urban and rural areas facing challenges regarding their finance from the central government. This is mainly because both councils receive 100 per cent of their development funding from the central

government, and development funding comes with many conditions attached.

# CHAPTER FIVE

## ANALYSIS AND INTERPRETATION OF RESEARCH FINDINGS

### 5.0 INTRODUCTION

This chapter analyses and interprets the research findings, addressing three specific themes:

- challenges faced by councils due to centralised finance;
- the extent to which transfer of funds from central government undermines councils' willingness to collect local revenue; and
- how dependence on central government for funding undermines the autonomy of local government.

### 5.1 CHALLENGES

In the previous chapters the study identified the following challenges arising from local government's dependence on central government for the bulk of its finance:

- Late release of funds by the central government
- Delayed project implementation
- Poor local participation
- Economic inefficiency
- Indifference to the needs of the local people.

The UN-HABITAT Report (2002) provides an insight into the root of the problem:

> The inability of local authorities to control their own budgets and dependence upon the central government for the vast majority of their revenues are perhaps the greatest factors limiting the full success of decentralization in Botswana (UN-HABITAT Report, 2002, p. 58).

Scholars such as Rondinelli (1981a), Neyapti (2004), and Shah and Thompson (2004) have identified budget autonomy, revenue adequacy and spending autonomy as the crux of fiscal decentralization. The two councils discussed in this study face these challenges because of limited fiscal decentralization. Importantly, even though both the Gaborone City Council and Kgatleng District Council face similar challenges, these are entrenched at varying levels because the councils have different levels of revenue.

### 5.1.1 Economic Efficiency

While Neyapti (2004) and Bahl (1999) argue that decentralised spending and establishment of own sources of revenue is important for economic efficiency and local participation, our findings show that Kgatleng District Council could not easily diversify its economy due to a lack of development resources. While Kgatleng District Council acknowledges the potential for the development of industries, practically, it is not possible to venture into some industries, because the industrial plots in the Pilane area have no amenities to cater for the industries. Where local government collects and determines its revenue, the economic efficiency of the local government is improved. Improved collection of revenue from own sources has to suit their constituencies (Bahl, 1999), which is not the case with the KDC.

### 5.1.2 Responsiveness

Responsiveness to local needs is also compromised due to centralised finance; national priorities take precedence over the local needs. For Wusch (2001), the problems experienced by the councils have to mirror those of the nation for the parent ministry to recognise them as problems in Botswana. During the interviews, as well as in the District Development Plan (DDP6, 2001-2006), Kgatleng District Council noted that the council

was unable to upgrade its clinics because of delays in the approval of funds. Gaborone City Council found itself caught in a difficult situation, as it lacked funds to repair the city's bad roads, and the central government was not willing to assist the council to address the matter.

### 5.1.3 Financial Profiles

The financial profiles of the councils indicate some vertical fiscal imbalances. The revenue they collect cannot cover the expenditure of the councils. For Bahl, Boex, Martinez-Vazquez (n.d. p. 3) 'the result is the inability of local government to provide adequate levels of public services.' Furthermore, central government does not release all the funds requested, and may also recall part of the funds. Release of funds as per the budget of the council is not guaranteed. When it comes to development projects, the funds given are sometimes too limited for project requirements, and contractors are not able to complete projects. Thus, one of the ideas presented at the Africities' Summit 2000 for an African Vision for Decentralization is that financial resources should not only be adequate, sustainable and equitable, but must also be predictable and reliable. Unpredictability of funds is worrisome. For example, there are times when councils expect certain funds from central government but find that they only qualify for a fraction of what they had anticipated.

### 5.1.4 Accountability

Accountability to the constituents is an important feature in decentralization. Raich (2005) argues that the power of accounting to the constituents is achieved fully if there is autonomy in revenue sourcing and spending. This is not the case in either the Kgatleng District Council or the Gaborone City Council. The KDC gets almost 90% of its recurrent revenue and 100% of its development expenditure from the central government. The GCC gets a relatively smaller amount because it has more sources of revenue than the KDC.

