Diagnostic Assessment of Decentralization in Lesotho – April 2014
Map of Lesotho
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Decentralization in Lesotho dates back to colonial times and even at the end of colonial rule in 1965\textsuperscript{1}. District Councils and the Basutoland National Council (BNC) existed as people’s representative bodies. In recent years, particularly following the enactment of the Local Government Act (1997), the Government restated and reaffirmed its commitment to decentralization in the context of its Poverty Reduction Strategy and later as part of the National Strategic Development Plan. Government views an effective local government system as the single most critical vehicle for accomplishing its efforts in reducing poverty, promoting inclusive economic growth and entrenching democratic principles that are vital to development of the people of Lesotho. Significant achievements have been made in recent years. Local councils (district, urban, municipal and community) have been elected and established throughout the country. Structures to support the operations of these councils have also been put in place. In addition, Government has sustained funding to these councils over the years. Importantly, the participatory process within community and urban councils has grown stronger. Community-based projects now provide the basis for local government programs.

A number of challenges remain. Going forward, we have committed ourselves to deepen decentralization by focusing more on strengthening decentralized service delivery systems and promoting greater transparency and accountability in funding mechanisms. This commitment has resulted in the UNDP Deepening Decentralization Project (DDP) that will be implemented with the support of key development partners over the next few years. We have also decided to put in place a decentralization policy which will commit all stakeholders to a common position on decentralization and will accordingly provide the basis for future development of the local government systems in Lesotho. This study has been crucial in informing these two key processes by providing data on the state of institutional and organizational management of local authorities and fiscal decentralization operations. This data will also form the basis for monitoring progress under the decentralization program.

The study has been able to bring to the forefront many of the challenges that we will have to deal with. I concur with the necessity to reach political consensus and to re-state unequivocally the model of decentralization (de-concentration, delegation or devolution). Once the ‘Decentralization Policy’ is established, it will be important to clean up legislation governing all aspects of decentralization, in a form that will promote the understanding and harmony of roles and relations of key institutions both at central and local government levels. This level of clarity will also need to be extended to relations between district and lower councils. The implications of this will be a review of central and local government institutional mandates and functions. We will all need to commit ourselves to this process. A program of comprehensive capacity-building should follow up on these steps.

I wish to thank UNDP, UNCDF and the EU for financing and facilitating this study. I wish also to extend my appreciation to all Development Partners under the Deepening Decentralization Programme; – UNDP, UNCDF, GIZ, World Bank, EU, and Irish Aid for their continued support to strengthening decentralization in Lesotho.

I wish to commend this report to all stakeholders and parties interested in promoting the local government system in Lesotho as a basis for improving delivery of services and socio-economic development of our people. I am convinced the report provides a good understanding of decentralization issues (at this moment in time) and an appropriate guide for future work in the area.

Hon. Mothetjoa Metsing
Deputy Prime Minister and Minister of Local Government, Chieftainship and Parliamentary Affairs,
October 2013

\textsuperscript{1}Mofuoa, 2005; Wallis and van deer Geer, Mapetla and Rembe, 1989.
The Study Team would like to thank the numerous people who helped us in the course of preparing this report. Special thanks go out to Mrs. Jenifer Bukokhe Wakhugu, PhD Technical Specialist – DDP, UNCDF and Mr. Hoolo Nyane, Programme Manager DDP, UNDP, who kindly devoted much time assisting with the background materials, arranging and attending meetings, site logistics for our mission and providing technical inputs. The team also appreciates the support of Mr. Thabo Mosoeunyane, Head of the UNDP Governance Unit, who “always had his door open for us”.

We’d also like to mention the key people at the Ministry of Local Government and Chieftainship and Parliamentary Affairs (MLGC) such as the Principal Secretary and Deputy Principal Secretary, Director General, Local Government Service, the Director of Decentralization, the Director of Planning, the Financial Controller, the Fiscal Decentralization Advisor, to name but a few. They were able to give us key insights into areas most important to focus on.

We were also privileged to be able to meet with many senior members of government who are actively involved with local government who provided open and meaningful information for our study. This was also the case with a number of Development Partners involved in decentralization, such as the EU, Irish Aid, World Bank and GIZ. We particularly appreciate all the background information and advice provided by members of GIZ staff who have been working for a long period in Lesotho on local governance.

The Study Team visited five districts and met numerous local government officials, local residents, and members of Civil Society Organizations in particular the Peace Corps, to whom we are indebted.

Everywhere we went people were very willing to share their time and views with us as well as making us feel like a part of their community.

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This report is the opinion of the authors and does not necessarily represent the views of the client.
## III List of Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ABC</td>
<td>All Basotho Convention Party</td>
</tr>
<tr>
<td>ADB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>BA</td>
<td>Beneficiary Assessment</td>
</tr>
<tr>
<td>CBOs</td>
<td>Community Based Organizations</td>
</tr>
<tr>
<td>CCs</td>
<td>Community Councils</td>
</tr>
<tr>
<td>CCS</td>
<td>Community Council Secretary</td>
</tr>
<tr>
<td>DA</td>
<td>District Administrator</td>
</tr>
<tr>
<td>DCS</td>
<td>District Council Secretary</td>
</tr>
<tr>
<td>DCs</td>
<td>District Councils</td>
</tr>
<tr>
<td>DDC</td>
<td>District Development Council</td>
</tr>
<tr>
<td>DDCC</td>
<td>District Development Coordinating Committee</td>
</tr>
<tr>
<td>DGD</td>
<td>Decentralized Governance for Development</td>
</tr>
<tr>
<td>DLG</td>
<td>Developmental Local Government</td>
</tr>
<tr>
<td>DDP</td>
<td>Deeping Decentralization Program (UNDP/CDF)</td>
</tr>
<tr>
<td>DPU</td>
<td>District Planning Unit</td>
</tr>
<tr>
<td>DS</td>
<td>District Secretary</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>GoL</td>
<td>Government of Lesotho</td>
</tr>
<tr>
<td>GIZ</td>
<td>German International Corporation</td>
</tr>
<tr>
<td>IDP</td>
<td>Integrated Development Plan</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>LACD</td>
<td>Land Affairs and Constitutional Development</td>
</tr>
<tr>
<td>LA-FMR</td>
<td>Local authorities’ financial management regulations</td>
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<tr>
<td>LAs</td>
<td>Local Authorities</td>
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<tr>
<td>LCD</td>
<td>Lesotho Congress for Democracy</td>
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<tr>
<td>LAR</td>
<td>Local Authorities Revenue</td>
</tr>
<tr>
<td>LEC</td>
<td>Local Economic Development</td>
</tr>
<tr>
<td>LG</td>
<td>Local Governance/Local Government</td>
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<tr>
<td>LGA</td>
<td>Local Government Act</td>
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<tr>
<td>LGS</td>
<td>Local Government Service</td>
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<tr>
<td>LGSC</td>
<td>Local Government Service Commission</td>
</tr>
<tr>
<td>LGUs</td>
<td>Local Government Units</td>
</tr>
<tr>
<td>LIPAM</td>
<td>Lesotho Institute of Public Administration and Management</td>
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<tr>
<td>LRA</td>
<td>Lesotho Revenue Authority</td>
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<tr>
<td>MAFS</td>
<td>Ministry of Agriculture and Food Security</td>
</tr>
<tr>
<td>MCC</td>
<td>Maseru City Council</td>
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<tr>
<td>MFDP</td>
<td>Ministry of Finance and Development Planning</td>
</tr>
<tr>
<td>MLGCA</td>
<td>Ministry of Local Government and Chieftainship and Parliamentary Affairs</td>
</tr>
<tr>
<td>MoET</td>
<td>Ministry of Education and Training</td>
</tr>
<tr>
<td>NES</td>
<td>National Environmental Secretariat</td>
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<tr>
<td>NGOs</td>
<td>Non-Governmental Organizations</td>
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<tr>
<td>ORR</td>
<td>Local Authorities own revenue resources</td>
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<tr>
<td>PFMA</td>
<td>the Public Finance Management and Accountability Act 2011</td>
</tr>
<tr>
<td>PRSP</td>
<td>Poverty Reduction Strategy Programme</td>
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<tr>
<td>RDP/RDS</td>
<td>Reconstruction and Development Programme</td>
</tr>
<tr>
<td>RSA</td>
<td>Republic of South Africa</td>
</tr>
<tr>
<td>UNCDF</td>
<td>United Nations Capital Development Fund</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Aid for International Development</td>
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<tr>
<td>VDC</td>
<td>Village Development Council/Committee</td>
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<tr>
<td>VO</td>
<td>Village Organization</td>
</tr>
<tr>
<td>WDC</td>
<td>Ward District Council</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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</table>
This diagnostic assessment study of decentralization was commissioned by the Ministry of Local Government, Chieftainship and Parliamentary Affairs (MLGC) working with its partners under the Deepening Decentralization Programme (DDP).

Decentralization in Lesotho dates back a long time. It has gained momentum in recent years particularly as Government aims to make it the main vehicle to deliver its commitments to reduce poverty, promote inclusive economic growth, and entrench democratic principles. In this regard, the Government of Lesotho (GoL) through the Ministry of Local Government, Chieftainship and Parliamentary Affairs in partnership with European Union (EU), United Nations Capital Development Fund (UNCDF) and United Nations Development Programme (UNDP) have established the Deepening Decentralization Project (DDP) with the main purpose of promoting decentralized service delivery and facilitating social and economic growth through the development of transparent funding mechanisms and the strengthening of accountability systems of local authorities.

This diagnostic assessment provides baseline data on the state of institutional and organizational management of local authorities’ operations and fiscal decentralization in Lesotho. This report intends to provide information that will be vital in gauging progress made to date and identifying areas that need immediate attention in order to improve decentralization systems at the local level. The report also intends that the baseline information will be used to monitor progress on administrative, political, and fiscal pillars of decentralization, to refine the fiscal decentralization framework, and to inform the on-going process of formulating the Decentralization Policy.

There have been past efforts aimed at assessing and evaluating decentralization. Many of these have been supported by government’s development partners. Significant work has also been carried out particularly by GIZ. In addition to extensive literature review, extensive consultations have been carried out with government units that have been involved closely with decentralization over the years; the MLGC, the Ministry of Finance (MoF) and the Auditor General. Consultations have extended to development partners working on decentralization in Lesotho – UNDP, UNCDF, GIZ, World Bank, EU, and Irish Aid. Once these consultations were completed, the consultants designed instruments which were used for collecting data and facts about decentralization processes from Maseru Municipal Council and five district councils, namely: Leribe, Botha-Bothe, Maseru, Mohale’s Hoek, and Thaba Tseka.

This report presents the findings of the study and recommends areas in which improvements may be required. The report also includes a set of indicators recommended for monitoring progress on institutional and fiscal aspects of decentralization. In order to respond to the specific needs for the policy formulation process, the report proposes specific policy recommendations under the two study areas regarding the Institutional Framework and Fiscal Decentralization.

Key findings and recommendations

The report finds that significant progress has been realized in decentralization, particularly since 2005. Political decentralization has improved considerably with the establishment of elected district, community, urban, and municipal councils across the country. Councils at all levels have been provided with administrative structures which are largely staffed and equipped. Fiscal decentralization has also progressed considerably, particularly as

2 Under the UNDP – DDP, a pipeline Local Development Fund (LDF) proposes to support ‘Guidelines for Assessment of Minimum Conditions and Performance Measures for Local Authorities’

Significant amounts of resources are now transferred through the MLGC to councils in a manner that is fairly predictable. Budgeting and accounting practices have improved over the years, and councils now undertake regular expenditure reporting.
The overriding challenge that remains concerns the building of a consensus on the mode of decentralization that Lesotho wishes to have. This question will have to be firmly resolved and owned at the highest political level. The ongoing policy formulation process offers an appropriate mechanism to address this issue. Clarity on this issue has the potential to unlock and diminish other challenges in the government’s decentralization programme.

Key challenges

1. There are various pieces of legislation which support decentralization that need to be updated; the Local Government Act (1997) has had a series of amendments over the years. The Public Finance Management and Accountability Act 2011, together with procurement regulations of 2007, the financial regulation of 1973 and the Municipal and Urban Financial Regulations of 1980 will need to be streamlined to make them more comprehensive in addressing the aspirations of the decentralization policy and improving their responsiveness in guiding the local government system.

2. LG reporting structures in relation to central government will require clarification. LGs in many ways are units of and supervised as a part of MLGC. If local government is clearly reaffirmed as the second tier of government, councils will become the main bodies to which local authorities will report. Reporting relationships with central government will have to be reconsidered to promote this position.

3. Local authorities continue to have gaps in their staffing and skills affecting service delivery. Many key departments in Maseru MC and other district councils visited do not have substantive heads. Moreover, recruitment through the Local Government Service Commission is not fast enough to respond to the needs of local authorities.

4. Communication and feedback mechanisms require strengthening. Issues from local government to central government should be responded to in a timely manner. Laws, regulations, and guidelines for decentralization and for councils need to be translated into Sesotho and simplified to allow councillors to appreciate and undertake their obligations.

5. Councils need to be granted full powers over local revenues to retain them and apply them to local services.

6. The capacity of the staff and internal controls need to be further strengthened to ensure expenditure control and to limit the accumulation of payment arrears in all councils.

7. The accountability of councils is undermined by their inability to produce regular annual financial statements and to have financial audits carried out on a regular and timely basis.

8. Finally, as the GoL considers a financial management system for local authorities, it should take great care to identify a solution that is simple, sustainable and within the capacities of local authorities. It is important that this selection is informed by an appropriate study and includes the identification of local authorities’ requirements.
Key policy recommendations

- The decentralization policy should be used to settle the question of the model of decentralization (de-concentration, delegation, or devolution). This will provide greater clarity on government’s decentralization program going forward.
- In equal measure, the policy should indicate the relationship between district councils and lower councils (urban and community).
- The policy should address the human resource aspect of decentralization, particularly in the key service areas of education (teachers) and health (health workers) in a way that will ensure disadvantaged districts are not unduly marginalized by their inability to attract these vital resources.
- The policy needs to clearly restate the powers of councils over local revenues in the areas of determining sources, assessments, setting rates, collection and use of local revenues.
- The policy should consider a system of incentives, including the possibility of financial rewards to encourage local authorities to improve local revenue administration and collections.
- The policy should clearly establish an internal audit function within each district, urban, and municipal council.
- The position of the DCS should be the Chief Executive (administrator) of the district council. In this case, a key role of the DCS is in ensuring quality control of district accounting practices and in coordinating and reporting on the implementation of functions assigned to the district council. In this regard, service related functions, such as district planning under the DAs will need to move to the Office of the DCS.

In moving forward, it will be vital for the Government to discuss further, and reach agreement on, the study’s findings and recommendations. Implementation of the key actions identified here will depend on the decentralization policy selected. Therefore, the Proposed Plan of Action on key recommendations found at the end of this study (page 68) may be adjusted by MLGC once the decentralization policy has been completed.
V Introduction and Background

This diagnostic assessment study was carried out from August to October 2013. The report has three main parts: (1) the methodology; (2) findings and recommendations relating to the two main parts of the study namely - the Institutional and Organization assessment and the Fiscal Decentralization assessment; and (3) key policy recommendations. In addition, the report has added a set of key indicators proposed for monitoring decentralization.

Purpose of the study

In order to reduce poverty, promote inclusive economic growth and entrench democratic principles through improved decentralization, the Government of Lesotho, through the Ministry of Local Government, Chieftainship and Parliamentary Affairs (MLGC) has in partnership with European Union (EU), United Nations Capital Development Fund (UNCDF) and United Nations Development Programme (UNDP) established the Deepening Decentralization Project (DDP). The EU is the funding organization. The main purpose of the programme is to promote decentralized service delivery for social and economic growth through the development of transparent funding mechanisms and by improving the accountability of local authorities. Specific components of the project are: (1) improving development funding through local authorities; (2) promoting decentralization and accountability systems at the local level; and (3) enhancing the capacities of line ministries and local authorities to decentralize functions.

This diagnostic assessment is intended to provide baseline data on the state of institutional and organizational management of local authorities’ operations and fiscal decentralization in Lesotho. This information will be critical to the GoL on gauging progress made to date and in identifying areas that need immediate attention in order to improve public financial management at the local level. The baseline information will be used to monitor progress on the three pillars of decentralization namely: administrative, political and fiscal decentralization. It will also be used to refine the fiscal decentralization framework, inform the formulation of the Decentralization Policy and improve institutional capacity development.

Objectives

1. To conduct a diagnostic study of fiscal decentralization in line with the mandates of local authorities, identify current practices, and propose minimum conditions and performance indicators that can be used to strengthen systems and procedures for effective public expenditure management at the district and community level.
2. Use the findings of the diagnostic assessment on fiscal decentralization to refine the draft fiscal decentralization framework for programming intergovernmental transfers.
3. To conduct a diagnostic assessment of the institutional and organizational management of local authorities’ operations to inform national policies and regulatory frameworks for promoting decentralization.
4. Use the findings of the institutional and organizational diagnostic study to prepare a capacity building plan for selected national level line ministries and local authorities.
5. To provide policy and regulatory recommendations to inform the formulation of the Decentralization Policy and the decentralization model.

Scope

The study covered two major components of decentralization in Lesotho. The Team Leader, Henry H. Kelham, was responsible for Component 1, and Robert H. Muwanga addressed Component 2. However, as a team, there was coordination and cross-task collaboration. The following is in keeping with the Team’s Terms of Reference (ToR):

Part 1: A diagnostic of the institutional and organizational management of local authorities’ operations in
line with decentralized functions and mandates:

1. The analysis of the state of local democracy was assessed in terms of gender representation, involvement of citizens in decision-making, administrative efficiency of local authorities, access of citizens to information and decisions of the council, representation and the operational dynamics of the councils such as meetings of the council, keeping of records, and the attendance of elected councillors.

2. The human resource and staffing was assessed in terms of capacity, adequacy and competencies of staff. The relations of the staff with the councils, supervision of staff, and the organization of staff at the local level.

