

## 8 Financial issues

### 8.1 Background

In current 2002/03 prices the combined recurrent expenditure of all the institutions in the land sector grew from P51 million in 1989/90 to P165 million in 2002/03.<sup>19</sup> This represents 0.8% to 1.2% of total annual government expenditure over the period.

The land boards share of this grew from 57% to 77%. The tripling in real terms of the recurrent budget over 14 years constitutes real and substantial growth. However, it appears to come off a low base and if the views of the institutions are to be believed, the level of funding is still inadequate. In four of the 14 years when there was double-digit growth over the preceding year, land boards were the engine of growth in each case.

Land board revenues (not including the revenue support grant), in current 2002/03 prices, have grown from P4.8 million in 1989/90 to a peak of P21.3 million in 2001/02. However, this latter figure was an estimate, not an audited total.

Since 98/99 the Department of Lands has received revenue from the sale of state land that is more than double its total operating expenses. Over the same period the AG's Land Division has had a four to eight fold revenue-over-expenses ratio, again via proceeds from the sale of state land.

One major new source of revenue is Value Added Tax, currently at 10%. The impact of VAT on the transaction costs for dealings in land will be substantial, especially for residential purchases. In virtually every case, the buyer will have to borrow the VAT component as part of mortgage financing and repay it over 10-25 years also repaying the interest required to finance the VAT component.

### 8.2 Related policy issues

There are three policy issues to be considered in relation to the funding of the land sector:

#### *8.2.1 Does expenditure represent a justifiable use of public funds?*

The land boards receive the lion's share of the land sector budget. This continues to increase. In April 2002, when presenting his budget for P347 million to Parliament, the Minister said that, after receiving complaints of slow land delivery, his ministry had increased both recurrent and capital allocations to the land boards. Sitting allowances for land board members had been increased to enable them to have more days to attend to applications. A sub land board was to be established in Marapong to relieve the workload on Tutume sub-land board. Sub land board offices at Hukuntsi, Charleshill, Shoshong, Moshupa, Phitshane/Molopo and Mmathethe were under construction. The Kgalagadi main land board office at Tsabong and sub land board offices at Thamaga are at the tender stage for construction. The ministry required funds for the construction of sub land board offices at Seronga, Tonota, Nokaneng, Palapye, and Lentsweletau during 2002/3. More sub land boards were to be established during the next plan period (NDP9).

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<sup>19</sup> This includes, Land boards, the Land Tribunal, the Department of Surveys and Mapping, the Department of Lands, the Department of Town and Regional Planning and the Attorney General's Chambers Lands Division & Deeds Registry.

Whether the land boards currently represent value for money is a moot point. The recently released Report of the Second Presidential Commission on the Local Government Structure in Botswana notes at Section 4.3 that land boards are widely perceived as inefficient and slow. The Commission strongly recommended that Land Boards be given fully adequate financial and human resources to execute their mandate.

A 2002 survey of land boards by the MLHE reveals that land board members and staff definitely feel they are under funded and understaffed, especially regarding technical support. Yet, land board secretaries are salary graded at D1, which is on par with a medium size Government department. The five smallest land boards have an average total staff complement of only 28 each.

### ***8.2.2 Is the allocation of funds based on a realistic assessment of the costs?***

One problem often faced by local government is that of ‘unfunded mandates’, arising from new legislation or policy, handed down to local government without the funds necessary to execute the mandate.

An example of an unfunded mandate is land use planning by land boards and the DLUPU. Sufficient financial and human resources have not been provided. Another example is the provision of plots and basic shelter for destitute persons. The Report of the Review of the Housing Policy recommended that land boards and councils provide such housing and this was endorsed by Government. However, staff and funds have not been forthcoming. The Revised Policy on Destitute Persons, 2002, stated the same, though it is too soon to ascertain if the mandate will be funded or not.

The Draft Botswana Poverty Reduction Strategy proposes 16 distinct Programmes. No. 15 targets ‘Strengthening Capacity of Land Boards in Land Allocation, Administration and Management’ to the sum of P 1.9 million over five years.

### ***8.2.3 Does the user pay or is there a subsidy involved?***

The principle of free allocation of land to all adult citizens according to need is deeply rooted in Setswana culture. However, while a case can be made for the provision of subsidised land and land services (i.e. land parcel, survey and title deed registration) to ensure the tenure security of the poor, there is no valid reason why the ‘well-heeled’ should not pay the market price and the associated transaction costs incurred by the state in delivering land in the 21<sup>st</sup> century.