However, we notice that the accountability of these councils to the constituents is not necessarily lost. Both councils have had a change of power as regards the political party in control of the council, thereby making the councils directly accountable to the electorate. However, the Mayor of Gaborone City Council thought that the shared political roles led to accountability problems. They are sometimes forced to account for issues that belong to a line ministry. Line ministries often abdicate their responsibilities, thinking local government will perform them. If this does not happen, then local government takes the blame for the failure.

## 5.2 THE REVENUE COLLECTION IMPERATIVE

The above challenges arise mostly from the councils' reliance on the central government for the greater part of their income. It is important for the councils to collect as much as possible of the income from own sources of revenue. In relation to the question 'does the transfer of funds from the central government erode the incentive to collect revenue?' both councils identified the following as reasons for inadequacy of revenue from their sources:

- Inability to meet their collection projections
- Low charges
- Collecting for other entities, and
- Poor revenue collection system.

### 5.2.1 The Economy of Administration

For Kgatleng District Council, the fact that they received revenue from central government did not undermine their collection of revenue. They noted that they were just not meeting their revenue collection projections. Collecting revenue was expensive for them, given their already dwindling revenue. The cost of collecting within the Kgatleng District Council was only one problem, and the council also had to contend with the cost of

compliance. The council's billing system is not up-to-date; they use a manual system, which means that monitoring remains a serious challenge. Some constituents owed the Department of Water arrears going back three years. The council was supposed to collect money for water arrears but this was not done because information on what was owed was not readily available. Therefore, the district is not only contending with non-payment but also with costly non-compliance. Updating the billing system would entail spending more money on employees' overtime.

Gaborone City Council seems to have a similar problem, although the costs are different. The cost of collection includes the cost of dealing with defaulters. The Self Help Housing Agency (SHHA) service levy payments and Building Material Loans indicate a high level of defaulters. SHHA areas are low-income and residents are usually not in formal employment. These residents sometimes default on payments for many years. The cost of collection is high because most people are defaulters; recovering the money is costly for Gaborone City Council since the only option of collection is through the legal system, which means incurring legal fees.

The CEO of the GCC felt that taking defaulters to court was highly contested. For example, politicians did not want their constituents to be evicted. Gaborone City Council also incurs some compliance costs on the collection of rates, and valuation rolls are sometimes incomplete, which all results in financial loss to the GCC. Moreover, not all property owners receive their bills because the Department of Lands, a central government department, does not have up-to-date records.

### 5.2.2 The Service Charges

Service charges levied by councils are generally low. This reduces the incentive to invest funds in the collection of service charges. In other words, councils spend more on collecting less. The Ministry of Local Government, or the service ministry, determines the charges, and this

constraint on local government means they cannot maximise what they get from own sources of revenue. The fact that charges by other departments other than the councils sometimes means the levy for a particular service is not comparable to the service cost as these departments my not have the information as to how much the council spends n delivering the service. Wusch (2001) attributes this inconsistency to the lack of an effective system to determine the actual cost of the services. While it is critical that the service levy is comparable to the cost, it is central government, and not the local government, that determines charges.

Bahl (1996) argues that even though it is best for rural areas to collect their own revenues and determine their service charges, subsidies on some services undermine this potential for autonomy. Indeed, the cost of services provided is quite low. For example, treatment in the medical clinics is two Pula (P2.00), covering consultation of a medical doctor, all tests and medication. This charge applies nation-wide.

In the Kgatleng District Council, the chairperson felt that the charges were relatively acceptable in that they were affordable to the constituents. The mayor of Gaborone City Council concurred with the chairperson. However, the CEO and the Deputy Secretary of Council are of the view that the charges are too low. This is why the two councils could not break even. In the Kgatleng District Council, the Deputy Secretary of Council maintained that politicians influenced the public not to pay their dues, while in the Gaborone City Council, this aspect was particularly evident where the politicians objected to legal suits against defaulters of service levies and building material loans. This attitude undermines the cost recovery or cost sharing that the UN-HABITAT Report (2002) sees as a means of enhancing the financial standing of councils.