3. The inter-governmental relations and powers of local authorities were assessed in terms of the competences of local authorities in relation to the central government, the services provided by the local authorities, the competences and role of chieftainship, the model of decentralization, and role of central government.

Part 2: Diagnostic of fiscal decentralization:

1. The Local authorities resource base has been analyzed in terms of:
   - Revenue pool (sources of revenue)
   - Equipment and facilities at the local level
   - Management of resources and revenue
   - Fiscal powers of local authorities
   - Financial status, trends and revenue gaps
   - Performance in terms of procedures for issuing and collecting local revenues
   - Management of the local sources of revenue such as markets

2. The Local planning budgeting and accountability have been analysed in terms of control of planning and budgetary processes, downward and upward accountability mechanisms, respect of rules and procedures, methods for budget forecasting, accounting status, and competency of local authorities.

3. The Fiscal intergovernmental relations were analyzed in terms of the powers of local authorities in relation to the central government, the transfer system and/or model between central government (and other development partners) and local authorities, and the operation of the Integrated Financial Management Information System (IFMIS) at the district and local community level.

Disclaimer

This report is prepared for and intended for use by the Ministry of Local Government, Chieftainship and Parliamentary Affairs, UNDP, UNCDF, Partners in the DDP and any members these parties may expressly authorize to use the report. The circulation and use of the contents of this report are therefore limited, and any analysis and interpretation of the contents of the report should be made within the context of the Terms of Reference (ToR).
Inception stage

a) Consultations and literature review
The Team circulated a preliminary survey prior to arriving in-country. The team received a wide range of responses to this preliminary survey that were very useful in informing the Inception Report of the main issues and challenges for decentralization in Lesotho. On arrival in the country, the team undertook briefings and consultations with key stakeholders in Lesotho regarding the expectations of the team’s deliverables. These included the government units closely involved with decentralization such as the MLGC, Accountant General and Auditor General, and the development partners involved with the DDP and decentralization in Lesotho including UNDP, UNCDF, GIZ, Irish Aid, World Bank, and the EU (financing partner).

Extensive literature review was carried out by the team. The team obtained a wide range of documents and materials from government officials and development partners on the extensive work carried out regarding decentralization in Lesotho. Secondary data, particularly regarding fiscal operations, was collected from MLGC, Accountant General’s office and development partners. The full list of documents and materials collected is provided in Annex 1. The team prepared and issued its Inception Report based on the knowledge and understanding acquired at this stage.

b) Preparatory work for field activities
The team’s approach to data collection in councils utilized both qualitative and quantitative (structured survey) data collection methodologies. Information generated through the above process was enriched with secondary data such as those from national and local government reports and other important documents for cross-referencing purposes collected at the national level.

The team was also introduced to and gave a preliminary briefing on the assignment to the regular monthly meeting of the District Administrators and District Council Secretaries in preparation for field visits.
The team prepared an investigation protocol (see Annex 4) which was the main instrument used for collecting data in the councils. In consultation with MLGC, UNCDF and UNDP, the basis for selecting the districts for the study sample and key respondents was determined. The selection was meant to ensure a balanced representation across the country and to obtain representative views of local authorities. In each sample district, the team was to meet the district council, one urban council and one community council. Maseru Municipal Council was also to be covered in the selection. The key respondent officials were the DA’s office (including the Economic Planner and the Accountant), the District Council Secretary and Chairperson, the Community Council Secretary and Chairperson, and the Town Clerk and finance staff in each council. Letters were sent out by MLGC prior to field activities.

### Field activities

Field activities took place between 10th September and 1st October. The team was accompanied by representatives of UNDP and UNCDF to these field visits. The list of councils visited by the team, and their dates is provided in Figure 1, below:

**Figure 1 - List of Councils included in the field visits**

<table>
<thead>
<tr>
<th>Dates</th>
<th>Field Visits to councils</th>
</tr>
</thead>
<tbody>
<tr>
<td>10th to 11th September</td>
<td>Leribe&lt;br&gt;• DA’s office&lt;br&gt;• DCS&lt;br&gt;• Town Clerk, urban council</td>
</tr>
<tr>
<td>11th September</td>
<td>Botha-Bothe&lt;br&gt;• DA’s office&lt;br&gt;• DCS&lt;br&gt;• Town Clerk, urban council</td>
</tr>
<tr>
<td>12th to 13th September</td>
<td>Maseru&lt;br&gt;• DCS&lt;br&gt;• Chairperson, Mohlakeng community council</td>
</tr>
<tr>
<td>15th to 16th September</td>
<td>Mohale’s Hoek&lt;br&gt;• DA’s office&lt;br&gt;• DCS&lt;br&gt;• Town Clerk, Mohale’s Hoek urban council&lt;br&gt;• Chairperson and Representatives of Thaba-Machele, Khoelenya and Siloe community councils</td>
</tr>
<tr>
<td>17th to 18th September</td>
<td>Thaba-Tseka&lt;br&gt;• DA’s Office&lt;br&gt;• DCS&lt;br&gt;• Thaba-Tseka urban council&lt;br&gt;• Mphe Tenesolo Koi community council</td>
</tr>
<tr>
<td>30th Sep to 1st October</td>
<td>Maseru municipal council&lt;br&gt;• Office of the Town Clerk</td>
</tr>
</tbody>
</table>
Validation and report writing

Once the field work was completed, the team proceeded to clean up the data and analyze it. To the extent possible, the team attempted to link qualitative findings with quantitative data. The team prepared a draft report based on these findings, drawing conclusions and recommendations from them. The following process was undertaken to validate the findings of the team:

A National stakeholder validation workshop was held on Thursday the 26th of September.

The workshop brought together officials of the MLGC, MoF, DCS and other officials of local authorities, and development partners. Participants generally agreed with the findings of the report. Some of the key issues arising out of this validation are listed below:

- Local government should be recognized as a second tier of government in law and in practice. This is missing.
- Community members’ involvement in public gatherings has lost pace because expectations are often not met. As a result, citizens are losing interest in the process.
- Participants felt the DA’s office oversteps its limit, usurping the powers of local authorities.
- Gender representation is biased towards women. It was important to explain why men are fewer and to note that women can also be caretaker chiefs.
- It is important to appreciate women’s representation and their impact on decision-making.
- Participation in the budget formulation is limited by the continued use of budget ceilings by central government. Local authorities need to be involved in negotiating better systems.
- The Local Government Act needs to provide more clarity on the mandates of urban councils.
- The report should also cover the role of civil society organizations in service delivery in districts.
- The report needs to raise the issues of coordination of programs and projects in the community councils. This is a challenge to be addressed in the policy.
- The Public Finance Management and Accountability Act 2011(PFMA) should be limited to central government, while regulations are provided separately for LGs. The section on legislation needs to cover procurement as well.
- The report should clearly make recommendations to establish an internal audit function within districts.
- There is need to provide further clarity on the systems of incentives to be included in the fiscal framework with regard to revenue collection and financial statements.
- The report should clearly recommend the need to strengthen the accounting function at community council level by, among others things, raising the competency requirements for Accounts Clerk.

A draft of this study was presented to MLGC management, led by the Principal Secretary on 2nd Oct, 2013 at the Ministry offices. MLGC agreed in principal with the findings of the report. The following comments and proposals were made at this meeting:

- Rather than amend the PFMA, the study should consider establishing a separate financial management law for local authorities but maintain a link with the PFMA.
- Need to streamline legislation – for example harmonizing Part V of the LGA with the PFMA and financial regulations of councils.
- In the way forward, reforms related to fiscal decentralization should be introduced earlier to commence as soon as the policy is completed so that the impact is immediately visible.
- The report should take a more balanced approach, recognizing what is achieved in decentralization and not just challenges.
- The development budget should be captured in the analysis of resources to local authorities to provide a more complete picture.
- Financial incentives to local authorities should be expanded.

Study limitations

Time was a constraint. Field work needed more time, particularly in view of the entities covered. In some cases, the team was not able to meet with heads of units because of the limited flexibility in time allocated to each visit. In such circumstances, the team worked with assistants. The team received a great deal of data, but in a number of instances, particularly in community councils, data was not always available and the team had to rely on the statements made by officials in these councils.
Part 1 - Institutional and organizational framework of LGs


1.1 Central government institutional framework for decentralization

Lesotho has a bicameral parliament. The two houses that make up the Parliament are the elected National Assembly (lower house) and the hereditary and appointed Senate (upper house). The National Assembly comprises 120 members elected through the mixed-member proportional (MMP) system; two thirds are elected according to the first-past-the-post electoral system (one member per constituency) and one-third by proportional representation (the ‘party list’ form of system). The term of office for members of Parliament may not exceed five years. The Prime Minister is the leader of the majority party in the National Assembly and the King appoints ministers from either house to the cabinet, known as the Council of State, on the advice of the Prime Minister. The Senate comprises 33 members; 22 are Principal Chiefs while 11 are nominated by the King on the advice of the Council of State.

The Minister of Local Government, Chieftainship and Parliamentary Affairs (MLGC) is responsible for the administration of the Local Government Act 1997. Functions of the MLGC include coordinating the implementation of Government’s decentralization policy including integrating it with the chieftainship in Lesotho. Accordingly, it provides policy direction and support for local authorities. The Ministry has established a directorate for Local Government Service headed by a Director General with responsibilities for supervision and coordination of local authorities’ development.

1.2 Administration of functions under decentralization

Decentralization in Lesotho remains a mixture of de-concentration and delegation. Notwithstanding the mandates assigned to local authorities under the Local Government Act 1997, many functions continue to be executed by central government ministries through de-concentrated offices in a form that has created parallel structures within districts. Each service ministry continues to have a department in each of the districts to execute its services. The list of ministries with de-concentrated offices within districts is listed in Figure 2 below. This system has limited the implementation of mandates by local authorities as assigned under the Local Government Act.

However, the team also learned about on-going efforts under the Inter-Ministerial Working Group which is chaired by the Director General of Local Government Services, to identify functions within each sector that require it to be devolved in accordance with the law (LGA) and to begin a process of transferring these services together with staff to local authorities. This process was at an advanced stage in the case of Ministry of Public Works and Transport. In this regard, district councils already have positions relating to road maintenance, for example, operators of road equipment (motor graders, excavators, rollers, dozers) and heavy duty drivers.

It will be important to continue to support this process, particularly in line with the policy on decentralization, once it is completed.
Figure 2: List of government Ministries with district offices

- Agriculture and Food Security
- Education and Training
- Forestry and Land Reclamation
- Gender and Youth, Sports and Recreation
- Health and Social Welfare
- Local Government, Chieftainship and Parliamentary Affairs
- Natural Resources
- Public Works and Transport
- Tourism, Environment and Culture
- Trade and Industry, Cooperatives and Marketing
- Finance and Development Planning

1.2.1 District administration offices:

Government has established a District Administration Office in each district, headed by a District Administrator who represents the interests of the central government at this level, and coordinates de-concentrated functions of central governmental covering all sector ministries as discussed above. DAs are political appointees but report to and are supervised by the Principal Secretary of the MLGC. DAs in general have a staff complement consisting of officials below:

Figure 3: Typical List of key positions supporting the District Administrator

<table>
<thead>
<tr>
<th>Position</th>
<th>Number of staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assistant Administrator Officer</td>
<td>1</td>
</tr>
<tr>
<td>Senior Economic Planner</td>
<td>1</td>
</tr>
<tr>
<td>Finance Manager</td>
<td>1</td>
</tr>
<tr>
<td>Senior Accountant</td>
<td>1</td>
</tr>
<tr>
<td>Procurement Officer</td>
<td>1</td>
</tr>
<tr>
<td>Human Resource Officer</td>
<td>1</td>
</tr>
<tr>
<td>Senior Information Officer</td>
<td>1</td>
</tr>
<tr>
<td>Rural Development Officers / LG Assistant Development Officer</td>
<td>Often more than one</td>
</tr>
<tr>
<td>Land and Survey Officer</td>
<td>1</td>
</tr>
</tbody>
</table>

DAs are concerned that their role in the districts is becoming increasingly reduced. Their mandate in the context of decentralization (de-concentration) is not backed by any legal instruments and, although they are required to oversee central government functions in the district, “in reality, we have limited involvement as departments are supervised by their headquarters. Our role is reduced to ceremonial—only dealing with protocol”.3

1.3 Role of the chieftainship local government system

The GoL’s system of governance follows a two tier structure. The one tier is chieftainship (traditional system), and the other tier consists of democratically elected representatives, some of whom are appointed as the executive members. The King is traditionally and politically expected to reign4 and not to rule.5 The power of ruling is jointly exercised by the

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3 Leribe DA’s representative.
To hold a royal title and be head of state while possessing only limited (ceremonial) powers, as in a constitutional monarchy. Basotho perceive their King just as a symbol of national unity supposedly to be politically neutral in national politics. The college of chiefs constitutionally declares the heir along the patriarchal succession lines or the regent but who need not be a male choice.

chiefs and the elected politicians in the constituencies through the Parliament and the Senate as well as through the LGUs, encompassing their representation at the community (community council), district (district council) and MCC level.

Chiefs are the custodians of the Basotho culture and traditions. As traditional leaders, Chiefs have to contribute towards stability, safety, peace and tranquillity of people under their charge. Their functions include: (a) to help people identify lost items including livestock; (b) to uphold the rule of law, to prevent crime and to charge offenders (petty/minor offences); (c) to protect community development projects; and (d) to keep records of birth, death and marriages of their people.

Twenty-two (22) principal chiefs rule over wards, 1,200 customary chiefs under the principal chiefs look after demarcated areas in the ward with the help of 506 village chiefs/headmen in the communities. The 22 principal chiefs form a significant membership of the Senate (Upper House). This position has enabled them to oppose and frustrate the passing of new laws to reform and redistribute their traditional political powers to the LGUs.

In the districts and communities that the team visited, the chieftainship has a central role in citizens’ day-to-day activities in settling disputes and advising community councils on key issues and concerns of the community. However, Chiefs argued that while they elect their representatives to community councils, they should also be members of a body that works with councillors at the district council level. Chiefs often stated that the central government wanted to eliminate the Chieftainship system. Some Chiefs complained to the team of discriminatory approaches of the MLGC between themselves and councillors. The main area of conflict is the change of authority over grazing land compensation and land allocation.

1.4 Local government institutions and organization

Local governance policies in Lesotho aim toward the following broad objectives:

1. To deepen and widen public access to the structures of government.
2. To bring services closer to the people thereby improving service delivery.
3. To promote people’s participation in decision-making, planning, and implementation of development programmes.
4. To promote equitable development in all parts of the country through the distribution of human, institutional, and infrastructural resources.

1.5 Legal bases for local government

Local government in Lesotho enjoys a constitutional status. According to the country’s Constitution (Section 106.1), “Parliament shall establish such local authorities as it deems necessary to enable urban and rural communities to determine their affairs and to develop themselves. Such authorities shall perform such functions as may be conferred by an Act of Parliament”.

In 1997, the Parliament passed a Local Government Act. Amendments to this Act were enacted in 2004, 2007, 2010 and 2011 which among others reduced the number of local councils ahead of the 2011 elections, and ensured that one third of all seats were reserved for women.

5 To exercise sovereign power or a controlling influence over a country, especially to pass laws for a country.
7 Constitutional provisions: The constitution mandates Parliament to establish local government. Section 106 stipulates that: ‘Parliament shall establish such local authorities as it deems necessary to enable urban and rural communities to determine their affairs and to develop themselves. Such authorities shall perform such functions as may be conferred by an Act of Parliament.’
In 1998, a Local Government Election Act was passed which provides guidance for elections of the Local Government councillors; it outlines procedures, rules and regulations for the conduct of the Local Government election process.

Local Government Regulations were gazetted in 2005 to guide the conduct of the business of councils. The Local Government Service Act 2008 as amended provides the legal framework for the establishment of a Local Government Service.

MLGC is continuously reviewing these pieces of legislation to accommodate the expansion of the system through decentralization of functions from line Ministries, to address challenges that arise in the implementation of decentralization policy, and to ensure that legislation strengthens and protects the local government system.

### 1.6 Organization of local government councils

Local government is predominantly two-tier, with district councils as the upper tier and community and urban councils as the lower tier. There are in total ten district councils, 64 community councils, 11 urban councils and one municipal (city) council. According to the local government legislation, urban areas have single-tier municipal or urban councils. The capital Maseru has its own unique single-tier authority, the municipal council. In rural areas, directly elected community councils are the lower tier and the indirectly elected district councils representing community councils are second tier.

#### 1.6.1 District councils (DC)

The team found that, following the 2011 elections, district councils are well constituted consistent with the law. District councils (DC) consist of members who are indirectly elected. Two members are nominated by each community council among its members, one of which must be the chairperson of the community council. Traditional authorities are represented through two gazetted chiefs of the district, who also have to be members of the community councils. The chairperson serves as the head of the elected body, presides over all meetings of the council and is responsible for giving policy directives to the DC Secretary.

#### Figure 4: List of the current district councils in Lesotho

1. Berea
2. Mohale’s Hoek
3. Botha-Bothe
4. Mokhotlong
5. Leribe
6. Qacha’s Nek
7. Mafeteng
8. Quthing
9. Maseru
10. Thaba-Tseka

#### 1.6.2 Urban councils (UC)

Urban councils represent gazetted urban settlements within districts. An urban council is administratively headed by the Town Clerk who is the Chief Executive Officer of the council, while the political head is the Mayor. Members of urban councils are directly elected.
Whereas Councils are established as corporate entities, they have limited or no powers over many functions assigned to them. In practice, Councils have a delegated relationship with the MLGC. Many councils expressed frustration that they have been unable to establish bylaws over the functions assigned to them…

Community councils consist of a minimum of nine and a maximum of 15 elected members. The membership includes a maximum of two gazetted chiefs, who are nominated by the chiefs in the community council area. Each elected councillor serves a period of five years from the date of elections. There are currently a total of 1508 elected community councillors—54% of which are women and 249 chiefs in councils.

All councillors, including mayors and chairpersons, are remunerated at rates determined by central government.