**Tribal land:** Currently, there is an overwhelming dependence by land boards on revenue support grants to balance their recurrent budgets. Land board revenue as a percentage of total recurrent expenditure has fluctuated from 17% in 89/90 to 10% in 94/95 to 19% in 00/01 and down to an estimated 13% in 02/03. Even the Tawana Land Board still requires a 53% revenue support grant. Due to the requirement to visit sites, the staff and members of land boards spend an inordinate amount of time and money on travelling.

The rents for commercial and industrial plots on tribal land are triflingly small, as they have never been indexed to reflect annual inflation. There is no evidence that nominal

rents will encourage investment and productivity. Indeed, the contrary seems to be the case on ranch land and encourages land hoarding. The rents for TGLP ranches are so low at 8 Thebe per hectare per annum that they are not worth the time and effort spent in collection, nor the cost of court action to deter defaulters. It is unclear what the rents will be for the 478 new ranches demarcated on tribal land under the fencing component of the 1991 Agricultural Policy. If the experience with TGLP rentals were any guide, it would be worth considering a fixed-period grant arrangement with a payment at the outset, if the positive covenants could be retained.

The Second Local Government Structure Commission recommends that Section 37 of the TLA be repealed and that Land Boards be empowered to set their own rates for all types of commercial, industrial, residential, agricultural and other types of land use leases.

**State land:** In the guidelines for the Allocation of State Land - New Policy 1990, it is stated as follows-

*Only citizens of Botswana will forthwith be eligible to be allocated land from Government. All citizens of Botswana regardless of where they live will be eligible for two residential, commercial and industrial plots in the eight urban areas of Botswana provided a first plot has been developed.*

As there is not an application fee to serve as a minimal demand regulator, not only has potential revenue been forfeit, but also long waiting lists have developed. These are purported to reflect real demand, but most probably indicate large numbers of speculative applications, given the very large incentive offered by the differential between the official price and the market value.

**Rates:** The Second Local Government Structure Commission has recommended the establishment of free standing local authorities for those villages on tribal land that are classified as urban in nature. The establishment of such bodies would have profound revenue implications for both the existing district council, for the urban village and for the new authority. However, for both practical and political reasons, such a change would have to be introduced incrementally (e.g. first for commercial plots and in well-located sites and so on).

The preparation of valuation rolls would be dependent on up-to-date land information (topography, size and location, building structures, names and number of occupiers, tenure arrangements, etc), which is essential for assessment of rates and for tax collection. The proposed Land Information System (TLIMS) is needed, not only for land administration and management in the broader sphere, but for the development of an equitable and up-to-date valuation roll. This is one activity in the land sector for which cost recovery can be assured.

There is already a strong case for preparing valuation rolls in Mogoditshane and Tlokweng and other peri-urban settlements in the greater Gaborone area, where government has invested over P200 million in water and sanitation in addition to roads. Until recently, no rates have been levied although proposals to do so in South East District have been announced.

The level of urban rates is a clear policy choice. A user pays principle is generally held to be efficient, equitable and sustainable. In the 1970s, during the early days of the SHHA programme, there was a clear cross subsidy element whereby ratepayers subsidised the cost of the service levy. However, this has been abandoned. Even the urban user pays policy has been largely set aside. It is an 'urban myth' that the rates level in Gaborone is cost covering. In 1996/97, 53% of the GCC recurrent budget was in the form of a revenue support grant from Government, rising to 65% in 1998/99. In comparison Francistown fell from 79% to 75% over the same period and Lobatse stayed constant at 76%. Some of the revenue support grants, particularly in the case of Gaborone could be regarded as a contribution by the State in lieu of rates. However, the value of Government real property assets in all urban areas (including urban villages) should be determined in regular valuation exercises so that the degree of subsidisation as opposed to contribution can be objectively assessed.

### **8.3 Policy principles**

Three fundamental principles for the allocation of public funds for the land sector are proposed:

- expenditure should represent a justifiable use of the government's resources;
- it should be allocated on the basis of legitimate mandates, and
- to those programmes and projects for which subsidies can be justified in terms of public health, safety, social welfare, etc; in other cases, public expenditure should be recovered from the users.

The foregoing brief review of expenditure and revenue in the land sector indicates that there is ample scope for improving performance.

It is not clear whether the current difficulties faced by the land boards are the result of 'unfunded mandates', low morale, lack of technical support and leadership, or whether they arise from dysfunctional policies and the chronic lack of land information. A combination of all these factors probably constrains operations. There has never been a study to determine just what financial, technological and human resources a land board would require to discharge properly the various mandates entrusted to it.