### 5.2.3 Collection Systems

The two councils also have weak revenue collection systems. Peter-Berries (1995) said that 'if Gaborone is typical of Botswana's urban authorities, even urban revenue collection is weak' (cited in Wunsch 2000, p. 13). For example, regarding property rates, the Gaborone City Council relies on the Department of Lands, a central government office, to give them information on property owners around the city. Ironically, the same department does not have up-to-date records itself, and revenue collection is so weak that the GCC has a high number of defaulters. It is not clear what the best approach is when it comes to recovering funds, resulting in high defaulter rates. For Mosha (2004) and Wunsch (2001), delays in the revision, approval, and implementation of valuation rolls mean they are not able to maximise their revenue in this sector. The CEO of Gaborone City Council in particular noted that the revision of charges for rates is delayed in the Ministry of Local Government where the minister has to approve the revision before implementation, and this has to go through a long consultation process.

Prud'homme (1990) argues that collecting property tax or enacting penalties is difficult to do, especially to poor people and to influential people. Thus the GCC finds itself in a dilemma, since in '1998/99 rate defaulters owed US $ 2.4 mil (P12.96 million) and the sum rose to US$ 6.4 mil (P32.48 million)' (Mosha, 2004, p. 20). In the list of defaulters posted in the *Botswana Guardian* (August 2000) were Members of Parliament, and senior officials of companies and government departments. It is thus difficult to collect from certain entities, yet the GCC hopes that intensifying efforts in collections will increase their revenue.

Considering the high default rate even with the low charges, there is a lack of effective enforcement. Councillors, who in most cases are more concerned with their re-election than ensuring that the councils collect revenue, compound the problems of the council. For Peter-Berries (1995),

the reluctance of local authorities to maximise their collection of revenue may emanate from the assumption that central government will cover their shortfalls.

## 5.3 LOCAL AUTONOMY

Local government needs some autonomy to meet the needs of the people to chart own development approaches, and deal with unique problems. Dabla-Norris (2006) argues that 'A measure of autonomy for sub-national governments on the expenditure and revenue side is crucial to realising the efficiency gains of decentralised government and supporting macroeconomics' (Dabla-Norris, 2006, p. 107)[5]. For local government, apart from accountability and responsiveness, autonomous revenue collection is also important because the councils are expected to spend the revenue on the services people actually need.

### 5.3.1 Expenditure Autonomy

Expenditure autonomy requires flexibility in budgeting and planning as well as setting priorities, taking into account the needs of the local people. This is not happening in the Kgatleng District Council and the Gaborone City Council. Although the local authorities' develop their own budgets, the Ministry of Local Government approves such budgets. Some of the items on their budgets may be removed depending on the ceiling set by the Ministry of Finance and Development Planning (MFDP). Sharing of responsibility would have some impact on the expenditure autonomy of the councils. For example, since the 1980s, the Gaborone City Council has been planning to upgrade the sewage system in the city, a project that would have resulted in the connection of previously unconnected areas. The council has not been able to achieve this because the project has not featured on the development budget, despite the fact that it is needed urgently.

[5] see also Shah and Thompson, 2004

Expenditure autonomy is very beneficial to local authorities, especially where some prioritisation is required. The local authority should have some degree of autonomy to give its people what they need, but as a result of dual responsibility, councils sometimes have to wait for a particular project to come onto the agenda of the service ministry.

### 5.3.2 Revenue Autonomy

Revenue autonomy means the freedom of local governments to determine, among others, their tax rates (Dabla- Norris, 2006; Shah and Thompson, 2004). Local authorities are better placed to know what their people can afford and which form of taxes and charges they can afford to pay. Both the Gaborone City Council and Kgatleng District Council do not – in terms of the Acts that established them – determine the tax and user rates they charge. The Ministry of Local Government and other service Ministries predetermine service charges for councils.

For Bird (2000), revenue autonomy 'will always lie with the person holding the purse strings' (Bird, 2000, p. 23). In Botswana the central government surely holds the purse strings on behalf of the taxpayers all from localities. As a result, issues of autonomy are intertwined with those of accountability. To whom are the councils accountable? Central government or the people? Since councils get the greater part of their income from the central government, it is only logical that they would feel more accountable to central government, or as the cliché goes, they know which side of their bread is buttered – that is, if it is buttered at all.