Whereas Councils are established as corporate entities, they have limited or no powers over many functions assigned to them. In practice, Councils have a delegated relationship with the MLGC. Many councils expressed frustration that they have been unable to establish bylaws over the functions assigned to them…

1.6.3 Municipal council (MC)

The Municipal Council is only found in the Maseru City. The Municipal Council is administratively headed by the Town Clerk, referred to as the Chief Executive Officer of the council while the political head is the Mayor.

1.6.4 Community councils (CCs)

Community councils consist of a minimum of nine and a maximum of 15 elected members. The membership includes a maximum of two gazetted chiefs, who are nominated by the chiefs in the community council area. Each elected councillor serves a period of five years from the date of elections. There are currently a total of 1508 elected community councillors—54% of which are women and 249 chiefs in councils.

All councils are required to establish a standing committee on finance and planning. They have discretion to establish other committees including further standing committees, special committees and joint committees involving more than one council. Discretionary standing committees have been established by some councils for land administration and management, and for social services.

All councillors, including mayors and chairpersons, are remunerated at rates determined by central government.

1.7 Gender representation

According to the law, at least one third (33%) of the members of all councils must be women. After the local elections in 2011, women’s representation went down to 49% (from 58% in 2005). Whether or not they actively participate in decision-making processes is an open question. The one third reservation of special seats for women does not necessarily serve women empowerment. Women occupying these seats are still elected or selected within male dominated party leadership. Special seats for women remain party seats thus limiting women to go full force. Lastly, the one third representation has not translated into any institutional arrangement to support these women to challenge development, political, economic and social orthodox paradigms that perpetuate the subordination of women.

Given the above, the team was surprised to continually find that women at the local government level are so predominant. Time and time again the team would find themselves in meetings mostly with women at local councils. Generally speaking, more than half of the district and community council members were women. This also seemed to be true for key office staff.

1.8 Functions assigned to local governments

Key local functions and services of local governments are stipulated in the Local Government Act. These functions are further detailed in the table below. However, councils expressed their inability to perform many of the functions assigned to them, citing limited financing and staff resources or parallel structures of central government which continue to execute the many functions in a de-concentrated form.
**Figure 6: Schedule 2 of the Decentralization Act, LG mandated functions**

<table>
<thead>
<tr>
<th>LG Type</th>
<th>Prior Exec</th>
<th>Chief Exec</th>
<th>Description</th>
<th>Functions</th>
</tr>
</thead>
</table>
| **Municipal councils**   | Mayor      | Town Clerk | There is one local authority of this type, the City of Maseru Council. All its councillors are elected to represent a single-member division for a term of up to five years and the non-executive mayor is indirectly elected by councillors from amongst themselves. Membership consists of not less than 7 or more than 13 elected members, and 1/3 of women obtained in a council, including not more than 3 nominated gazetted chiefs. | • Management of functions outlined in the Local Government Act 1997  
• Monitor performance of Municipal Councils (MCs) in the provision of services.  
• Assist and support MCs in the provision of services.  
• Monitor performance of line ministries and other service providers in the Municipality  
• Coordinate activities of service providers in the MCs  
• Monitor the implementation of the MC plan  
• Converge sources of funding to respond to the priorities of MCs |
| **11 Urban Councils**    | Chairperson| Town Clerk | Membership consists of not less than 7 or more than 9 elected members, and 1/3 of women obtained from electoral divisions in a council, including not more than 2 nominated gazetted chiefs. | • Area Economic Planning  
• Access roads  
• Secondary roads and Traffic  
• Physical planning  
• Land Use planning  
• Land allocation  
• Agriculture and veterinary services  
• Control of Natural Resources  
• Pollution and Environmental Conservation  
• Refuse Collection disposal  
• Water Supply  
• Food Inspection and hygiene  
• Public Market Control  
• Sports and Recreation  
• Cemeteries and Burial grounds  
• Pre-primary and Secondary Education  
• Libraries and Resource Centres  
• Maternal and Child care  
• Abatement of public nuisances  
• HIV and AIDS Coordination |
| **10 District councils** | DC Chairperson | DC Secretary (DCS) | Members are indirectly elected via attendance of the chairpersons and a further member of each community council. In addition there are two gazetted chiefs representing all community councils in the district. The non-executive chairperson is elected by councillors from amongst themselves. | • Area Economic Planning  
• Access roads  
• Secondary roads and Traffic  
• Physical planning  
• Land Use planning  
• Land allocation  
• Agriculture and veterinary services  
• Grazing Control  
• Control of Natural Resources  
• Pollution and Environmental Conservation  
• Refuse Collection disposal  
• Water Supply  
• Food Inspection and hygiene |
Similarly to the municipal council, all councilors at this level are elected to represent a single-electoral division for a term of up to five years. The non-executive mayor is indirectly elected by councillors from amongst themselves.

- Public Market Control
- Burial grounds
- Identify and discuss local opportunities and needs
- Formulate, implement, monitor and evaluate community-based plans
- Provide a forum of contact between and among community representatives,
- Local leaders and politicians to enhance the flow of information.
- Represent community in development matters and act as a source of communication to the District Council Level.
- Reference point in matters pertaining to community development
- Coordinate development activities of local agencies to enhance smooth planning and implementation.
- Coordinate national activities as outlined in the Local

• The Chieftain department is responsible for the overall guidance and support of 4994 Chiefs in the execution of their duties.
  • It is also responsible for the formulation and development of the policies within which the Chieftainship institution is expected to operate.
  • Within chiefs’ areas, pitso (public gatherings) are held, in some cases periodically. These open meetings provide opportunities for participation. In terms of gathering the views and needs of the people under the Chiefs’. Chiefs are ex official members of community and district councils. But are also authorities themselves in terms of chieftainship Act, 1968.
  • Ensure that succession rules are strictly adhered to in terms of the law.
  • Ensure that every incumbent of the office of chief is duly authorized to carry out the duties and exercise the powers of that office.
  • Facilitate and provide training to enable chiefs to perform their duties effectively and efficiently.
  • Assume the role of last level of appeal for administrative disputes emanating from the office of chief.
  • Serve as a repository of technical and legal advice for chiefs to draw from as and when the need arises.
  • Cause to be defined the boundaries of chiefs’ physical areas of authority.
  • From time to time, cause to be reviewed and amended the Chieftainship Act of 1968, to harmonize it with the Constitution and other laws and also, to fine-tune it to respond effectively to the ever changing needs of our society.
  • Serve, as a watchdog to ensure that chiefs do not engage in any activity or behave in any manner that is prejudicial to public safety or to public order.
  • Ensure that the institution is ready at all times, through its arm, the College of Chiefs, to respond to Its constitutional call in the event of the absence of their Majesties.
  • Deal with general complaints from members of the public in relation to the Institution as a whole.
1.9 Local government administration

Each district and community council has a Local Government Service staff complement to assist in the operations of the councils. General staff structures of councils are outlined in the table below.

### Figure 7: Typical Staffing structure for Councils

<table>
<thead>
<tr>
<th>Function / Position</th>
<th>District Council</th>
<th>Mun. Council</th>
<th>Urban Council</th>
<th>Community Council</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Council Secretary / Town Clerk</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2. Human Resource Manager</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Senior Legal Officer</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Finance Manager</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Senior Accountant</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Procurement Officer</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Assistant Procurement Officer</td>
<td></td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>8. Principal Technical Officer</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Senior Technical Officer</td>
<td>Over 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Executive Secretary</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Survey Technician</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Assistant Physical Planner</td>
<td>Over 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Assistant Administrative Officer</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>14. Clerical Assistant</td>
<td></td>
<td>1</td>
<td>1 or 2</td>
<td></td>
</tr>
<tr>
<td>15. Accounts Clerk</td>
<td>1</td>
<td>1 or 2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The positions in the table above exclude support staff (messengers, cleaners or drivers) and sector positions related to district roads maintenance in the office of the DCS.

Each council must have a Council Secretary (or Town Clerk in the case of Maseru Municipal Council) as the head of its paid service. The Council Secretary manages the political and service delivery processes on a day to day basis.

DCS have to depend on the DA’s cooperation to access their staff. However, the DA’s staff is not fully accountable to them. These include Economic Planner, Local Government Assistant Development Offices or Rural Development Officers, and rangers who are charged with monitoring animal grazing. DCs expressed the need to transfer these officers directly under the supervision of the DCS.

The team was informed that an earlier assessment had established that many positions were filled with unqualified staff.

Qualifications of staff at the councils vary and there is often a lot of turnover. Councils’ staff members are not always qualified for their positions and have very little opportunity for training. The MLGC established the Local Government Service Commission as provided by the Local Government Act 1997. The Commission has the power to declare and fill posts for local councils. Moreover, if council staff pursues a higher level of experience and qualifications, they often try to obtain jobs at the Ministries.

Service delivery requires the availability of reliable and competent staff in the administration if decentralization is to be effective. The Commission will need to continue efforts in ensuring staff are recruited on merit and possess the requisite qualifications.

Institutional stability requires long-term strategies matched to the capacity of the councils. Coordination mechanisms must be in place to enable good interaction and cooperation between the institutions. This includes establishing basic transport, communication and office infrastructure, which is often lacking or not working, especially at the CC level. Very few councils have internet access, which is vital for communication. The absence of minimum office equipment and access to telecommunication infrastructure also hampers...
the level of efficiency in administering local communities. Institutional stability requires long-term strategies matched to the capacity of the councils. Coordination mechanisms must be in place to enable good interaction and cooperation between the institutions. This includes establishing basic transport, communication and office infrastructure, which is often lacking or not working, especially at the CC level. Very few councils have internet access, which is vital for communication. The absence of minimum office equipment and access to telecommunication infrastructure also hampers the level of efficiency in administering local communities.

1.9.1 Administrative efficiency of local authorities

At the LG level, the Study Team found confusion in terms of the roles, responsibilities and authority of DA’s office and the councils. It was not always clear who has to take responsibility for performance and discipline at the district level. However, the Team found that, how these two operated and coordinated their work often had to do with the personal relationship between the DA, DCS and CCS.

Council administrations are often too weak to facilitate the delivery of all services mandated to them. During the various interviews with councillors and staff, the Team confirmed that the MLGC has not provided enough support and organized facilitation of decentralization for local development delivery. The councils’ staff and councillors have not had the required training in development planning, technical and financial management support. Moreover, the building facilities are often in poor condition and the different sector administration buildings are often not in close proximity. For local governments to operate effectively on day-to-day bases, it would be preferable to have, for example, the district council, DA, urban council, and sector heads housed in the same complex. When the Team visited Botha-Bothe, they first met with the DA who was able to quickly organize meetings with the economic planner, Town Clerk, the DCS and Chairperson who were all housed in the same complex. On the other hand, in Leribe, the Team had to travel to different locations to meet these same people.

Councils in remote and rural areas find it difficult to attract qualified staff and have no option but to hire temporary unskilled and inexperienced staff. Councils that are closer to Maseru can recruit more qualified staff, but as these staff gain more experience they often try to transfer to better paying central government jobs. The local government administrative system has declined in efficiency and relies on central government’s support that is often unresponsive because of their own bureaucracy burdens.

The efficiencies of councils are greatly hampered because current grants are perceived as inadequate. Each year the district council prepares and submits a number of priority projects that were discussed at the community and council levels and voted on. For example, in Botha-Bothe, the DCS showed the team a number of fairly well prepared project proposals that had a ‘project cycle’ budget, timetable and recurrent cost attached to them. The 7 or 8 projects submitted for funding ranged from 400,000 to 750,000 rand. However, the MLGC only provided 460,000 rand ($46,000 USD) for that fiscal year. The DCS stated they had no option but to select a project under 460,000 rand, or use the provided amount towards beginning another higher project and wait to complete it the next year.

Moreover, at the community council level, the Study Team was told that CC’s could submit priority projects by April 3rd of each year for funding consideration. However, the CC’s struggled (no transport, computers, internet, printers, etc) to prepare such project proposals and submit them to the DCS for approval. As a result, they experienced many delays in the submission process and often were told by the Ministry it was too late to fund their projects.

Local government is meant to empower local communities to deal with their development issues. Funding issues like above have caused a lot of misunderstandings and lack of confidence by communities for councils to deliver on their promises. While the design of the first stage of decentralization was worked out in the centre, local authorities and communities did not get a clear enough picture of the initial steps, which created the expectation that more development was expected immediately.
1.9.2 Competences of local authorities in relation to the central government

As previously outlined, the local authorities face many challenges and issues in relation to the MLGC. During a National Conference, the MLGC pointed out several challenges in implementing decentralization. The foremost issue cited was the inadequate information and understanding of what decentralization entails.

One of the key problems for the present form of decentralization in Lesotho is that virtually all of the resources and staff are maintained at the central government ministries and implemented by the DA’s office, while the councils are expected to deliver services. For an effective system of local government, it will be necessary to shift more competences to local authorities at the district level.

1.10 Citizens participation, access to information, decisions making

The accountability of public services requires local citizen participation. For effective local citizen participation, several factors are required, such as: district and community councils having regular discussions with citizens and chiefs; seeking out opinions of local people; making local people administrative agents; establishing elected officials at the local level as representatives of local interests, making council administrators accountable to local citizens; giving local authorities control over policy and development programmes; and over fiscal resources.

Citizens participate during council’s elections and project/programme priority setting. The structures are there, but actual decision-making is still limited. Many decisions come from central government. This improved after the 2012 elections (e.g. district conferences with public consultations were held in 2012). Councillors consult citizens but this approach normally lacks a deeper engagement and exchange. Councillors should retain a strong link with communities as contemplated in the Local Government Regulations 2005.

Citizen participation in districts is also constrained by trust issues in leadership, political awareness, commitment and skills, well established and functioning community institutions and organizations, fair resource management, fair elections for elected officials, involvement of citizens in financial matters at all levels, local and involvement of disadvantaged groups, the disabled, the very poor and women.

Community councils and Chiefs provide for citizens to be heard and gain awareness about governance issues. Councils reported the use of public gatherings to facilitate interactions with citizens in planning and reporting on the implementation of programs. This process lost enthusiasm over time as citizens’ expectations were not met and in the face of limited feedback on issues affecting program implementation.

The problems communities face is how they can truly make their development needs and priorities heard by the councils. It is the role of the MLGC to coordinate with other ministries.

9 A National Dialogue for Local Councils to enhance service delivery, 10-11 December 2012.

to manage grants to councils, but the MLGC requires a more stream-lined administrative structure and institutional strengthening. Development plans can provide a clear mechanism to make their requirements and priorities for future projects known to the MLGC, as well as a tool to lobby directly to donors for funding assistance. At present, councils only decide on priority projects and request the DA’s office (Economic Planner) to prepare the project proposals.

Citizens do not always have access to information and decisions of the council. There needs to be a more structured feedback and information sharing mechanisms for citizens in place. There is no deliberate withholding of information, but citizens are unsure that councils are accountable to them. They do not know what priorities have been approved and implemented. Regulations allow people to attend council meetings and have access to council minutes. Councillors are mandated to consult with people before attending the meeting and afterwards, which they do not always do. Moreover, the fact that the Local Government Act is written...
in English (as is most legislation in Lesotho), acts as a deterrent for the communities’ understanding of their rights and responsibilities. However, councils pointed out that the Chieftainship Act has a Sesotho version that helps communities to understand their rights and duties.

The Team found that councils and citizens have gained new hope that the new ‘Decentralization Policy’ will lead to much needed reform and restructuring of the local government system that will bring greater authority and financial autonomy to the councils and promote greater participatory planning process, clarify roles and responsibilities and accountability. In all the interviews that the Team had at the local level, people, organizations and institutions expressed very openly their desire to see local government in Lesotho fully institutionalized and successful.

1.11 Service delivery by local governments

The continued implementation of de-concentrated functions is limiting the role and visibility of councils in service delivery. Many of the key socioeconomic functions (health, education, agriculture, water, etc.) which affect citizen’s well-being continue to be planned for and delivered directly by central government. This system is affecting the image and profile of councils as agents that can impact services among the citizens.

The Team also received many comments and complaints from councils regarding other factors that limit their efforts to effectively serve their community. They attributed this state of affairs to poor cooperation and support received from the central government. Most of the problems councils raised related to budget forecasting, delays for local financing, and insufficient budget allocation promised to them in the form of grants from central government.

Staffing and competences are other key factors limiting the delivery of services by councils. Low staff complements are affecting service delivery such as in the Maseru Municipal Council (MMC) which has responsibility for two clinics in the city. Council staff reported that until late 2000s these clinics were the envy of everybody, including competitors. However, key staff has since left leaving the clinics to run with one nurse and an assistant nurse. This in turn has led to a degradation of services. The story about gaps in staffing positions is common among councils. This situation is not helped by the slow recruitment process through the Local Government Service Commission. Maseru MC is getting six (6) new nurses after more than a year since submitting their request to the Commission.

Low funding and an inability to raise revenues locally have hampered councils’ efforts to deliver service. Councillors expressed frustration that as elected members that made promises to their communities but they could not move forward on their commitments because of the lack of financial resources and of the conflicts regarding land allocation, grazing rights, roads, etc. To make matters worse, budget allocations to the councils have been cut for this year’s budget (2013/14) to the point that they cannot even keep up with their running (overhead) cost, salaries, etc. Many councils confirmed the accumulation of arrears (outstanding debts to suppliers). The Team appreciated the challenges councillors had related regarding solid waste management, drainage, soil erosion, keeping utilities (electric and water) running and maintaining such basic services as public toilets.

Councillors often stated they do not receive enough support and feel caught between a relatively rigid system that does not appreciate their community value and the communities.
The Team found that the implementation of local government is welcomed by the majority of people they met with, especially in the rural communities. However, most citizens, councils and their staff feel that their expectations of having a chance to promote real changes through local decision-making have fallen short. They have become frustrated and confused by the lack of coordination between the councils, MLGC, and the DAs office as described below:

In virtually all districts visited, there was a general lack of understanding regarding the roles and responsibilities of LG officials, which includes the DA’s office responsible for all the sector line ministries. The ‘parallel’ system of local governance and the lack of understanding of the legal mandates and general coordinating roles and responsibilities contribute to confusion and lack of coordination.

