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LOCAL AUTHORITIES AND TRADING UNDERTAKINGS^{1/}

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LOCAL AUTHORITIES AND TRADING UNDERTAKINGS

It has been said that, in order to determine whether a nation is under-developed, one should not look at the extent of its wealth in population, finance, industry, and natural resources, but at how that wealth is being used. If a nation has the potential ability to raise its output to a higher level than it at present maintains, then there is room for development. In order to improve its output, the nation must seize every opportunity to improve the skill and productivity of its people, the managerial ability of its leaders, and the efficient harnessing and use of capital, both natural and man-made.

Uganda has recently published its second five-year plan for development, aimed at increasing monetary income per head, the eventual target being to double that income over 15 years. Because population will also be increasing, absolute incomes must be trebled. Overall economic growth is not, however, by itself an adequate objective; there must also be an equitable distribution of wealth and of public services, and equitable opportunity especially in education. Thus, our plan has three main goals:

- (a) increased production and wealth;
- (b) diversification of production;
- (c) social and economic justice;

and I have no doubt these aims are shared by most countries represented here today.

How can local government help in this field? This is the subject of our present seminar, and I propose to deal with one aspect of local government and its finance, namely activities in the field of trading undertakings, illustrated by our own experiences in Uganda.

What do we understand by a trading undertaking? It is a service provided by a public authority on the basis that the expenses of providing the service are recovered wholly or substantially from the persons using it, rather than from the general taxpayer. It may in the hands of a general purpose authority, a combination of such authorities, or a corporation specifically created for the purpose.

The advantages are apparent from the definition. A service is provided; it meets a need which perhaps cannot be met except by the intervention of the local authority. The service itself, while directly benefiting only those who use it, may indirectly benefit a much wider circle. The second part of the definition stresses that those who use it, pay for it; thus, there is no compulsion on the part of the general taxpayer to finance a service he may not himself use, though there may be services where the degree of general benefit justifies some subsidy from general taxation; the examples of abattoirs and cesspool-emptying spring to mind. The revenue thus comes largely from "free" resources - it neither inflates the tax burden of the local inhabitant, nor does it encroach on the taxation preserves of the central government.

How do these trading undertakings help development, in the fields of education, transport, health, food, and communications? To begin with, a trading service, properly run, can help to achieve the aim I have mentioned - to expand and diversify the finances of the local authority. A council which has substantial sources of income over and above its main taxation system has much more freedom of action, and can plan its activities with more confidence. If the trading service produces a surplus, that surplus can be used to expand the undertaking to produce further surpluses, or to develop other services, or to reduce the burden of direct taxation. Moreover, trading services help to spread the cost of local government over a wider community; visitors who use the local authority's services do not do so at the expense of the taxpayer - they contribute to their cost. Business men who make use of these services to earn profits, are obliged to plough back some of

those profits to the benefit of the community. Many local authority services, too, provide substantial employment; and this can be done without increasing the burden of taxation.

All these are what one might call the fiscal effects, on the community in its corporate capacity. How do trading services help the individual in increasing development? Let us take some examples - local authority housing is one. We have only to look at the living conditions of the lower-paid worker to see how this can help. He may pay an extortionate rent to live in squalid conditions; communicable disease and crime are prevalent; he has no incentive to a better standard of living, because he cannot see one within reach.

Water and electricity supply are other trading activities. The advantages of electricity supply in development need no stressing; and quite apart from the health advantages of a pure water supply, the mere fetching and carrying of water when it is not near at hand imposes an enormous waste of time and effort on our people, which they could put to more productive use. A child who has to walk half a mile for water could be spending that time in study - especially if there is electricity in the home - learning to become a trained citizen more quickly. If these services can improve the lot of the country-dweller, they stem the drift to the towns, with all its implications and misery. If they improve the lot of the townsman, they give him a bigger stake in the community and some incentive to a fuller life than merely living at subsistence level, in order to save enough money to go back to his family smallholding one day. Clearly all this would be equally true if these services were free, but they must obviously be charged for, by their nature, if only because free use encourages waste of valuable resources, whereas charging can control and regulate demand.

Trading services of a more commercial nature can also help development. Controlled markets and abattoirs lessen the risk of food-borne disease. Ferries and public transport speed communications, and access to trading and employment centres. Schemes such as shopping centres can encourage self-help and harness the latent ability of the embryo businessman. Even a humble weighbridge oils the wheels of commerce. I am sure I need not elaborate on these aspects.