### 5.3.3 Legislative and Policy Framework

In terms of the Local Government (District Councils) Act, the Minister responsible for local government exercises many powers over the revenue of councils. Section 42(1) requires every council to establish and maintain a general fund into which all monies received by the council by way of

revenue must be paid. All expenses incurred by the council in the execution of the powers and duties conferred upon it by or under the provisions of the Act shall be defrayed out of such fund. To demonstrate the extensive powers the Minister has over council revenue, Section 42(2) authorises the Minister, acting in accordance with the advice of the Minister of Finance and Development Planning, to issue from time to time instructions with regard to the general management, supervision and control of general funds established under subsection 1.

Other powers of the Minister are as stipulated under Section 44 relating to accounts and audit. Such powers include the issuing of instructions from time to time with regard to the keeping of accounts by councils and the period within which each council shall balance its accounts for the preceding financial year and prepare its annual statement or abstract of such accounts. The Minister also has the power to appoint an auditor to audit council accounts.

The Ministry and the National Development Plans 7 and 8 recognize the need for some revenue autonomy in the councils. They are concerned about the dependence of the councils on the central government, as this is seen to undermine the councils' development and autonomy. However, the legal framework itself of the councils undermines their autonomy.

### 5.3.4 Local Capacity

Councils often rely on expertise from central government. The Deputy Secretary of Council in the Kgatleng District Council said that they are not able to collect their revenue because they do not have adequate personnel. Both councils not only lack revenue but also qualified staff for revenue collection. The Director of Local Government Audit explained:

> I have observed while visiting local authorities around the country that generally the staffing position in these authorities is worsening

> from year to year instead of improving … the problem embraces a number of departments but in particular the Treasury Department (cited in Sharma 1995, p. 28).

This leads to poor financial records being kept, resulting in delays regarding presentation of audited accounts. In the recent past, both the Gaborone City Council and Kgatleng District Council were a year in arrears of audited accounts. The staffing of councils has been a contentious issue. The councillors have complained that they have no control over the staff in the councils. The current arrangement is that the council staff is answerable to the Chief Executive who in turn is answerable to the Permanent Secretary in the Ministry. The Ministry thus has a great deal of control over the staff in the councils.

The Chairman of Council in Kgatleng District Council expressed concern that there was frequent transfer of top officials in the councils by the ministry. This negatively affected the development projects in process. He said that the Deputy Secretary of Council had only joined the district in 2005 but they had recently been told that he was going to be transferred soon. Council employees do not get enough time to adapt to the systems in place. They are not able to complete the six-year development plans. For example, in Gaborone, barely one year into the National Development Plan 9 (2003-2009) a new CEO took office.

Furthermore, the councils do not employ their people. The Local Government Service Management in the parent ministry makes all the appointments, thereby ignoring councils' needs and priorities. They wait for the ministry to appoint permanent and pensionable staff.

## 5.4 CONCLUSION

There seems to be some control over the councils by the central government because it gives most of the funds. The councils do not seem to be maximizing their efforts to tap into their own sources of revenue in

order to collect as much revenue as possible. The Gaborone City Council especially has many defaulters. Money owed to it runs into millions of Pula. If collected, this money would help council manage most of its recurrent budget.

The councils seem to have little autonomy regarding their expenditure and revenue, and have to synchronize their development plans with the national development plan. Consequently, the development projects they undertake must reflect the objectives embedded in the national development plan. Furthermore, sharing of services undermines the expenditure autonomy as the line ministries deliver what fits into their plan at a particular time, without taking the needs of the councils into consideration.

The control exercised over the councils by the legal framework, means that the capacity as well as the financial controls undermine the prospect of councils to exercise self-determination. Lack of financial independence infringes on the autonomy of the councils to collect revenue, undermining their ability to collect and identify some viable sources of revenue. This ultimately impacts on the potential of both Kgatleng District Council and Gaborone City Council to achieve effective service delivery.

# CHAPTER SIX
# RECOMMENDATIONS AND CONCLUSION

## 6.0 INTRODUCTION

From the findings of this research, the following recommendations are made, which are meant to assist the councils to gain autonomy and reduce dependence on central government.