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Relations between the DA and councils are not always working properly. Councils have complained that DAs have a staff complement which they do not need, but they have been reluctant in making these staff available to council programs. Councils have also pointed to the increasing tendency of DAs to usurp their powers such as in making budgetary decisions. One council member stated that “central government ministries and the MLGC treated them like children that are not old enough to make their own decisions, rendering the councils idle.” Councils have also raised complaints regarding line ministries’ departments. These departments have not always cooperated with DCSs, as in the case in Thaba-Tseka, where priorities and commitments were at issue. Community and urban councils have also raised concerns about excessive control of the DCS over them, particularly with regard to budget decisions. Cases were cited where budget allocations have been made without consulting CCs.

Intergovernmental relations remain a challenge particularly in view of the incomplete process of decentralization (many functions are still under the control of central government ministries) and the lack of clarification about the relation between district and lower councils.

There have been efforts to improve coordination among government, including the use of a DDCC in Mohale’s Hoek for coordinating district planning, and the establishment of district forums under a new initiative by the MLGC for coordinating district-level units in planning and budget formulation.

The MLGC is the main link between local authorities and the central government. District administrators also play an important facilitating role as they have responsibility for the performance of not just local government but also other public-sector bodies in their areas of jurisdiction.

1.13 Communication and feedback mechanisms

Communication and feedback mechanisms are a critical factor for accountability in inter-governmental relations. Community councils need to receive and provide information to district councils, and in turn, district councils need to communicate transparently with the central government. Communication must cover all aspects of interaction including on administrative and political issues, and on financial matters as well. Consultation with districts in the study revealed that:

- Councils at all levels have limited knowledge and understanding of decentralization and what their roles should be. There is limited awareness of the Constitution, the LGA and other legislation supporting decentralization as their dissemination has been limited. Not having translated these documents into local language, Sesotho, is another impediment to access.

- Communication and feedback mechanisms between district councils and central government are generally weak: (a) councils are not consulted and do not obtain timely information on budget revisions (cuts or changes), (b) councils do not often receive feedback on reports (for example expenditure and revenue reports) that they regularly provide to central government.

- Citizens do have information and are aware of the
The poor levels of communication have created distrust between layers of councils and with Central Government. Enhancing transparency through better communication should be a goal going forward. Practice of good communication will need to be included into inter-governmental administrative and fiscal processes.

1.14 Creation of a local government association

During meetings with the DG/MLGC, the Team agreed with the value-added in having such an association to assist local authorities during the long-term process of institutionalizing decentralization in Lesotho. A number of other African countries have realized the positive benefits of having a lobbying group to advocate directly for the needs of local authorities. It is recommended that such an association be put in place at the very early stages of decentralization so as to be embedded in the process from the beginning.

Local Government Associations (LGAs) serve as “watch-dog” groups and lobby on behalf of the local governments. Below are some of the functions the MLGC may wish to consider for such an organization:

1. Represent the interests of members (councils) and give them efficient/effective services.
2. Strengthen the unity of LGs through effective lobbying and advocacy for pro-LGs interests within the policy and legal frameworks as well as operational issues.
3. Champion accountability and transparency for improved and efficient service delivery through the LGA Charter on Accountability and
5. Help settle disputes.
6. Offer technical and professional advisory services to LGs on issues of policy and regulatory framework for decentralization.
7. Advocate for training for councils and staff to increase their awareness and capacity of decentralization.
8. Research and analyse evidence-based interventions to expand the knowledge and efficiency of the Lesotho local government system.
9. Promote quality assurance in the services/functions performed in LGs to conform to required standards and timely delivery.
10. Strengthen the institutional structures of the LGA Secretariat to mobilize and create partnerships and networks.
11. Work with other national and international level governmental and non-governmental counterpart organizations in the interest of promoting the local government system in Lesotho.

1.15 Recommendations under institutional and organizational framework

In view of the status and findings reached in the preceding sections, the following recommendations are made:

1. Clarify the model of decentralization (de-concentration, delegation or devolution). The local government’s actions and interactions with councils point to decentralization by devolution as the preferred model.
2. Reassess the functions assigned to local authorities in view of the policy position on the model of decentralization expanding clarity on the services to be provided by each level: central, district, municipality, community, and urban councils. In particular, grant clear roles and powers over services assigned to local authorities.
3. Clarify the roles and functions of the local governments and the specific nature of services to be delivered by the central government to the councils. This includes the recommended overall “Long-Term Strategy” for decentralization.

4. Develop a policy of human resources management in the context of decentralization. The policy should determine the sharing of recruitment, deployment supervision and reporting responsibilities between central government and councils. This should particularly cover the service delivery professionals—teaching staff, health workers, internal auditor, etc—and should be designed to ensure that less attractive districts and community councils are not marginalised in the distribution of services.

5. Review the position of the DCS as Chief Executive of the District Council to grant the position clear responsibilities as accounting officer for the district responsible to the council for delivering functions assigned to the district.

6. Develop a model structure of district, urban and community councils that will match the service functions assigned to councils.

7. Move district-planning staff from under the DA’s auspices to the Office the DCS.

8. Draft and implement a plan to align all institutions and processes at the centre and within districts to meet the model of decentralization. This should cover the crucial role of MLGC, MoF and sector ministries and should include very clear communication of the intentions of the agreed decentralization dispensation through a change management campaign, a clarification of roles, and a restructuring of institutions at the central government level.

9. Develop a plan for transferring service functions and de-concentrated departments to the office of the DCS in line with the decentralization policy.

10. Restructure the crucial process of budgeting and accountability to meet the requirements of decentralization policy.

11. Draft and disseminate administrative decentralization guidelines establishing a local government “set-up” for councils. These guidelines should cover the functions of the MLGC, council offices and administrative (civil service) staff in order to derive clearer roles and responsibilities to support the decentralization process.

12. Clarify roles and functions of all other institutions in decentralised governance.

13. Review the Local Government Act to align it with the decentralization policy.

14. Improve consistency and clarity in the laws and regulations for decentralization in order to strengthen decentralization setting.

15. Develop a strategy of communication and feedback to be integrated in all relations between central government and council and between layers of to improve information sharing.

16. Expand the capacity for the implementation of a broad-based local administrative system centring on a fiscal decentralization approach and on training and awareness for councils in long-term strategic planning. This includes additional training and capacity building curriculum for all council members and council staff.

17. Develop and implement a proposal for strengthening community participation and local governance in line with UNDP and UNCDF Deepening Decentralization Program (DDP).

18. Continue efforts under MLGC to establish a local government association and provide resources to enable it operate.

19. Clear decisions for each ministry and each function on the mode of delivery (devolution / de-concentration / centralised delivery. Service delivery standards and a timetable is required for change to occur over time).

20. Review the institutional set-up at the district and sub-district level in order to clarify reporting / accountability relations.

21. Prepare early for fiscal decentralization and for the possible establishment of a credible country-wide discretionary grant system (e.g. involving the Development Fund for Councils and DP projects; refer to the UNDP and UNCDF DDP on this matter).

22. Provide a leadership role in policy facilitation and co-ordinate guidance by the three cross-cutting ministries (MoFDP, MoPS and MLGC).

23. Coordinate the mechanism for all ministries (Steering group with PSs).

24. Review the legal framework to reflect the foregoing recommendations.

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10 Gerhard van ’t Land, Decentralization in the context of the Service Delivery Agenda (SDA), August 2009
Part 2: Diagnostics of fiscal decentralization

Introduction
Fiscal decentralization covers mechanisms through which resources are made available to sub-national levels of government for the purpose of meeting the costs of operations and services at those levels. Commonly, fiscal decentralization includes: (i) revenue sources including powers to generate and utilize local revenue and intergovernmental fiscal transfer systems; (ii) expenditure management systems which cover budget systems, allocation and distribution mechanisms of financial resources; and (iii) accounting and accountability arrangements. The purpose is to ensure that the local authorities have adequate financial resources to deliver decentralized services, the capacity to utilize these resources, and that they share equitably in the distribution of resources. Specifically, the diagnosis of fiscal decentralization under this study covers:

(a) Lesotho’s local authorities’ resource base, (b) local planning, budgeting and accountability, and (c) fiscal intergovernmental relations.

This section presents the findings of the study and recommendation in relation to fiscal decentralization in Lesotho. The main goal of the study is to provide a baseline of current practices and recommend indicators to monitor progress as decentralization continues to be implemented in Lesotho. The objectives of the Deepening Decentralization Project (DDP) –namely, to promote decentralized service delivery by increasing transparency in funding processes, and to strengthen accountability systems of local authorities–have been central to the discussion under this section.

Context
The Local Government Act (1997) as amended is the main legislation governing fiscal decentralization in Lesotho. Relevant clauses are provided in Part 5 - on local government finance. Additional legislation is provided to this issue through the Public Finance Management and Accountability Act (2009), mainly under Part VII on Local Governments. Its main emphasis is on relations between central and LG budget processes. Implementation of fiscal decentralization gained speed after 2005 following the election and establishment of local councils. Since then, councils have been involved with the collection of revenue, the preparation of development plans, and the preparation and implementation of budgets. Operational relations have been established with central government institutions primarily through the Ministry of Local Government, Chieftainship and Parliamentary Affairs. However, while past studies and consultations recognize the significance of progress made in implementing fiscal decentralization, considerable work remains to be done. The 2007 World Bank study observed that local governments continued to have limited fiscal autonomy particularly in their revenue and budget operations. Local authorities’ budgets, except Maseru MC, are wholly funded by central government through transfers from MLGC. Provisions for local revenue mobilization exist but are not enforced. These observations were supported by the Lesotho PEFA assessment of November 2012 and have been confirmed through the consultations with stakeholders during this study.

2.1 Legislation supporting fiscal decentralization

2.1.1 Legislation established through central government

There are five pieces of legislation guiding fiscal decentralization in Lesotho which have been examined in this study:

(a) The Local Government Act (1997) amended, establishes the planning function at the district (section 27-30 and Part VII) and provides specific clauses on financial management under Part V. Key areas relate to the management of public funds, borrowing, local revenues powers and administration, preparation of annual budgets and annual financial statements and audit.

Some clauses of the LGA are inconsistent in interpretation with decentralization. For example, while LGA envisages a devolved political process with the assignment of specific functions to councils under section 5,
section 30 (amended) recognizes the administration of some of these functions by de-concentrated units of central government. A review of the Local Government Act will be necessary to ensure consistency with the decentralization policy which is under formulation.

(b) The Public Finance Management and Accountability Act, 2009 (PFMA) provides specific clauses regarding local authorities under Part VII. The main focus of these clauses is the relation between central and LG budget processes.

A public finance law is necessary to provide guidance to management of public finances across the two levels of government (central and local). It should facilitate coordination between the two levels particularly in relation to intergovernmental fiscal relations. The current finance law is limited in this regard and in overall guidance to local authorities’ operations. Moreover, there are many practices that have been introduced to the local authorities’ fiscal operations in recent years – notably the medium term expenditure framework (MTEF) process, preparation of budget framework papers (BFP), among others, which are not captured in the legislation. The PFMA should be reviewed to reflect these new practices and the policy implications of fiscal decentralization on local authorities’ finance systems, and to strengthen the coordination with central government public finance systems.

(c) The Financial Regulations 1973 were issued to operationalize the provisions of the Finance Act of 1973. The emphasis was to describe procedures for the control and management of public funds across government units. While the initial focus was on the accounting and auditing functions, sections on planning and budget formulation were subsequently appended.

The Financial Regulations were enacted before the Local Government Act. Local authorities (districts and communities) felt that the regulations do not meet their specific requirements particularly in daily operations of accounting and in reporting relations with councils. Regulations should strengthen the accountability of local authorities to council, and clarify roles and responsibilities of councils, DCS, planners and finance managers (which may not be addressed in the PFMA) in financial management. New practices in budget formulation, like the MTEF process and BFP, should also be reflected in the regulations.

(d) The Municipal and Urban Councils Financial Regulations, 1988 are currently the basis for guiding Maseru MC and urban councils. It will be necessary to update these regulations in view of the changes that may accrue to the PFMA.

(e) The Government has established public procurement regulations of 2007 for the purpose of guiding public procurement of all government units at all levels including district councils. The regulations are supported by a Procurement Manual which further elaborates on the application of various clauses of the regulations.

While the regulations provide for district councils, they left out Maseru Municipal Council (MMC). Accordingly, MMC continues to apply the provisions for procurement (Part 10, Purchases and Tenders) contained in the Municipal and Urban Councils Financial Regulations of 1988. These provisions are not fully aligned with the practices introduced by the procurement regulations of 2007. This gap should be addressed. These pieces of legislation should be reviewed and updated to suit the new decentralization dispensation, particularly following the promulgation of the decentralization policy.

2.1.2 Use of bylaws by local authorities

As is the practice in other countries, the LGA (section 42) grants councils (including MMC) the power to make bylaws “for the purpose of exercising its powers and discharge of its duties” under the Act. Bylaws therefore can be useful—generally, as instruments with which councils can regulate affairs of local authorities, and specifically in tailoring the Act to the unique requirements of their jurisdiction. The Act also requires any such bylaws made by councils be approved and gazetted by the Minister of Local Government before they can take effect (Section 44). The Team learned from districts and the MMC about the delays in approving bylaws by MLGC. Several cases were cited of bylaws developed in 2007 and still pending approval. These delays weaken the powers of the councils regarding the local authorities. Under the reviews of the LGA, it will be necessary to reconsider the approval process and to limit the period within which the Minister should communicate his/her approval or rejection, as is the case in other countries. No more than 60 days would be a good period for the Minister to communicate the status of cases.
2.2 Local authorities resource base

The Local Government Act (1997) - Section 47 provides the sources from which councils may raise revenues. These include: (i) all revenue imposed and collected under the Act (meaning local revenues); (ii) grants and transfers from central government as may be allocated by the Minister of Finance or appropriated by the National Assembly (Parliament); (iii) borrowing (loans); and (iv) grants and gifts from elsewhere, which include receipts from development partners and NGOs. This section discusses the findings of the study related to revenues in these areas.

2.2.1 Local authorities revenues

For the purpose of this report, Local Authorities Revenues (LAR) refer to sources assigned to councils from which they may collect revenues and which apply to their operations and programs. LAR is crucial to strengthening local autonomy in planning and decision-making. They offer the greatest discretion to local governments in the allocation of resources to local development priorities. They also present the opportunity for communities to uniquely bond with local authorities, as amounts paid through taxes and charges translate directly into services to those communities. This is essential for local accountability.

Sources of LAR

The Local Government Act (Section 56 and 57) identifies sources for LAR to include taxes, rates, and charges. The law is specific about rates on property, but also provides that “the Minister shall publish in a gazette a list of items” from which councils may collect revenues by way of tax or levy of charge. There is no such gazette yet. As such, except for MMC, councils have no own source of revenue and this remains a source of frustration to councils.

The gaps in the law, revenues collected through local authorities'13, are well within international norms at this level and largely consistent with the present Act (LGA). Figure 8 (below) lists the set of sources from which revenues are collected by local authorities or the offices of District Administrators, at the district level. The sources fall mainly in the following categories:

1. User charges and fees for services: through user charges and fees, communities pay for the delivery of services. User charges are not likely to grow into a major source of revenue because they are not intended to exclude citizens from service access.
2. Licences and permits are often used by government entities to regulate the use or ownership of certain goods or the pursuit of certain activities.
3. Fines and penalties: these are charges imposed for violations of laws or administrative rules. They have a guiding function rather than a fiscal one.
4. Property taxes: taxes levied on ownership, use or transfer of property – land, housing etc. The main aim is revenue accumulation.
5. Other commercial income generated from the sale of councils’ assets including wood and other natural resources.

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12 For example, Uganda Local Government Act requires the Minister to respond within 60 days.
13 Local authorities act only as collection agents of revenues for central government
**Figure 8: List of sources of revenues collected by councils as of 2013/14**

<table>
<thead>
<tr>
<th>Source</th>
<th>User fees and Charges</th>
<th>Permits and Licenses fees</th>
<th>Fines and penalties</th>
<th>Property taxes</th>
<th>Other Commercial Income</th>
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<td><strong>Sources by Councils other than MMC</strong></td>
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<td>Public toilet</td>
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<td>Sanitary and refuse</td>
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<td>Abattoir fees</td>
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<td>Building permits</td>
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<td>Market fees</td>
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<td>Pound and grazing fees</td>
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<td>Sale of stray stock</td>
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<td>X</td>
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<td>Tender Fees</td>
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<td>Rent of Govt. properties</td>
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<td>Sale of natural resources</td>
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<td>Sale of Advertising</td>
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<td>Property rates</td>
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<td>Ground rent</td>
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<td><strong>Sources by MMC</strong></td>
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<td>Property Tax</td>
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<td>Building permits</td>
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<td>Public Toilets</td>
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<td>Hire of Chairs and Tents</td>
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<td>Market Fees</td>
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<td>Rent of properties</td>
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<td>Hire of Parks and Grounds</td>
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<td>Tender fees</td>
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<td>Land Scrapping</td>
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<td>Sale of wood, trees and plants</td>
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<td>Sanitary and refuse</td>
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<td>Pound Grazing</td>
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<td>Disinfection</td>
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<td>Public Convenience</td>
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<td>Clinic Charges</td>
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<td>Health Certificates</td>
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<td>Grass cutting</td>
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<td>Cemetery</td>
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<td>Land Transfers</td>
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<td>Ambulance Services</td>
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<td>Parking fees</td>
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<td>Water fees</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land transactions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
</tr>
</tbody>
</table>
There are other sources, not listed in the table above, but from which government ministries, through their departments at the district level, collect revenues that could also be taken over by local authorities. The study does not examine these resources exhaustively, as this was outside its scope. The examples in the table below (Figure 9) are illustrative and are picked on the basis of their alignment with functions assigned to local authorities under the First or Second Schedule.