Are there any more advantages? I can think of one, at least - that local councillors who have to manage trading undertakings, are brought face to face with economic realities on a bigger scale than they meet in their daily lives, and learn to apply sound economic principles to all public services. There may be some educational value for the citizen, too - local trading services can stimulate civic pride, and perhaps demonstrate a lesson more directly than taxation ever seems to - that what we want in this world has to be paid for. Nothing is really "free".

Thus we can see that trading services of local authorities can play some part in achieving social justice and equality of opportunity: in improving the productivity of the people and the managerial capacity of their leaders: in short, in raising the standard of living. Let us now see how far this is working in practice in Uganda.

A survey of the legislation governing Uganda local authorities shows that they have power to operate quite a number of revenue-producing services, if they wish. In the urban areas' legislation we find:

Land and housing estates;

Cemeteries and crematoria;

Bus stations;

Public halls, libraries, and museums;

Slaughterhouses;

Milk and animal product processing stations;

Markets and Baths piers, swimming pools, and laundries;

Canteens, clubs and hostels;

Animal pounds, clinics, and lairages;

Camping and grazing grounds;

Water supplies;

Cafes and restaurants;

and numerous smaller permissible activities, ranging from botanical gardens to public weighing machines. In rural areas' legislation, are listed:

- Markets;
- Forestry services;
- Game parks and tourist amenities;
- Ferries;
- Housing;
- Water supplies;
- Local industries;
- Newspapers and periodicals.

How far are these powers exercised? A scrutiny of the published accounts of a cross-section of local authorities, both rural and urban, presents somewhat of a contrast. The larger municipalities show clearly in their accounts the income and expenditure on a number of the services mentioned above, in such a way that the total income from the service can be compared with the costs of earning that income, including a fair share of administrative overheads. One can thus see at a glance the scope of the service, and the extent of the taxpayers' subsidy towards it, or alternatively the surplus it provides towards relief of the general taxpayer. Examples of undertakings actually provided by our municipalities which show a clear surplus, or at least provide a useful service with minimum assistance from general taxation, include public lands, markets, abattoirs, immunisation clinics, shopping centres, cesspit-emptying, private works, water supply, certain housing schemes, and a number of smaller schemes, such as a weighbridge, a caravan site and a small animals clinic. There are in addition certain remunerative sources of incidental revenue, stemming from larger services, such as sale of sludge, grass cutting, and pound fees.

We must accept that municipalities seem to take to trading services naturally and efficiently. Towns have a compact and relatively wealthy population; it is not difficult, for example, to make a profit from a water main serving an area of embassies, department stores, or soft drink factories. They are providing services which the users expect, are willing to pay for, and have the means to pay for. Moreover, the councillors responsible for policy can meet more often, and are probably business men used to weighing up trading prospects and alternatives. The council can afford to employ more highly skilled officials, and the general background services of the authority - accounting, technical, purchasing, and so on - are more highly developed. In the smaller towns and trading centres, of course, the extent of urban services provided, trading or otherwise, tapers off in proportion to the size of the authority; in the smallest, they may be virtually non-existent.

In the rural areas, however, the picture is different, and indeed not even easy to identify from the published accounts of district administrations. Because of the shortage of trained accountants, coupled with the necessity for tight budgetary control, in areas where overspending a vote may mean no salaries next month, expenditure tends to be accounted for in watertight compartments grouped by reference to who controls the vote, rather than by the service for which the expenditure was incurred. Income, on the other hand, tends to be consolidated under a few broad headings. The result is that it becomes rather difficult to see clearly how much a service is costing in total, and to what extent those costs are covered by revenue.

I think this must be regarded as a serious obstacle to efficient trading. Since a trading service is, in effect, a business run by a public body, and since no business can be run efficiently without knowing how much to charge, or whether it is running at a profit or a loss (and if a loss, where it arises, and how it can be remedied), it follows that these services in rural areas would be more effective with

an accounting system which is more accurate and informative, without sacrificing any budgetary control. Such a system needs trained finance staff, and my Ministry actively sponsors and supports a training scheme by correspondence course to this end. In fact, even under existing Financial Regulations, once a service is identifiable as a trading service, the administration is required to prepare proper trading and profit and loss accounts, and a balance sheet in commercial form. Perhaps they feel they are not quite ready for this elaboration, and for that reason, are careful not to make it too obvious that they are engaging in trade!