## 6.1 CAPACITY BUILDING

There is a need for capacity building in councils to make them financially viable. Councils lack financial resources. Improvements should first look at the legal framework of local government financing. The councils are constrained because they do not determine the charges for the provision of services that drain them financially.

It is important that the councils are given the capacity to determine the rates they charge; these need not be uniform throughout the country. Decentralization does not only mean bringing development to the local people but also recognising the diversity of the people and involving them in the decision-making process. Local government is better placed to know what their people can afford and need.

The capacity of councils could also be enhanced through computerisation of treasury functions. This could lift the pressure from the human resources in the councils. It would help the councils to improve payment systems and further increase revenue through better collection of rates. New technology allows for easier methods of payment for the consumer, and this could provide an incentive for people to pay their council bills.

## 6.2 LEGISLATIVE FRAMEWORK

Since the legal framework that sets the establishment of councils was enacted in 1965, much has changed; these changes that have taken place need to be incorporated into existing Acts. Commissions have been established to review local government. It is important and opportune that councils are incorporated into the country's constitution as a way of giving them autonomy and constitutional recognition. The present situation allows for parliament to dissolve councils as and when it deems fit. The current framework of councils dictates that the councils rely on the central government for not only their finance but also advice on administrative functions as well as setting charges for services.

## 6.3 COST RECOVERY AND COST-SHARING

Botswana has four cornerstones, one of which is self-reliance. This is something that should be reinforced so that people realise the need to share cost with the government instead of waiting for free services to be provided by the government. They can contribute to local government revenue. The cost sharing could benefit both the people and the government. This culture has contributed to many developments in the country, for example, the university where each family contributed a cow towards the funds for building it.

However, this spirit of self-reliance has been somewhat eroded during the economic boom of the 1980s when government started providing free basic services. Now the government has other challenges such as the HIV/AIDS pandemic and people are not prepared to assist, for example, through promoting cost sharing. In order for councils to increase their revenue, the public needs to realise it has to pay for the services. The country's political leaders must re-establish a culture of self-reliance in their different constituencies.

Cost-sharing and cost recoveries are aspects that the NDPS brought up, as means of maximizing councils' own revenue collection. This, however, needs further consultation, as it is new, and is therefore an issue where the councils need a buy-in from the people and where, in turn, the councils themselves need to put something on offer.

## 6.4 CONCLUSION

This study explored the challenges which urban and district councils face in Botswana due to a growing dependence on central government for the bulk of their revenue. The findings show that the councils face challenges of autonomy. Provision of services suffers, and there are serious delays in the implementation of projects. Councils seem to have more expenditure responsibilities and fewer revenue sources. It is important that expenditure responsibilities are commensurate with the revenue if the councils are to achieve their goals.

The following points may be drawn from the study. First, there are vertical imbalances in the councils' budgets, which bring about local government's over-reliance on the central government. This erodes councils' incentive to maximise the collection of their revenue. There seems to be a difference of opinion between the political leadership and government officials, with the former adamant that it is the duty of the government to provide funding for services and not for people to pay for such services. Furthermore, the cost of collecting is higher than the potential revenue to be collected.

Decentralization in Botswana is not a lost cause. It is important that councils move away from over-reliance on central government for funding especially capital finance, which is at the heart of local development. Decentralization is a people-centred approach to development. Therefore, people need to be a part of the development initiative by paying for the services they receive. Fiscal decentralization would also reduce pressure on the central government to concentrate on financing projects at the

national level. Cost-sharing and cost recovery would help communities play a more significant role in financing their own expenditure.

There is an insignificant difference between the urban Gaborone City Council and rural Kgatleng District Council, because both councils rely on the central government for 100% of their capital finance for projects. Needless to say, both councils face similar challenges in spite of the fact that Gaborone City Council has better and more sources of income, in particular property rates. Both councils have minimal authority with regard to the setting of charges. Somebody else determines what they make in revenue, which encourages the dependence syndrome and over-reliance on the central government for all types of funding – unpredictable as it can be at times. Hence, there is a need to scale back on central government funding and consider some of the proposed reforms or recommendations if the councils are to have some autonomy.

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