**Figure 9: Revenues collected by other government units but aligned to LAR**

<table>
<thead>
<tr>
<th>Source of Revenue</th>
<th>Ministry or Agency collecting the Revenue</th>
<th>LG function to which the source relates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading Licenses</td>
<td>Ministry of Trade and Industry</td>
<td>Local Administration of central regulations and licenses</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Promotion of local economic development</td>
</tr>
<tr>
<td>Guest Houses</td>
<td>Ministry of Tourism, Environment and Culture</td>
<td>Promotion of local economic development</td>
</tr>
<tr>
<td>Hotel and Lodges</td>
<td>Ministry of Tourism, Environment and Culture</td>
<td>Promotion of local economic development</td>
</tr>
<tr>
<td>Building permits</td>
<td>LEA</td>
<td>Local Administration of central regulations and licenses</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Promotion of local economic development</td>
</tr>
</tbody>
</table>

A full re-assessment of all sources from which local authorities can collect revenue will need to be carried out. Following this diagnostic assessment, it will be of tremendous value to list these other sources and to clarify the powers of local authorities over these sources and their revenues within local authorities’ regulations.

**Roles and powers over LAR**

Rates of revenue collections are prescribed by central government. All local authorities in the study, except MMC, confirmed that they do not retain but rather remit all revenue collections to central government. The prime agencies for collecting local revenues at district level are community and urban councils. If a new source of revenue is identified, the local authority is obliged to notify central government who will provide guidance on the rates and their application. The Accountant General (Treasury) issues receipt books that are used by local authorities for the purpose of collecting revenues. Revenues collected are deposited in bank accounts of central government and recorded by sub-accountants, who are agents of the Treasury at the district level. The role of district councils is limited to recording and reporting revenue receipts. In this case, therefore, they act as collection agencies of central government. This role of local authorities is consistent with the 1973 financial regulations (Chapter 8) but in contravention of Sections 56-58 of the Local Government Act which provides for the setting of rates and the retention of revenues.

The lack of power and autonomy over sources of revenues clearly limits the incentive for local authorities to maximise revenue collections. Councils cannot realize the benefits of decentralization by tapping revenue sources to satisfy local preferences regarding the level and quality of services. Revisions to the local government financial legislation will be necessary to establish consistency in the interpretation and use of powers by local authorities and central government units in relation to local authorities’ own revenues. These revisions need to elaborate the powers of local authorities over decisions regarding which taxes or from which sources they can levy taxes, their revenue bases, rates that they can impose, and collection enforcement systems and arrangement.

---

Local authorities have no powers over the sources of revenues from which they collect but act as agencies of central government.

Revisions to the local government financial legislation will be necessary to establish consistency in the interpretation and use of powers by local authorities and central government units in relation to local authorities’ own revenues.
Levels of collection of revenues by local authorities

Levels of revenue collected from local sources are very low and the potential to impact the budgets of LA meaningfully is limited. As illustrated in the table below, revenues collected by local authorities do not exceed 1% of local authorities’ budgets.

**Figure 10: Trends in LGs collections & comparisons with recurrent expenditure budget**

<table>
<thead>
<tr>
<th></th>
<th>Actual 10/11</th>
<th>Actual 11/12</th>
<th>Budget 12/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Authorities Revenues</td>
<td>836,582</td>
<td>932,664</td>
<td>758,071</td>
</tr>
<tr>
<td>Local Authorities budgets (excl. DA)</td>
<td>164,523,474</td>
<td>138,240,370</td>
<td>187,307,707</td>
</tr>
<tr>
<td>Proportion of Revenues to budgets</td>
<td>0.6%</td>
<td>0.5%</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

Source of data is National Budget Estimates: 2009/10 to 2012/13
This table excludes Maseru MC

There are a number of factors to which the poor performance of local revenues above is attributed:

1. Levels of collections from LAR have fallen in recent years as some of the sources have been moved to other agencies including the LAA (building permits and other land related transactions) as well as births and death registration. These sources accounted for over 50% of collections in 2009/10. The graph below (Figure 11) shows the marginal growth in aggregate collections across all local authorities for some of the key sources of LAR.

2. The efficiency/cost yield of most local taxes is low, except in MMC which has a broader commercial revenue base.

3. Without powers over local revenues, local authorities have no incentive to improve the yields of local revenues.

4. Guaranteeing financing of local authorities’ budgets by central government is another disincentive for pushing for greater yields of revenue by local authorities.

5. The nature of the sources available provides limited opportunity for significant growth (also see Figure 12).

6. Administration inefficiencies leave considerable room for leakages and loss of revenues, such as public toilets or collection of user fees. This is compounded when the services provided to users are not satisfactory (see also section 2.3).

7. Without the ability to retain local revenues, local authorities are unable to establish the link between collections and services, a crucial factor in promoting compliance and support for local revenue efforts within communities.

The table below (Figure 12) presents out the current sources of revenues collected through local authorities, together with brief exploration of the potential for their expansion.
<table>
<thead>
<tr>
<th>Type of Revenue</th>
<th>Collecting Unit</th>
<th>Description of Revenue</th>
<th>Mode of Collection</th>
<th>Potential to Increasing Collection</th>
<th>Remarks / Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tender fees</td>
<td>XX</td>
<td>Charged on sale of bids to prospective suppliers / contractors</td>
<td>Received by the Council offices and receipt issues at the time of sale.</td>
<td>Limited potential for growth as it depends on the business of the councils.</td>
<td>This is a levy on commercial buildings on long-term leases.</td>
</tr>
<tr>
<td>Pound and grazing fees</td>
<td>XX</td>
<td>This is a charge levied against animals found grazing in un-gazetted areas, impounded by the police and impounders.</td>
<td>Collected through Chiefs and councillors. Chiefs determine the fees to be collected (Leribe). In Mohale’s Hoek, each cow pays 1 Maloti per day. Councillors collect the fees and submit to the CC. 70% of the collections is retained as payment to pounders while 30% is remitted to CC.</td>
<td>Limited potential for significant growth.</td>
<td></td>
</tr>
<tr>
<td>Sale of stray stock</td>
<td>XX</td>
<td>Sale of animals impounded that have not been claimed for a long time (six months in Mohale’s Hoek).</td>
<td>Sold through auction</td>
<td>Same as above</td>
<td></td>
</tr>
<tr>
<td>Public toilet charges</td>
<td>XM</td>
<td>Charges for access and use of public toilets</td>
<td>Fees collector is posted at the toilet facilities. The collector remits collections on a daily/Monthly basis to the CC where a receipt is issued for the amount delivered.</td>
<td>Limited potential for significant growth.</td>
<td></td>
</tr>
<tr>
<td>Building permits</td>
<td>DC</td>
<td>This is a permit to construct commercial buildings on land allocated to the building process.</td>
<td>Fees charged based on size of building. Collected by the DA’s office.</td>
<td>Objective is both regulation and recovery.</td>
<td>Would grow with local economy.</td>
</tr>
<tr>
<td>Building plans</td>
<td>DC</td>
<td></td>
<td></td>
<td>District / Urban Councils should retain as revenue.</td>
<td></td>
</tr>
<tr>
<td>Building plans</td>
<td>DC</td>
<td></td>
<td></td>
<td>District / Urban Councils should retain as revenue.</td>
<td></td>
</tr>
<tr>
<td>Building plans</td>
<td>DC</td>
<td></td>
<td></td>
<td>District / Urban Councils should retain as revenue.</td>
<td></td>
</tr>
</tbody>
</table>

**Figure 12:** Current sources of local revenues, collection methods and potential for growth.
<table>
<thead>
<tr>
<th>Type of Revenue</th>
<th>Collecting Unit</th>
<th>Description of Revenue</th>
<th>Mode of collection</th>
<th>Potential to increasing collection</th>
<th>Remarks / Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent from Government properties</td>
<td>x</td>
<td>This is rental fees collected from commercial buildings that belong to government in the council's jurisdiction</td>
<td>For example, in Mohale's Hoek, the community hall (rented to Frasers) at M400 per month while the Pitso house is rented at M500 per day</td>
<td>Growth is dependent on availability of rentable assets for the council or government.</td>
<td>Should be retained by council owning assets</td>
</tr>
<tr>
<td>Sanitary and refuse</td>
<td>x</td>
<td>This is a levy charged for collection of refuse within the jurisdiction of the council.</td>
<td>An amount of M30 per month is levied. Residents have to pay and receive receipts</td>
<td>Objective is to render a service at cost recovery and not revenue. Growth potential is minimal</td>
<td>Collecting Council should retain</td>
</tr>
<tr>
<td>Sale of Advertising (billboards)</td>
<td>x</td>
<td>This is a fee charged on the erection of billboards and banners</td>
<td>Rates depend on the size of billboard. Collection is through agents in MMC</td>
<td>Growth dependent on local economy. More suitable to Urban Centre</td>
<td>Retained by collecting council</td>
</tr>
<tr>
<td>Abattoir fees</td>
<td>x</td>
<td>Fees charged on animal delivered for slaughter.</td>
<td>Each cow is charged M5 and each sheep/goat charged M2.5. Payment is done and a receipt provided before animals are slaughtered</td>
<td>Growth potential is limited.</td>
<td>Collecting Council should retain</td>
</tr>
<tr>
<td>Sale of natural resources</td>
<td>x</td>
<td>Fees collected from the sale of natural resources such as trees, sand, stone quarries and gravel</td>
<td>Fees on sand and gravel from rivers or other water bodies are collected as monthly rent charges. Fees on trees (public forests) are collected on amount of harvest with 20% retained by the CC and 80% remitted to the Ministry for Forestry.</td>
<td>Growth potential is limited. Natural resources are limited stocks unless they are renewable, as in the case of planting more wood forests. District and community councils have a stake in natural resources and should share in the collections.</td>
<td></td>
</tr>
<tr>
<td>Sale of goods and services</td>
<td>x</td>
<td>Levy charges on the sale of wood or other resources</td>
<td>Items to be sold are identified and the purchaser pays agreed fees (monthly fees or one off fee prior to taking ownership of the goods)</td>
<td>Same as above</td>
<td>Same as above</td>
</tr>
<tr>
<td>Property Rates</td>
<td>x</td>
<td>This is an annual tax levied on properties in the Central Business District, industries and residential areas</td>
<td>Urban sources collected best on valuations of property. Bills delivered to owners in MMC</td>
<td>Significant potential for growth for Maseru MC and urban councils. Challenges to maintain up-to-date valuation roll and gazetting new areas for rating purposes.</td>
<td>Should be retained by urban council</td>
</tr>
</tbody>
</table>
Local revenue administration

Responsibilities for collection and reporting of revenues are quite well understood but still require strengthening. Maseru MC has a well-established function for collecting, accounting and reporting on local revenues. The revenue administration function is headed by a Revenue Accountant who has a staff complement of over 25 which includes 5 cashiers posted at collection points and 18 collectors. Revenue collection, recording, banking and reporting procedures are quite well streamlined with a set of controls designed to limit leakages. MMC is implementing an accounting package (ASSIST) which will further strengthen revenue collection management. Implementation is well advanced at the headquarters with collections and receipts already being generated off the system. Terminals will be extended to key collection points outside the headquarters as the next step.

The valuation roll is maintained by the Senior Valuer in the Planning Department. This valuation roll is currently out of date, having been last updated in 1998. However, even in its present form, the valuation roll is already captured on the ASSIST system. For a property not on a valuation roll, MMC relies in part on owners of new properties to declare their values in a process of voluntary compliance.

Since property tax is by far the largest source of revenue (accounting for nearly 70% of the collections, excluding investment incomes and projects) and given the significant potential in Maseru City, the MMC should be supported in updating the valuation roll, in gazetting parts of Maseru City which are not currently covered for property rating, and re-assessing the chargeable property rates.

In the case of districts, consistent with the restricted powers over revenues, local authorities have a very limited function for revenue administration. In all the councils that were visited in the study, there were no separate officials for revenue administration, management or monitoring. Those assignments are performed by the finance and accounting officials. None of the districts’ councils had a position for a revenue accountant. Accounting staff at the community council and urban councils receive cash sums collected by the agent (see Figure 13 below), issue the receipt (AG8) from the Accountant General, remit the collections to the central government bank, and prepare monthly reports on the revenue.

Figure 13: Process for collecting & reporting on revenue at urban & community council

- Council accounts staff receives collections from collection agents and issues receipt (AG8). In the case of pound and grazing, an additional forestry receipt is issued.
- Cash is kept by the accounts’ staff until scheduled banking time - usually the end of month for rural-based community councils.
- At the end of month, staff fills out a receipt control form and prepares a monthly revenue report which is signed by the CCS.
- Staff proceeds to bank all cash collections at the designated bank for central government.

- Staff carries the banking slip to the sub-accountant.
- Sub-accountant inspects the receipt book, receipt control form and banking slips, and issues approval if these are in order.
- Staff carries the approval together with accounting documents (receipt books, receipt control form) and monthly revenue report to DC Finance Manager.
- DC Finance Manager inspects accounting documents, retains copy of approval slips, and records collections.
- Staff files revenue approval forms.

The practice for urban centres has improved with revenue collections being banked within 24 hours. Because of the costs and time required for travel as well as in view of the usually low levels of collections, in the case of rural community councils (CC), cash is kept and banked once every month. Improving this situation will depend on the choices made in the Decentralization Policy. If the policy choice is to allow CC to retain these revenues and to account for their use, this will cease to be an issue.

Processes for revenue administration above are prone to significant levels of risks which are likely to lead to leakages and loss of revenues:

1. Because of the nature of sources or revenues, collections accrue in small amounts imposing huge administrative overheads. Since councils do not have sufficient staff resources, they have to depend on collection agents or third parties. This significant reliance on third parties increases the susceptibility of revenues to losses.
Respondents raised the possibility of using the Lesotho Revenue Authority (LRA) to support local government councils in the collection of revenues. This section examines the options that this would offer. Suffice to note that the LRA has not been consulted in this discussion.

The LRA was established by law as an autonomous institution to improve the efficiency in revenue administration and management. Its scope is national, focusing on collecting from the sources or revenues at central level—namely customs, excise, sales taxes, and a value added tax (VAT). Its efforts are financed through a charge of 2% of the estimated collections.

Improving efficiency by taking advantage of economies of scale is one attraction of using LRA for collecting local revenues, particularly in the context of weak local capacity. District councils would not need to maintain revenue administrative and compliance units across the country and would not have to worry about attracting, training, and retaining qualified staff as well as maintaining administrative systems such as tax registers.

Since LRA is an autonomous institution with specific responsibilities to central government, its relation with local councils would have to be that of an agent and would have to be formalised with some form of instrument, for example, a memorandum of understanding (MoU). Its charges and the type of revenues to be administered by the LRA would also have to be negotiated, possibly through the Government. Under this approach, appropriate arrangements would have to be made to preserve the autonomy of local authorities in the exercise of decisions over sources even as efficiency in revenue collection is improved.

However, there are major issues that would limit the feasibility of using the LRA. Since the sources of revenues are outside the areas in which the LRA is currently involved, it would need to make investments in terms of human resources and possibly in space and equipment. Moreover, many of the LG sources of revenues are very small. It is unlikely to be economical for LRA to consider investing resources to collect such revenues. Besides, councils are unlikely to have the resources to meet the levels of compensation to LRA in light of the investment. A possible area which might be attractive for LRA administration is property taxes under Maseru Municipal Council. MMC property tax budget estimates for 2013/14 were 12.9m rand. Three months into the financial year (by June 2013), up to 8.4m rand (over 65%) had been realised in collections. Clearly, there is potential that much more can be collected. Therefore, for Maseru MC, property tax offers one source whose collection could viably be outsourced to LRA.

**The Lesotho Revenue Authority**

There are other measures that MLGC, working together with district councils, can take to improve collections of revenues by local authorities. This packet of measures may include:

- Properly establishing within the local government financial legislation (regulations) the function of revenue administration and accounting within district, urban and community councils.
- Establishing the revenue function within the structure of district, urban and community councils. This may be in the form of revenue accountant within district councils or assistant revenue accountants in urban or community councils. MGLC should provide special funding within LG grants to support the development of this function.
- Drafting and disseminating a local government financial manual with a section that elaborates the roles, powers and rules of officials and procedures to be followed for collecting and reporting on revenues within district, urban and community councils, to guide LG revenue management and administration.
- Developing and supporting the implementation of a standard package of supply driven training and ca-
pacity building and require all local government revenue officials and finance staff to undertake this training.

- Elaborating a revenue budget format in the financial management manual and require all district, urban and community councils to undertake on annual basis revenue forecasts, prepare revenue budgets and to report on their revenue performance with their accounts. This requires adjusting the formats for LG councils’ budget framework papers, budget preparation formats as well as financial accounts.
- Targeting sources with high potential for revenue yields, for example, property taxes and market dues, etc., and support the implementation of a plan for developing their potential. This should include activities for sensitisation of the public and strengthening compliance and enforcements. This could also include support to infrastructure strengthening such as developing market stalls for councils that do not have them.
- Including a provision in the law which requires local governments to apply a significant proportion of their collections to local service delivery as part of measures to improve tax compliance.
- Introducing simplified systems to improve the recording and reporting of revenue collections. Key functions to be supported include tax payer identification, registration, and billing such as the case of market dues and property taxes. This system could be spreadsheet (Excel) based or, should the Government select to implement an IFMIS for district councils (see section 2.3.5), a special module for revenue management should be an integral part of this system.
- Encouraging commercial banks to expand banking facilities to rural community centres, such as mobile money services or other easily accessible mechanisms, so that payments of revenue can be made directly to council bank accounts.
- Introducing the concept of collaboration with private sector allowing them to develop and operate markets in partnership with LGs so as to improve efficiency and to promote local economic development faster.
- Exploring options to outsource the collection of some of the sources through the use of local private operators for services such as solid waste collection, and property taxes. This will make local government more efficient and also facilitate the growth of the local economy which is vital for expansion of LAR.

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2.2.2 Grants from central government

Grants are an additional source of revenue for local governments (Section 55 of the LG Act.). Except Maseru MC, local council budgets are funded entirely using transfers from central government. Grants are appropriated under the MLGC for recurrent and capital expenses of the local authorities. The table below (Figure 14) shows recurrent transfers to district councils over the recent years.