Thus, before we examine the need or the extent of trading undertakings in rural areas, we must take into consideration that the scope for these activities will be limited - not only by the accounting system used, but by the sparse populations and consequent greater remoteness of the council, as a corporate body, from its electors; sometimes by the lower degree of experience of its members and officials. It will also be limited by the fact that many trading services and semi-trading services, such as carparks, cemeteries, housing and cesspool emptying are neither needed nor wanted by the rural cultivator, though they may be one day. Since, however, 96 per cent of Uganda's population lives off the land, and since the rural administrations are probably in the greatest need of expanding their revenues, we must not overlook any opportunity in this direction. What trading services are in fact provided? From the published accounts of district administrations, it is possible to see from what sources revenue is derived, though as I have indicated, how far the revenue is "trading" or merely incidental is not always clear. One can see, however, that income arises under the headings of forestry and nursery activities, salt extraction, markets, ferries, a stadium, hostels, water supply for schools, game parks, prison industries, housing, quarries, veterinary clinics, bar concessions, and in fact a variety of minor sources. These examples show that these authorities are venturing into the trading field, some directly, some indirectly by royalties or a share of profits of other bodies.

I think we can say then that there is a potential field for trading activities in the rural areas; as one might guess, substantially in the services attractive to country-dwellers, such as nurseries, markets and veterinary clinics. I have read that in other countries, small-scale activities of rural nature have been established by local authorities in such fields as dairying and poultry farming, pottery, weaving, sisal processing, and grain milling. In Uganda some possible fields have been largely pre-opted by central government or left to private enterprise or else entrusted to co-operatives and other specialised public bodies; but we shall be interested to hear the experiences of countries represented here today. No doubt there is scope for more extensive trading activities on the part of rural administrations, but on the other hand, I feel we must be careful not to encourage the poorer authorities to over-extend themselves - that is, they should not be permitted to go headlong into trading undertakings if this is going to prejudice their provision of the basic local government services. Probably we must accept that this will be a gradual process.

We have covered the urban authorities and the rural administrations, but in Uganda and probably other countries as well, we have a section of the community half-way between the two, with some of the characteristics of both sectors. I refer to the "fringe population" clustered around the boundaries of the municipalities. These people need the services of an urban authority (even if they may not always want them) but they are not much more able to pay for them than the rural cultivator. Here we come up against problems of redistributive finance: are we to leave these areas as part of the district administration, which is forced to provide at least a minimum of urban services at the expense of the remaining, almost wholly rural, population? Or are we to embody them into the city, with a consequent dislocating impact on both (and the immediate beginning of a fresh fringe problem outside the new boundaries?) In Uganda, we have tried

to solve this question by establishing satellite town councils for the fringe areas themselves, to make a start on urban services, without aiming immediately for the high standards of a metropolis; and by combination arrangements covering more than one local authority area, of which I will mention an example in a moment. We have, however, to be careful not to stretch our resources of trained professional and technical staff over too many authorities.

How can trading services be made available to the fringe area populations? Some services need be no nearer than the adjoining municipality - for example, sports stadia and cemeteries. Others need to be closer at hand, such as markets, canteens, and slaughter-houses. Some trading services must, however, be provided where the inhabitant lays his head each night such as housing, and water.

The housing problem in fringe areas is to some extent a legacy of the past when the African urban worker was, so to speak, "swept under the carpet" after four o'clock. Housing for these people was hardly provided at all in urban areas, which indeed were often almost wholly non-African in population. The central government built a number of peripheral housing estates for the lower income groups, and these have now been handed over to municipalities. There have been complaints that we handed over more of a liability than an asset, by reason of the heavy subsidy in the rent structure, and the lack of replacement funds provided for houses which were proving unexpectedly short-lived. The burden of the subsidy has, in effect, been transferred to the employers and residents of the place where these people work, rather than the national taxpayer, and I think this is not unreasonable.