Figure 14: Councils (including MMC) grant provisions for the period 2007/08 to 2012/13

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Maseru DC</td>
<td>30,816,680</td>
<td>23,241,420</td>
<td>17,353,590</td>
<td>13,705,416</td>
<td>18,216,560</td>
</tr>
<tr>
<td>Maseru MC</td>
<td>24,035,500</td>
<td>21,588,600</td>
<td>19,000,000</td>
<td>40,921,581</td>
<td>15,083,274</td>
</tr>
<tr>
<td>Mafeteng</td>
<td>19,984,770</td>
<td>20,484,390</td>
<td>15,144,646</td>
<td>13,870,304</td>
<td>18,325,620</td>
</tr>
<tr>
<td>Berea</td>
<td>12,323,980</td>
<td>14,001,590</td>
<td>13,550,612</td>
<td>12,278,022</td>
<td>16,739,747</td>
</tr>
<tr>
<td>Leribe</td>
<td>24,970,990</td>
<td>15,890,620</td>
<td>19,787,042</td>
<td>14,440,499</td>
<td>23,012,787</td>
</tr>
<tr>
<td>Botha Bothe</td>
<td>15,364,440</td>
<td>16,823,470</td>
<td>14,494,339</td>
<td>13,173,367</td>
<td>17,684,511</td>
</tr>
<tr>
<td>Mokhotlong</td>
<td>21,000,000</td>
<td>16,340,460</td>
<td>17,342,582</td>
<td>14,699,006</td>
<td>19,210,150</td>
</tr>
<tr>
<td>Qacha’s Nek</td>
<td>25,448,270</td>
<td>23,002,550</td>
<td>19,016,646</td>
<td>14,579,369</td>
<td>18,090,513</td>
</tr>
<tr>
<td>Thaba Tseka</td>
<td>11,001,930</td>
<td>14,583,160</td>
<td>16,889,276</td>
<td>14,258,934</td>
<td>18,770,078</td>
</tr>
<tr>
<td>Quthing</td>
<td>19,110,870</td>
<td>18,143,060</td>
<td>13,366,660</td>
<td>12,386,680</td>
<td>16,897,824</td>
</tr>
</tbody>
</table>
As shown in the table above, the MLGC has established a level of predictability of grants allocated to councils over the years. Recurrent allocations exceed half of the MLGC’s annual budget allocations in general and the sharing of transfers to each council (see graph below), even where the overall allocation of the ministry is reduced, has remained fairly constant over the period pointing to a predictable formula of allocation across local authorities.

The Team also reviewed some of the other de-concentrated services implemented by ministries – see Figure 16. These functions were selected based on the likelihood for transfer to local authority if the decentralization policy were to go for full devolution. If these are taken into consideration, the recurrent budget resource spent at district level increases significantly (see table below) to about 7% of total national recurrent budget.

Note: the Budget figures include a special transfer to urban councils. Figures for capital budget were not obtained in time for this report and therefore not included in the discussion.

However, as a proportion of the national budget, recurrent transfers have fallen from 5% in 2007/08 to 2% in 2012/13 in nominal terms (see figure 14). This raises concerns about the ability of district councils to continue to meet financing needs of their programs and therefore to maintain consistency in delivering services. Since districts depend entirely on central government transfers, the policy and later the law (the Local Government Act – amended) should require the Government to protect transfers to local authorities in real terms to allow them to maintain a minimum level of service delivery.
2.2.3 Borrowing (loans)

Borrowing is yet another source that could offer LGs discretionary resources which can be used to finance their development programs, however, borrowing has not been exercised by councils. Under the Local Government Act 1997, councils having income from taxes or charges (Maseru and urban councils) are permitted to borrow within certain limits without the approval of the Minister of Local Government and Chieftainship and Parliamentary Affairs and may give security for repayment. The total amount of debt is not allowed to be more than five times the council’s own source annual revenues. Approval of the Minister of Finance (PFMA Act 2011) is required for any local authority borrowing. Under these conditions, borrowing can only be a viable option if this can be leveraged by surplus financing. Past studies have discounted the viability of borrowing as an option in the medium term largely due to the financial status of LGs. However, there is scope to consider the use of borrowing instruments as local authorities achieve greater fiscal autonomy and as they explore investment opportunities such as partnering with the private sector for medium and large economically viable projects. Consistent with the PFMA, local government financial regulations should be expected to elaborate further on the criteria and procedures required of councils before they can engage in borrowing.

2.3 Local council planning, budgeting, accounting and accountability processes

Processes for planning and budgeting at the local government level are vital for allocating and disbursing funds to local government development priorities. It is a common practice that the planning and budgeting processes at local government level are influenced by and have to work with the national processes. Local participation in the preparation of council and district plans is key to the identification of local development priorities. During the budget formulation process, local governments need to have appropriate control over the allocation of resources to be able to implement their plans. Finally, the implementation of plans needs to be accounted for in the electorate through councils.

2.3.1 Local council planning process

Planning is an obligation assigned to local authorities. Article 106 of the Constitution of Lesotho provides that the establishment of local authorities should “enable urban and rural communities to determine their affairs” while the Local Government Act 1997 (first and second schedules) outlines functions over which that determination takes place.
The absence of District Development Plans limits the ability of local authorities to consider their policy priorities in the context of the NSDP and to sequence their implementation in a manner that is realistic over the medium term.

The National Strategic Development Plan (NSDP) is Lesotho’s five year national policy and planning framework enabling the GoL to identify strategies for the implementation of its policy priorities and its commitments under the National Vision over the period 2012/13-2016/17. In its implementation strategy, the NSDP requires the translation of national development goals and strategies into implementation plans by government units at all levels, the integration of the plan within a medium term budget process through the use of a medium term expenditure framework (MTEF) and the identification of flagship projects across districts to facilitate its achievement.

Local authorities’ efforts have to date largely focused on identifying flagship projects. Standard forms have been shared with all districts for the identification and preparation of project proposals. Guidelines for participatory planning for community councils have been developed and disseminated with the help of GIZ. The Team learned that Mohale’s Hoek had a comprehensive framework of flagship projects covering councils, government departments, NGOs and parastatals, which were developed through the District Development Coordinating Committees (DDCC). Equally, Thaba Tseka was able to share a similar framework which was developed through the District Forum of key stakeholders that took place prior to the start of the financial year 2013/14. Maseru Municipal Council has completed a 3 year strategic plan identifying projects and programs to be undertaken over the period 2013-15. These efforts are still short of comprehensive Development Plans. Planning is still largely an annual process feeding into the budget formulation process (see section 2.8 below).

The absence of District Development Plans limits the ability of local authorities to consider their policy priorities in the context of the NSDP and to sequence their implementation in a manner that is realistic over the medium term. District Development Plans should provide a clear link with the NSDP; they should demonstrate the key strategic priorities and the rationale for their choices, and determine and address longer-term development issues of the district. Participatory planning should remain central when preparing the DDPs. Current processes, in which citizen stakeholders of the communities (councils, Civil Society Organizations or CSOs, and the private sector) will need to continue as DDPs are developed.

The DDCC and DPU

The Local Government Act (1997) as amended recognizes the importance of a District Development Plan (DDP) and establishes District Development Coordinating Committees (DDCC) with responsibilities for coordinating the development of such plans (Section 81). DDCC are high level structures bringing together political and administrative leadership of the district across all councils (district, urban and community councils), and special groups such as persons with disabilities and non-governmental players. DDCCs are thus perfect inclusive institutions to consider development issues of the district.

The Local Government Act (as amended) also establishes District Planning Units (DPUs) under Section 12, to support the work of DDCC by, among others things, drafting the District Development Plan (DDP) and by consolidating submissions from councils and central government departments.

The Team found that the DDCCs and DPUs are either non-existent or have proved to have little impact in meeting the needs on the individual communities, and few are currently functioning or have the capacities to function properly. The Team found one active DDCC and DPU in Mohale’s Hoek. The DDCC was promoted by the DA and met monthly to discuss vital issues in the District. Virtually all key stakeholders attended. This
DDCC did a lot of good in creating an opportunity for district participation and coordination. It often identified areas of overlap and proposed areas where the district could become more efficient. However good this forum was, it did not do the primary function of development planning.

Coordinating with Donors, NGOs and other units other than Government

The Team learned about the presence of donors and NGO financed programmes at district level. In general, financing from these sources is not reflected in council budgets. Their activities were not explored in detail by this study. However, there are a number of good examples of coordination with these bodies. Both Mohale’s Hoek and Thaba Tseka have encouraged these external units to include their projects within the district planning framework and to participate in the DDCC (for Mohale’s Hoek) and the district forum (for Thaba Tseka). At community council level, there was yet another good example of coordination with NGOs. In Mphe Tenesolo Koi Community Council, NGOs and other organizations are required to register with the council and to present written proposals of their projects. The council maps the activities of these bodies and guides them to minimize the duplication of efforts. These efforts provide good examples of aid coordination efforts at the district level. They should be included in the financial regulations and planning manuals for councils and turned into nation-wide practices.

2.3.2 Council budget formulation process

Councils have a statutory obligation to prepare annual budgets covering both revenues and expenditure (LG Act, Section 61). Budgets become the basis for implementing their plans. The Public Financial Management and Accountability Act (2009) specifically require local authorities to prepare their budgets in a three year medium term framework.

A two stage process in budget formulation

In general, the annual budget formulation process is well laid out and consistent with practices in other countries.

A two stage process has been adopted by the Government of Lesotho in budget formulation. Each of these stages commences with a budget call circular issued by the Ministry of Finance:

1. **Budget planning:** during this first stage, local authorities are required to prepare budget framework papers (BFP) using formats issued by the Ministry of Finance. The process requires local authorities (all district, urban and community councils) to identify priority objectives and projects for implementation over the year and to cost them.

2. **Budget preparation:** during this second stage, local authorities are required to prepare detailed budgets of their activities over the year within ceilings provided to them and within the budget calendar stipulated by the Budget Call Circular. Budgets are prepared using forms issued by the Ministry of Finance. These forms have provisions for costing salaries and operations of councils and aggregating these into a summary budget table. A second key aspect of these tables is the provision for projecting cost estimates for salaries and operating expenses over three years. A set of forms is also provided for the capital budget in which projects are listed.

District Council Secretaries, District Administrators, and Finance Managers of district councils were found to be aware and already using forms for budget planning and preparation, albeit with some gaps. MLGC will need to continue efforts to strengthen the capacity of local authorities in the use of these forms at least over the medium term. The table below (Figure 17) illustrates steps in the budget formulation process of councils.
### Figure 17: Budget formulation process for local authorities

<table>
<thead>
<tr>
<th>Indicative Dates</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Budget Planning</strong></td>
<td></td>
</tr>
<tr>
<td>12&lt;sup&gt;th&lt;/sup&gt; Sep</td>
<td>MoF issues first budget call circular along with indicative ceilings requiring all agencies (ministries and units) to prepare Budget Framework Papers.</td>
</tr>
<tr>
<td></td>
<td>MLGC forwards same request to the District Administrators who in turn forwards the same request to DCS</td>
</tr>
<tr>
<td></td>
<td>DCS requires community and urban to identify priority projects for implementation under the capital budget</td>
</tr>
<tr>
<td></td>
<td>Urban and community councils through their councillors convene public gatherings as a participatory process in collecting views on projects</td>
</tr>
<tr>
<td></td>
<td>Urban and community councils prioritize key projects and forward to DCS</td>
</tr>
<tr>
<td></td>
<td>Administrator at DCS’s office prepares the DC budget framework paper using the forms provided by MoF</td>
</tr>
<tr>
<td>23&lt;sup&gt;rd&lt;/sup&gt; Sep</td>
<td>DA consolidated BFP and forwards to MLGC</td>
</tr>
<tr>
<td></td>
<td>MLGC consolidates Ministry’s BFP and forwards to MoF</td>
</tr>
<tr>
<td></td>
<td>MoF consolidates national BFP</td>
</tr>
<tr>
<td><strong>Budget preparation</strong></td>
<td></td>
</tr>
<tr>
<td>14 Nov</td>
<td>MoF issues Budget Call Circular for budget preparation</td>
</tr>
<tr>
<td></td>
<td>MLGC forwards Call Circular to local authorities with final ceilings requiring them to prepare detailed budgets</td>
</tr>
<tr>
<td></td>
<td>Community and urban Councils prepare their budget and submit to DCS</td>
</tr>
<tr>
<td></td>
<td>DSC consolidates District Council Budgets including Community Councils and submits to DA</td>
</tr>
<tr>
<td></td>
<td>DA consolidated district and urban councils budget together with DA’s budget and submits to MLGC</td>
</tr>
<tr>
<td>30 Nov</td>
<td>MLGC consolidated DA’s budgets into the Ministry’s budgets and submits to MoF</td>
</tr>
<tr>
<td>05 Dec</td>
<td>Negotiations are held between MLGC and MoF on its budget</td>
</tr>
<tr>
<td>14 Jan</td>
<td>MoF consolidates government budget and presents to Cabinet Budget Committee</td>
</tr>
<tr>
<td>29 Jan</td>
<td>Cabinet Budget Committee reviews budget and makes recommendations to Cabinet</td>
</tr>
<tr>
<td></td>
<td>Cabinet reviews budget and clears for presentation to Parliament</td>
</tr>
<tr>
<td>20&lt;sup&gt;th&lt;/sup&gt; Feb</td>
<td>Presentation of Budget Estimates to Parliament</td>
</tr>
</tbody>
</table>

The dates used here were illustrative based on the process for FY2013/14 and recently for FY2014/15. A complete set of dates could not be established by the Study Team. A proper calendar of these steps should be published to guide the process in future. This calendar (key steps) should also be included in the PFMA so that it binds both central and local governments.

**The budget formulation process is coordinated as follows:**

1. The MLGC coordinates the process at national level; it sends out the budget call circular, forms and guidelines for preparing BFPs and detailed budgets to the local authorities. The Ministry compiles and consolidates submissions by districts into its BFP and budget. These consolidated statements are then submitted to the Ministry of Finance. MLGC also plays a role in training economic planners and district council staff in the use of BFP and budget forms. At the commencement of the process, the Ministry holds workshops and forums at district levels with local authorities to guide them as they prepare their BFPs and budgets.

2. The office of the DA, through the economic planner coordinates the process of preparing district BFP and the budget, consolidating submissions of the district council with the DAs office. The economic planner also provides guidance to councils in filling out BFP and budget forms.

3. The District Council Secretary, through the Administrative Officer, coordinates the process at the district council and with the community and urban councils.
There are three limiting factors in the current budget formulation:

1. As illustrated in the table above (figure 17), the periods provided for preparing BFPs and detailed budgets are often too short. About 2 weeks are allocated to each agency (ministry) for the preparation of BFPs and budgets. This translates into a few days for the local authorities’ process. This has implications for local consultations and participation. District and community councils in Mohale’s Hoek and Thaba Tseka raised this as major concern.

2. Participation of councils in reviewing and approving district budgets is not clear as a formal requirement in the budget formulation process. This is a concern in the accountability process.

3. Councils are not represented during final negotiations with MoF except through MLGC. This reduces the level of transparency in the process and is a source of frustration to local authorities, particularly where council approved budgets are not fully funded.

Determination of ceilings for councils

Ceilings for council budgets are drawn by the MLGC within the ministry’s own ceiling. In the absence of a proper formula, the Ministry generates ceilings for local authorities’ budgets on the basis of equal shares. Thus, all community and urban councils will receive an equal share of recurrent (non-salary component) and capital budget allocations. The Ministry will need to develop a more equitable formula for the determination of ceilings to enable the allocations to respond better to the specific conditions at the councils. This will be particularly relevant to support the implementation of the new policy.

Guidelines for selection, approval & implementation of community council projects:

Government is annually earmarking funds through capital budget estimates and allocating them to councils to perform their mandates. These funds are shared among the 64 community councils using the agreed formula. The Capital Grants are in the nature of capacity building grants to help councils to develop their abilities to plan, implement and maintain services for their communities. These initial funds are targeted toward implementing priority needs of the communities and are not for the purpose of investment by the council for generating revenues and incomes for itself.

The management of MLGC found it necessary to provide guidance to the councils (based on the Local Government Act 1997) on the type of projects that can be implemented with these capital funds:

1. Community councils cannot use the funds to implement projects that are outside their mandate (schedule II) as specified by the Local Government Act.
2. Projects that do not benefit the majority of the communities cannot be implemented.
3. Projects that do not add value to the needs of the communities or projects that duplicate efforts and programmes already being implemented by some other mandated agency are not encouraged.
4. Projects that have not passed the feasibility assessment by the DPU cannot be financed.

<table>
<thead>
<tr>
<th>Functions Specified In Schedule 2</th>
<th>Projects That Cannot Be Implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control of Natural Resources and Environment protection (e.g. sand stone, dongsas pollution)</td>
<td>Projects that can efficiently be implemented by the private sector instead of the council</td>
</tr>
<tr>
<td>Land and Site allocation</td>
<td>Allocation of sites on areas specified in Annex 2 of Guidebook on Land Management by Councils (Nov. 2005).</td>
</tr>
<tr>
<td>Minor roads (also Bridle paths)</td>
<td>Roads that exceed 3Km in length. Construction or maintenance of roads that have negative effect to the environment.</td>
</tr>
<tr>
<td>Grazing control</td>
<td>Projects that contradict good range management practices</td>
</tr>
<tr>
<td>Water supply in the villages (maintenance)</td>
<td>Projects that have not gone through 3 year feasibility study (study of the reliability of the spring) by a recognized technical institution. Projects that are technically complicated or too expensive to implement and finance Operation &amp; Maintenance.</td>
</tr>
</tbody>
</table>
Participation and dialogue in the budget formulation process

There are three developments in recent years that are crucial to promoting local participation and dialogue between councils and central government.

- **Community needs assessments**: Each year, the budget formulation process commences with the identification of priority projects by community councils. Mohale’s Hoek confirmed the use of public gatherings for identification of project needs. In Thabatseka, DCS already required community and urban councils to undertake needs assessments to identify key projects in preparation for the 2014/15 budget. In Mphe Tensolo Koi CC, public gatherings in 16 electoral divisions already commenced led by area councillors. These needs assessment exercises are presided over by the area councillors. Community councils then meet to consider the projects and reach agreement on the set of priority projects for the council. However, there is the danger that community gatherings are losing pace because often expectations are not met. As a result citizens are losing interest in this important process.

- **Annual district forum**: For the first time, a district level forum, initiated by MLGC, was convened in Thaba Tseka in December 2012. The forum was intended as an annual event bringing together all councillors (DC, CC), DA, and ministries at the district level to consult and increase dialogue and participation in districts’ planning and budget formulation process. This first meeting in Thaba Tseka was launched by the Hon Deputy Minister of MLGC. However, this first meeting was poorly attended by de-concentrated ministry departments. All government departments in the district should have been required to attend.

- **National conference**: Until last year, the main instrument for communicating to local authorities on strategic issues of policy during budget preparation has been through the use of the budget call circular. Under a new initiative, the MLGC introduced a national conference designed to promote dialogue with local councils on service delivery. The conference, which took place in November 2012, had among its key objectives: (a) to create a platform for councils and ministries to meet and agree on key policy implementation issues, (b) to encourage partnerships between councils and government ministries, and (c) to promote collaboration between LG and government ministries in implementing the decentralization programme. This process offered the opportunity to district councils to present and discuss their plans at the conference.

These initiatives offer an opportunity to improve the participation of councils, coordination and communication among players in local authorities’ budget process and to further strengthen dialogue on decentralization. Another important aspect is the profile they are likely to provide to local authorities’ issues in the national budget process. It will be important to strengthen the implementation of these processes in the context of the budget process and existing institutional measures.

Powers of local authorities in the budget process

In all districts, concern was expressed about unexplained budget cuts, inconsistencies between budget submissions and the approved budgets of local authorities, the lack of transparency, and decisions made regarding their budgets.

Local authorities have limited autonomy in the budget process and are only treated as a de-concentrated function of the MLGC within the budget process. District councils’ budgets are regarded as subventions under the offices of district administrators which are cost centres within MLGC budget. Budgets of local authorities are therefore not visible during national the level decision-making process, for example, during the prioritisation and budget negotiations. This treatment is not consistent with section 46(3) of the PFMA Act, which requires budgets of local governments not to be treated as part of other bodies. This also makes local authorities’ budgets vulnerable to unexplained cuts.
To the extent possible, a work plan based allocation process should be adopted. Under this approach, Community Councils would be obliged to prepare quarterly spending plans which would be the basis for in-year allocations once the transfers are received from MoF.

In the case of Maseru MC, the Team found that commitments are generally entered into with little regard to the funds available or budgets allocated. There is no formal process to prioritise expenditure allocations based on cash forecasts during the year. As such, the staff pointed to large instances of unpaid invoices carried over from previous years. MMC will need to institutionalize mechanisms to improve expenditure control. This may include setting up a budget committee for purpose of cash management and expenditure prioritization, control and monitoring.

Commitment control and payments
The practice of using vote books to track receipts, commitments and payments within the DC and community and urban councils is widely used and appears to be well understood. A record of the amount transferred from central government is made in the vote book. Commitments and payments appear well-recorded in the vote book. This process of recording the vote books is well institutionalized among the districts and community councils visited in the study. At the end of each month, community and urban councils prepare and submit to DCS a status of funds report which details the funds received under each item, the commitments outstanding and amount uncommitted. The DC consolidates these reports to form a DC status of funds report. The DC report is then submitted to MLGC.

Community and urban councils’ payments are made out of the district council account held by the DCS. The box below (Figure 19) outlines the steps in the payment process followed by community councils.

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19 Urban councils are not part of this process as their budget is separate from district councils.
Figure 19: Payment process for community councils

- The CC receives a payment invoice from the supplier
- The Accounts Clerk prepares payment voucher attaching support document
- The voucher is recorded in the vote-book
- The voucher is signed by CCS
- The clerk travels to the DCS with all books (vote-books, supporting documents, etc.) to process voucher
- The Finance Manager examines the voucher, vote-book and clears for payment
- The DCS approves payments
- The Finance Manager processes the check
- The DCS signs the check
- The clerk carries the check back to the CC if the supplier is located within the CC
- The clerk travels back to DCS to file receipt from supplier

Ordinarily, the payment process takes about two weeks to complete when the council has money in the account, otherwise it will take much longer. Community councils face the challenge of commuting to the DCS to process the payment. They raised concerns about the time spent in processing payments at the DCS and the risk faced in carrying around council accounting documents. Besides, they meet the travel cost from their own pockets.

Timeliness of releases by central government to district councils

Delays in releases were cited by all districts for both recurrent and capital budgets. This financial year, releases for the recurrent budget were received by district up to two months after start of the quarter for both first and second quarter. Delays in disbursements were explained by MLGC to have been caused in part by the delays in submissions of quarterly reports by districts councils. The table below (Figure 20) shows indicative dates associated with the process for the first and second quarter this FY. As is seen, processing and effecting transfers after the MLGC advises MoF also takes a significantly long time: 2-4 weeks.

![Figure 20: Timing in releases to Quarters 1 and 2 of 2013/14](image)

<table>
<thead>
<tr>
<th>Date</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarter 1</td>
<td></td>
</tr>
<tr>
<td>14 April 2013</td>
<td>MoF issues a warrant for the quarter</td>
</tr>
<tr>
<td>22 April 2013</td>
<td>MLGC begins to prepare payments to districts and DA</td>
</tr>
<tr>
<td>02 May 2013</td>
<td>Payment Voucher released with payment list to MoF</td>
</tr>
<tr>
<td>27 May 2013</td>
<td>MoF (including Treasury) issues instructions to Central</td>
</tr>
<tr>
<td>02 May 2013</td>
<td>District councils receive money in their accounts</td>
</tr>
<tr>
<td>Quarter 2</td>
<td></td>
</tr>
<tr>
<td>07 July 2013</td>
<td>MoF issues a warrant for the quarter</td>
</tr>
<tr>
<td>10 July 2013</td>
<td>Payment Voucher preparation begins: Took longer because of late submission of reports for the 1st quarter by LGs</td>
</tr>
<tr>
<td>16 Aug 2013</td>
<td>Payment Voucher released with payment list to MoF</td>
</tr>
<tr>
<td>27 Aug 2013</td>
<td>MoF (including Treasury) issues payment instructions to Central Bank</td>
</tr>
<tr>
<td>27 Aug 2013</td>
<td>LGs receive money in their accounts</td>
</tr>
</tbody>
</table>

Source of data is MLGC and District consultations

Releases under capital budget were made in August, six months from the start of the financial year. Districts tend to delay procurement until capital disbursements have been received. This introduces further delays in the disbursement of the council capital budgets resulting in huge un-spent balances by the end of the financial year. Maseru District Councils had at least 82% (13.645m) of its receipts under the capital budget un-spent over the last financial year (2012/13). However, district councils were allowed to carry over unspent balances into 2013/14.

Maseru MC specifically raised concerns about long delays by MLGC in processing payments to contrac-
tors and suppliers under council projects that are financed by central government. Delays of over three months were said to be common. MMC requested to review the process so that funds related to these projects could be disbursed directly to their accounts from which they can make payments directly.

The MoF and MLGC will need to work out arrangements to limit delays in disbursement of releases to local authorities. Secondly, a policy needs to be established on the handling of un-spent balances. At the very least, if they are carried over to the following year, they should be declared at the time of budget formulation so that they can be re-voted by Parliament.

**Budget shortfalls for 2013/14**

All district councils confirmed shortfalls in their recurrent budgets for the FY2013/14. This has affected the payment of salaries and councillors’ allowances as well as other recurrent operations across all districts. The table below (Figure 21) provides an indication of the gap in financing in comparison to salaries.

<table>
<thead>
<tr>
<th>District</th>
<th>Total Budget Requested</th>
<th>Approved budget</th>
<th>Salary and allowances expenditure</th>
<th>Project deficit on salary expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maseru DC</td>
<td>22m</td>
<td>15m</td>
<td>18m</td>
<td>3m</td>
</tr>
<tr>
<td>Mohale DC</td>
<td>20.69m</td>
<td>11m</td>
<td>18m</td>
<td>7m</td>
</tr>
<tr>
<td>Thaba Tseka</td>
<td>24.33m</td>
<td>12m</td>
<td>16.89m</td>
<td>4.89m</td>
</tr>
</tbody>
</table>

Source: based on figures obtained from District Councils

MLGC explained that the shortfalls resulted from increases in salary levels pronounced by Government in the course of implementing the budget. A second factor in the shortfalls was the assumption that un-spent balances carried over from 2012/13 by councils would fully compensate for the gaps. However, unspent balances have not been sufficient to cover the gaps in district council spending this financial year.

As a result, district councils have suppressed operational expenditures. While this helps to ensure expenditure control, it has also had adverse results particularly for O&M. Service delivery is being affected; for instance, councils have voiced concerns about their inability to maintain public toilets in usable conditions. Mphe Tenesolo Koi Community Council in Thaba Tseka stopped refuse collection in the community centre for lack of funds to pay workers. Mohale’s Hoek urban council has had to shut down the abattoir for lack of funds to make minor repairs.

District councils have also resorted to borrowing to address short term gaps in view of delays in transfers from the central government. District councils at Maseru and Mohale’s Hoek have borrowed on a short-term basis from their capital account or from the urban council’s accounts to meet shortfalls in salary payments and allowances for councillors. The latter is possible since urban councils do not keep separate accounts, but rather use the same accounts as the district councils.

The issue of internal borrowing was not fully investigated, but it can raise serious consequences. If the practice of internal borrowing (from capital budget or urban council) is encouraged/permitted, councils may be trapped in a situation of internal debt, especially if subsequent transfers from central government do not match anticipated levels. Without preparing final accounts at the end of the year, the full extent of the borrowing may not be known. Similarly, the accuracy of carry-over balances will be questionable. Mohale’s Hoek Urban Council reports 1.48m rand of 4m rand carried over from last financial year. At the end of August 2013, it reflected up to 1.19m rand as balances not committed and not spent. The question is whether this amount will ultimately be available to it. Internal borrowing of this kind can weaken the commitment control system, raising concerns about the integrity of the payment process particularly where contractual commitments cannot be met.

The Ministry of Finance, jointly with MLGC, needs to ensure that budget provisions and releases to local authorities cover the salaries and allowances of councils in full, and that releases for these payments are made in a timely manner. This should reduce the inclination to borrow internally. Internal controls should also be strengthened to avoid overdrawing line items without...
clearance. Since transfers to urban councils are discreet, they should be allowed to open bank accounts to which such transfers should be made. These issues should be captured in the decentralization policy as well.

**Arrears due to unpaid commitments**

The level of arrears arising out of unpaid commitments is not clear but it does exist. The District Council Secretary of Thaba-Tseka estimates that unpaid debt of up to 400,000 rand carried over from last financial year. Arrears for the Mohale’s Hoek DC are also estimated to be of about the same amount. Not all arrears are reflected in books since some are incurred without orders. Cases that have been cited as main causes for accumulating unpaid commitments include salaries, councillors’ costs, communication expenses, and rent where council offices are not housed in their own buildings.

Thaba Tseka DCS explained that, because of the topography of the district, “Councillors have to spend at least two nights when they come for a regular meeting; they have to be accommodated and fed in hotels and lodges.” He also added that DC’s are expected to disseminate communications from the central government to community councils (CC). This involves production of copies and hand delivery, which is costly.

CCs in general indicated they do not commit without clearance by the DCS, and so they say they do not have arrears. However, on close examination, Mphe Tenesolo Koi Community Council in Thaba Tseka revealed unpaid bills or debt resulting from undocumented orders in 2012/13 covering gas for heating - up to 4,500 rand, catering for councillors, and labour costs for waste management - up to 257,562 rand. Therefore, arrears are also incurred at the community council level and need to be controlled.

The Team was informed that arrears are also a common occurrence in Maseru MC. MMC arrears were said to arise as a result of weak controls over expenditures – in general, poor commitment control practices. Commitments were said to be entered into, regardless of cash resources available or expected. The level of current arrears could not be ascertained, but the staff confirmed there were significant.

**Internal audit**

Internal audit is a management support function which is internal to an organization. In the context of local authorities, its purpose should be to monitor the effectiveness of internal control systems and help management and councils to reduce risks in financial management.

There is no internal audit function at the district level. The team found that even Maseru MC, with an annual budget exceeding 50m rand (excluding central government financed projects) does not have an internal audit function of its own.

The internal audit function for local authorities in Lesotho is located within the MLGC. The three-staff unit supports the MLGC and the local authorities. At least once each year, the unit is also expected to audit each of the offices of the district administrator (10) and all local authorities - district councils (10), community (64) and urban (11) councils. However, this is not feasible, given the resources available to the unit. As such, there have been virtually no audits of these units in the last 2 years. DCs and CCs could not recall when internal auditors last visited, discussing issues from internal audit report or seeing copies of internal audit reports. Recent audits have been linked to investigations of reported wrongdoing like in the case of Mohale UC earlier in 2013 where significant revenue losses were reported that led to the dismissal of the Senior Accountant. In its present set-up, the function is ineffective in as far as strengthening financial system of local authorities is concerned. There is need to review the strategy on internal audit to better respond to the specific requirements of the district councils. In addition, the internal audit function should also be introduced for district, municipal, and urban councils.

**Accounting staff**

The accounting function is located across all units within the districts. In all districts involved in the assessment, DAs, DCS and urban and community councils have established positions for accounting functions. In general, CCs have one accounts staff – an accounts clerk. UCs have senior accountant staff positions supported by accounts clerk. Community and urban councils’ accounts staff work in general under guidance from the finance manager who is based at the district. The following positions were established (Figure 22)
Figure 22: Filled positions in accounting function in districts

<table>
<thead>
<tr>
<th>District</th>
<th>Finance Manager</th>
<th>Senior Accountant</th>
<th>Accountant</th>
<th>Accounts Clerk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maseru DC</td>
<td>DC 1</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>MC</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mohale’s Hoek</td>
<td>DA 1</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>DC 1</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>UC 0</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tsaba Tseka</td>
<td>DA 0</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>DCS 0</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>UC 1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A number of positions remain unfilled. This includes the Finance Manager Position in Thaba-Tseka DA’s office and districts council, and senior accountant position for the urban council at Mohale’s Hoek. Concern was raised (by Auditor General and DSC, Thaba-Tseka) about the adequacy of accounts clerks to handle finances at the community council level. The requirement for an accounts clerk position is a Cambridge Oversees School Certificate (COSC). COSC is a high school certificate and not an accounting qualification; it does not equip staff with relevant skills for accounting. With training, staff with this qualification can handle bookkeeping. This report supports AG’s recommendation to raise the staff requirement at the level of community council to an assistant accountant with diploma level qualification in accountancy.

Local authorities as well as the Auditor General have also raised challenges of segregation of duties in view of the number of staff. This challenge is particularly severe for those district and urban councils with no more than one accounting staff and in community councils where the structure provides for one clerical staff. In Thaba Tseka, the Senior Accounts officer has to process payment vouchers, to sign the checks, and to reconcile accounts.

MoF and MLGC will need to re-asses the staff structure and competence requirements for accounting function in local authorities in the context of the new decentralization policy dispensation under preparation.

Bank accounts and banking arrangements

The bank accounts of local authorities have to be authorized by the Accountant General (FR.1201) and should have two signatories (FR.1206). All district councils reported to have two bank accounts, one for recurrent operations and the other for capital expenditures to confirm compliance with the legal provisions. The DA maintains a separate account from the district council. None of the councils reported keeping any special accounts outside the two identified above. Community and urban councils do not keep bank accounts.

The DCS has an accounting responsibility for all funds spent within district councils and by urban and community councils. The DCS is required to conduct reconciliations of bank accounts under their custody (FR1203). District councils in general were found to prepare monthly bank reconciliations. Maseru DC, Mohale’s Hoek DC and Thaba Tseka DC were found to have their bank reconciliations current - up to August 2013. Urban and community councils do not prepare bank reconciliations since they do not maintain bank accounts.

The practice of limiting the number of bank accounts should be upheld to the extent possible. Variations may be made to have accounts for urban councils in view of the issues of expenditure control raised earlier on in section 2.3.3 of this report.

However, Maseru MC was found to have a significant number of bank accounts (about 20), although many of them relate to specific revenue sources. Many bank
accounts reduce the ability of councils to manage financial resources effectively. The practice in other districts should be considered by Maseru MC of reducing the number of bank accounts. Controls that are desired from the use of separate bank accounts can be achieved easily using the accounting system (based on ASSIST) currently under implementation by MMC.

**Procurement in councils**

In line with the Procurement Regulations of 2007, procurement is a decentralised function with districts taking responsibility and accountability for their own procurement. The regulations require the establishment of a procurement unit at the district level. Districts in the study confirmed the existence of such a unit headed by a procurement officer.

The procurement function is not fully developed yet. Based on visits to the districts, procurement planning, as set out in the regulations (Section 51) is not happening as it should. A second issue is the pegging the procurement process on the receipt of transfers from the central government. The regulations (48(1)) require procurement units “to initiate the procurement process once funds for financing goods, works and services are allocated”. Cases were cited of delays to the procurement process pending transfer of funds—particularly under the capital budget. This is a misunderstanding of the regulations and also could result from delays in providing clarity in approved council budget allocations. Greater clarity needs to be provided to district councils on budget allocations at the beginning of the year. Councils should then be encouraged to review their procurement plans and commence procurement once information on approved budgets is received. Secondly, transfers to councils should be made in a more predictable manner (see section 2.3.3 of this report) to allow councils to plan their activities related to procurement.

The District Council Procurement Officer handles procurement of goods and services related to community councils. Community councils in general follow the procurement steps below (Figure 23).