The municipalities have also provided housing at economic rents, and there are in addition a great many "employers' houses", notably those provided for civil servants, at heavily subsidised rents. There is no doubt that the favourable position of civil servants has instilled an element of distortion and unreality into housing, and the government has this matter actively under consideration. Quite apart from the

financial aspect, subsidised housing brings personal and political problems relating to allocations and sub-lettings. We are also endeavouring to make employers more conscious of their responsibility for housing lower-paid workers; and to reinforce the housing drive we have set up a National Housing Corporation to provide housing on a self-supporting basis, though it can delegate the management of estates to local authorities. There is thus a partnership, local and national rendered all the more urgent by reason of the steep rise in rents for private housing, in the capital at least. One field we are actively examining is that of tenant-purchase schemes.

Finally, water supply. This is more urgent in the fringe areas than probably anywhere else. Unfortunately, water is an expensive commodity to transport over long distances, and it is a fact that the further a piped water supply is taken outside a town, the more costly it is, and yet at the same time the less able the consumers are to pay for it, as a rule. In the Kampala area where the main fringe problem exists, we have redistributed the cost somewhat by establishing a Water Board covering 62 square miles round the capital, on which local authorities are represented. There is, however, a limit to the extent to which the urban consumer can subsidise the peri-urban community, and we have now reached the state where the Water Board is asking for government aid to meet the cost of the next augmentation scheme. Many lower paid workers have not the means to afford a piped water supply, even where proper planning permits the siting of water mains: and the Board tries to meet this by subsidising connection costs, and by providing sales standpipes at strategic points. The economics of the latter system are, of course, highly unsatisfactory - the mere presence of a salesman sends up the costs, and because the price has to be governed by the smallest coin in circulation, and by the biggest quantity of water a person can carry (4 gallons), the consumer unavoidably pays over four times the bulk metered supply rate, and still this does not cover even the selling overheads, let alone the cost of the pipes and

the water. The answer is of course free supply at these points but this is impossible without creating precedents in favour of other community supplies, and would invite countless applications for more standpipes beyond the supply capacity of the Board.

Water supply is linked with sewerage and sewage disposal, and we have received recommendations that these services should all be under the same authority.

The basis of charge in Uganda is mainly by water rates on annual value for domestic supply, and by a formula in the case of commercial premises; the authority has power to meter any supply to catch excess consumption and charge for it. Charging wholly by meter is not widely used, mainly because of objections on sanitary grounds in most places. Owners are liable for the charges in respect of premises of low value, or where the supply is common to several occupiers, and this helps recovery. Minimum charges are in force, which are quite high - ten shillings a month per family unit in Kampala.

Outside Kampala, water supplies were more recently a government function, but since independence we have handed most of these over to local government, with central government assistance on the technical side. At Jinja, our second largest town, the council is arranging fringe area supplies on a bulk sale basis, by agreement with satellite townships.

I have briefly sketched the position of trading services in Uganda. Although there is much to be done, I feel we are moving in the right direction. In conclusion, I should like to put out for your consideration some controversial questions of policy which can arise in this field.

First - by placing remunerative undertakings in the hands of local politicians and unskilled administrators before they are ready for such responsibilities, is there a risk that a promising field of activity may be prematurely destroyed for ever in that area? Or is this

worthwhile, to stimulate a sense of local responsibility, instead of preoccupation with politics and personalities? This is another way of asking whether some of our local councils are too small and inexperienced to venture into commercial enterprises, or is this a way of giving them stature and experience?

Following on from that thought - if a trading undertaking loses money, should we insist that the council discontinues it, or shall we accept this as a necessary stage in the gradual process of becoming self-sufficient? Alternatively, is there a danger that charging for public services increases the scope for corruption, while denying basic necessities to the poorest citizen? How can controls prevent this?

How far should urban consumers subsidise rural consumers (bearing in mind that the former may pay rates and the latter not)? Conversely, should the rural taxpayer who has nothing, subsidise the city dweller who has everything? Can grants rectify this?

Finally - if we entrust trading services to specialised agencies (including co-operatives and public corporations) we ensure specialised skill in management and we ensure self-financing; but do we lay ourselves open to the charge of taking all the profitable undertakings away from the more democratic general-purpose local authority? Are there too many specialised agencies?

These are random thoughts which occur to me, and I mention them to demonstrate how wide-ranging this subject can be, and in the hope that they will stimulate discussion to the advantage of all who are concerned in this field of public service.