**Figure 23: Typical steps followed by community council in procurement**

- Beneficiary unit (officials) at the community council originates requisition form
- Form signed by Accounts to confirm availability of funds
- CCS authorizes requisition
- Requisition presented to DCS
- DC authorizes procurement
- Procurement officer sources quotation for goods / services
- DCS gives the order to procure
- Commitment is entered into vote-book
- Goods delivered together with GRN and invoice

The Maseru MC procurement functions do not meet the standard expressed in the procurement regulations. As discussed under section 2.1.1 (e), the procurement function at Maseru MC is hampered by their exclusion from the procurement regulations of 2007. Procurement is administered by a Purchasing Officer under the City Treasurer who is often supported by external experts where specific services and works are to be procured. It will be necessary to revise the regulations to include MMC.

**Reporting**

Reports provide a mechanism to monitor budget implementation and to facilitate management to supervise revenue and expenditure control systems during budget implementation. The LG Act (section 62(1)) requires Town Clerks and Council Secretaries to prepare monthly income and expenditure statements. The Minister of Finance has prescribed the use of the following documents for reporting by local authorities:

- Financial status report by which local authorities (DC, UC and CC) prepare monthly statements of expenditure showing for each item of expenditure, the approved budgets, the cumulative amount of funds released of which a warrant has been issued by the MoF, commitment and expenditure levels for both recurrent and capital budgets; and
- Revenue Status Report providing revenue budgets, cumulative collections to the previous month, and collections in the relevant month.

These reports are to be prepared at all levels of the local authorities. Councils in the study were found to comply with these reporting requirements in general. However, there are still concerns with the accuracy
of data and the capacity of the staff in community councils in completing these returns. This should be addressed in a capacity building program.

2.3.4. System to support financial management

In general, accounting operations for district councils are manual. Maseru district council has its accounting processes supported by a financial management system based on a PASTEL accounting package. The Finance Manager was able to record transactions instantly and to generate reports of expenditure. However, the lack of suitability of PASTEL for government operations limited its ability to meet all reporting needs of the councils. For example, the Finance Manager was unable to generate financial statements of the councils for the year 2012/13 using the PASTEL system. Maseru MC is also installing the accounting system - ASSIST. Functions of revenue collection as well as recording are being implemented. The solution will extend to other accounting functions of the MC.

The central government has installed a financial management information system (IFMIS) based on EPICOR. Views of users about the performance of the system have been negative in general, citing slow speed, inadequate training, and inflexibility in reporting. This study has not conducted an extensive review of the IFMIS. However, it is the view of the Team, based on experiences elsewhere, that a complex solution is not required and may not be sustainable for the district councils. The Government should be open about considering options which may be simpler, easier to use, and more sustainable for local governments. Concerns about the harmonization of financial management systems will need to be addressed firstly through harmonised financial legislation, processes, rules and procedures, charts of accounts, and reporting. As long as open technology platforms are used for the two systems, appropriate interfaces can ease exchange of data in a harmonized framework. The Government needs to balance these issues carefully and to take lessons from experiences in other countries such as in Uganda, Rwanda and Malawi.

The Team recommends that Government consider the factors outlined in Figure 24 below as they consider a district council IFMIS.

Figure 24: Useful goals for district council systems

- Undertake a study to clarify the requirements of district councils and to inform the selection of the IFMIS solution for local authorities.
- Select a simple, easy-to-learn-and-use solution that is sustainable within the limits of local government budgets.
- Select a solution with low overall cost of ownership, including costs for initial investments and maintenance. To this end, the suppliers should demonstrate the cost of ownership in the medium term.
- Select a solution based on a distributed architecture which allows councils to process data and reports locally while enabling exchange of data with the central IFMIS. This way, local authorities will be less vulnerable to communication failures of internet-based networks.
- Select a system that will meet the full functionality of the local authorities, including revenue assessment, collection and accountability, fund management, basis of accounting, and local government reporting among others.
- Select a system providing capability for budget management, including budget preparation, work-plans, and budget-tracking; and one that will integrate these functions with budget execution and accounting.
- Select a system that will provide seamless exchange with common office application—in particular, MC Excel, which is already widely used in councils for budget formulation and reporting.
- Select a system based on technologies for which skills are readily available locally in order to promote low-cost support.
2.3.5 Accountability processes

Accountability provisions for local authorities are provided in the Local Government Act (1997 – amended) and the PFMA Act (2009). Under these provisions:

1. Local authorities are required to submit to their councils detailed financial statements reflecting the financial status of the council at the end of the financial year (LGA, 62(2));
2. Local authorities are required to report to Cabinet and Parliament on “financial matters” of the council (PFMA, 41(1)(e);
3. An external audit of the accounts of every council should be applied for each the financial year (LGA amended, 63(1)); and
4. LG are required to prepare annual reports including programme results and audited statements of financial performance (PFMA, 47(1)). These annual reports are to be presented to Parliament by the Minister of the Ministry of Finance.

Local councils have established a Standing Committee on Finance which inspects and provides oversight over financial matters of councils. Finance committees review budgets and monthly financial and revenue status reports submitted by council secretaries of town clerks before they are laid before the councils. All districts indicated that councils meet monthly to review financial reports among other issues. However, local authorities have in general not been preparing end of year financial statement as required by law. The Auditor General attributes the inability to live up to this obligation to the weak capacities of councils. There is also a need to prescribe, within the financial legislation, the form of annual financial statements to be completed by local authorities.

As discussed above, one of the main challenges to the council audits is the absence of financial statements. Councils have been unable to prepare annual reports, as prescribed by the PFMA (47(1)). The Auditor General explained that only three district councils, namely Botha Bothe, Mafeteng and Mohale Hoek have had their accounts audited since 2005. In all cases, the audits were qualified pointing to significant weaknesses in their financial management systems.

2.4 Fiscal Inter-governmental relations

A fiscal intergovernmental relation (FIGR) defines the framework of fiscal operations which support the implementation of the functions allocated to each level of government. FIGR recognize the levels of government (central and local government) and their roles and importance in fiscal operations of local government.

Local revenues
- Local authorities collect, but are not allowed to retain revenues. They serve as collection agents for central government. Councils do not have powers of policy and cannot set rates. This is inconsistent with the law (LGA).
Revenues are collected by community and urban councils. Should a decision be made to retain revenue collections at this level, it will be necessary to clarify the sharing mechanisms (formula) between the district and community or urban councils.

b) Grants
- District and urban councils submit financing needs using the budget framework paper at the time of budget formulation. Local authorities have, however, raised concerns about the lack of transparency in the final determination of the size of the grants (ceiling). This determination remains largely a top-down process.
- The share of grants between district and community-level authorities is determined through district councils, in which all community councils are represented.
- Grant allocation across district councils is not based on an equitable formula which would consider specific circumstances of each council.
- The question of the type of mechanism required addressing the fiscal imbalance between functions assigned to local authorities and resources that may accrue to them from local revenues, if these are granted, will need to be clarified in the policy. Presently, this is generally regarded as a grant system, but it could also be based on revenue sharing. \(^{21}\) The architecture of the selected system (grant or revenue sharing) and the powers of local authorities will need to be elaborated in the decentralization policy and the law (LGA).

c) Planning, budgeting and accounting processes
- Key service delivery functions assigned to councils are still retained by central government ministries through their de-concentrated offices. Local authorities are powerless to plan or assign budgets for these functions.
- Councils can participate in the allocation of their budgets only within the ceiling imposed by central government. The role of the councils in the budget-approving process is thus limited.

\(^{21}\) Revenue sharing basis means central and local councils establish a formula for sharing national revenues (or a portion of it)
- Financial reporting requirements from central government are reasonable and can be met by local authorities. Local authorities have also found them useful for reporting to their councils.
- Community councils’ powers in fiscal decision-making are limited and subject to control and direction by district councils.

d) Accountability
- Councils have very limited powers and role in the accountability process. Downward accountability is particularly limited.
- Local authorities are treated as units under the MLGC and therefore largely directed by and accountable to the Ministry.
- The high dependency on transfers from central government significantly tilts the power for accountability towards central government.
- Since many service delivery functions are yet to be devolved from central government, local councils cannot effectively exercise oversight over them.
- Local authorities cannot link revenues sources (taxation or otherwise) to services since they do not retain collections. Therefore, councils cannot demonstrate accountability for revenues collected from communities.
2.4.2 The fiscal transfer systems

Local authorities are presently treated as units under the MLGC. Transfers, both recurrent (covering emoluments and operational costs) and capital expenditures, are made directly by the Ministry of Finance to accounts of district councils.

1. Recurrent transfers are made on quarterly basis as a single block grant determined on the basis of a schedule advised by the MLGC and within the provision available based on the warrant issued by MoF. MLGC keeps a record of the approved budget and uses it to assess and determine the level of transfers under each district council during each quarter. Consultations with district councils have revealed that levels of transfers do not in general vary between quarters, suggesting that the formula used at the MLGC is to divide the approved budget equally across the four quarters.

Community and urban councils do not maintain bank accounts, and so there is no further transfer beyond district councils. The component of the transfer due to urban councils will be known from the onset. The remaining component of the transfer covers salaries and operational costs of the DC and community councils.

In this case, the formal process requires district councils to meet once the recurrent transfer is received and to reach agreement on its distribution across these entities, but giving priority to salaries. All disbursements for community and urban councils’ activities are subject to clearance by the District Council Secretary.

2. Capital transfers are made on the basis of the assessment of project financing needs for each district council. The assessment is carried out by the MLGC, which then advises MoF on the schedule of transfers to local authorities’ projects. The overall transfer level is kept within the provision of the warrant by MoF.

The cycle of transfers (quarterly or half annual) is not clear. For example, in 2013/14, only one transfer has been made. Disbursements for major projects, such as major urban roads, are made directly to contractors by the MoF. Disbursements to other capital projects are made through the capital accounts of district councils. The major concerns with the transfer system have been the delays, up to two months and more in the case of the recurrent transfers.
Recommendation under fiscal decentralization

The recommendations below specifically relate to fiscal decentralization and should be read together.

1 Recommendations under local authorities financial legislation

- Review the Public Finance Management and Accountability Act (PFMA) to expand the section covering local authorities and introduce provisions that relate to areas identified in this study. The Government may also choose to have separate legislation for local authorities’ financial management. In this case, there will be need to streamline the PFMA by removing and transferring the section (Part V) on local government finance to separate legislation, but maintaining appropriate linkages to ensure that the PFMA remains the key coordinating public finance legislation.

- Revision to the PFMA Act or drawing up a local government specific law should take place following the completion of the decentralization policy and revisions to the Local Government Act. Based on the policy agreements, the revision should consider inclusion of some or all of the following factors:
  - Accounting policies, principles, and standards to govern local government finance;
  - Responsibility of the Ministry of Finance and Accountant General in relation to councils financial management systems;
  - Assignment of roles and functions for an accounting officer for each local authority;
  - Responsibilities of councils with regard to local authorities’ public finance and accountability matters; specifically with regard to budget approval and review of audit reports;
  - Budget calendars that provide a link between the national budget process and the local authorities’ process;
  - Recent practices in budget formulation including the use of the MTEF and the budget framework papers;
  - The treatment of unspent balances out of transfers to local authorities;
  - Relations and interaction between councils and national planning in the area of budgeting accountability processes within an inter-governmental framework in a form that does not diminish the powers of councils;
  - Financial management operations at community and urban councils and their relationship with districts councils;
  - Borrowing operations of councils;
  - Aid coordination operations within councils including the integration of development partners and NGOs activities with local planning, budgeting and accountability processes;
  - Establishing internal audit functions within local authorities financial statements (standards) of the local authorities; and
  - External audit of councils.

- Introduce financial regulations for local authorities clarifying differences in roles, responsibilities, and operations for district, urban, and community councils. The regulation should have clear sections for each council: district, urban, and community. The regulations should include, among other things, detailed formats for financial statements of local authorities. Local Authorities Financial Regulations should be introduced after revisions and should directly support the Local Government Act and Public Finance Management and Accountability Act proposed in this assessment.

- Set a limit to the time allocated to approve bylaws by the Minister of Local Government. This will make the initiation and implementation of bylaws more predictable.
2 Recommendations under local authorities resource base

- Include in the policy the powers of councils to retain local revenues and to apply them to their expenditures.
- Include in the policy, and later in the revised Local Government Act, a requirement to protect transfers to local authorities in real terms to allow them to maintain a minimum level of service delivery.
- Undertake an assessment, in view of the functions assigned to local authorities, and determine the full range of sources from which local authorities may collect revenues.
- Revise the Local Government Act, clarifying further the sources of local revenues in view of what is known of these sources, following the assessment above. Include in the Act, the formula for sharing revenue collections between district and community councils and district and urban councils.
- Review the Local Government Act to clarify the sharing of powers over policies, the determination of sources, and setting of rates over local revenue between the central government and councils.
- Establish local government financial regulations and use them to clarify systems for local revenue collection, accounting, and reporting. Clarify the roles and responsibility of councils. Use the regulations to require councils to link revenue collections to service delivery to the extent possible.
- Introduce a system of incentives, including the possibility of financial rewards to encourage local authorities to improve local revenue administration and collections. The Government should set aside a financial provision for councils upon meeting agreed targets on the collection local revenues. Targets may include: (a) growth in revenue collection in real terms on an annual basis, (b) proportion of revenue collections spent on local service delivery, and (c) efficiency of local revenues in promoting local economy. A matching grant should then be provided to district councils that meets these agreed targets.
- Develop and implement a strategy for the strengthening capacity of local authorities in collecting revenues. The strategy should focus on sources that have the highest potential (for example property tax and sale of advertising space) and should aim at improving efficiency in collecting and accounting for collections. Elements of the strategy should also include criteria to be followed in deciding the sources of revenues for which collection may be outsourced.

3 Recommendations under planning, budgeting and accountability processes

- Provide support and capacity to local authorities (district and urban councils) to prepare development plans.
- Develop and disseminate a comprehensive planning framework and guidelines for local authorities that will clarify the integration of the national and local government planning process (see Annexes 5 through 8).
- Establish a detailed budget calendar combining national and local authorities’ budget formulation processes and publish it to guide councils, central government ministries, donors, and other key stakeholders.
- Introduce financial management regulations for local authorities (districts, urban and community councils) clarifying the roles and responsibilities, internal control systems, and procedural requirements in the financial management system at this level. Local Authorities-Financial Management Regulations (LA-FMR) should be developed after revisions to the LGA and PFMA that are proposed under this study.
- Continue to support councils in the use of budget framework papers (BFP) and budget forms to improve the accuracy of budget data and realism in forecasts.
- Require councils to report on arrears and unspent balances in the BFP and budget forms during the budget formulation process to the enable appreciation of the scale of these issues at national level.
- Review the Public Finance Management and Accountability Act and clarify the treatment of unspent balance and arrears of councils.
- Support the development of annual district forums as institutions for increasing participation and coordination of all units in the preparation of annual plans and budget at the districts.
- Support the institutionalization of the National Conference for Local Authorities as a forum for dialogue between central government and councils on matters of fiscal decentralization.
- Grant district councils vote status within the national
budget to increase transparency of funds allocated to them.

- Require separate bank accounts for urban councils to improve control over resources transferred to them. This process should be accompanied with the strengthening of staff competences and expansion of financial regulations to cover the additional accounting operations in urban councils.

- Ministry of Finance, together with MLGC, need to ensure that budget provisions and releases to local authorities cover salaries and allowances of councils in full, and that releases for these payments are made in a timely manner to limit recourse to borrowing by local authorities.

- Re-examine the accounting staff position in community councils and raise it to assistant accountant with diploma in accounting at minimum. Continue to develop skills for bookkeeping and preparation of financial reports.

- Develop and implement an internal audit strategy for local authorities which will see the institutionalisation of a more effective internal audit system at this level. The strategy should cover, among other things:
  - Re-examination and strengthening of the system of internal controls and documenting specified in the regulations;
  - Designation of an internal audit function within district, municipal, and urban councils, headed by a qualified internal auditor, and covering financial systems and operations of community councils, including revenue management and collection systems;
  - Reporting relations with councils and the Auditor General; and
  - Implementing a capacity-building plan for an internal audit.

- Locate and implement a simpler and more sustainable medium level (tier 2) financial management system for district councils based on a distributed platform and require interfaces to be established with the EPICOR IFMIS system at the central government over a wide area network.

- Develop and implement a plan to support district councils to strengthen the capacity to prepare annual financial statements. Define a package of sanctions to attach to the non-presentation of financial statements. Sanctions in this regard may include withholding disbursements (transfers) to councils that will not have met this vital condition.

### 4 Recommendations under FIGR

- Clarify in the decentralization policy and in the Local Government Act, the mechanisms for treatment of vertical fiscal imbalance (either the use of a grant system or revenue sharing system) between central government and local authorities, and define its full architecture.

- Review the Local Government Act and the PFMA to provide more clarity on intergovernmental relations, particularly in regard to local revenues, grants, horizontal sharing, and resource sharing between the DC and community councils.

- Expand opportunities for dialogue with local authorities; support and fully develop the MLGC’s initiative for a national conference for local councils into an annual event at which central government and local authorities can dialogue on fiscal and policy issues affecting local authorities.

### 5 Indicators recommended for monitoring institutional & fiscal decentralization

The table below (Figure 25) is used to list some key indicators, arising out of the study that may be considered for monitoring institutional and fiscal decentralization improvement, particularly in relation to the Deepening Decentralization Project (DDP).
### Figure 25: Indicators proposed for monitoring decentralization

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<th>Area</th>
<th>Proposed Indicators</th>
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| Local Revenue Generation                  | • Retention of local revenues by district councils  
• Performance of DC collections against budget provisions  
• District local revenue collection has not decreased in nominal figures from the previous FY  
• Application of local revenues to local services |
| Local Government Development Planning and Budgeting. | • Number of meetings of the DDCC  
• Existence of a District Development Plan approved by district council  
• District Annual Development Plan (DAP) for the current financial year (FY) approved by council  
• A district council budget covering revenues and expenditures and approved by council  
• District council in place and have met at least once in the current financial year  
• Existence and use of a vote-book  
• Level of un-paid bills from past years  
• Existence of a functional Procurement Unit and Tender Panel. |
| Financial Management and internal Audit.   | • Up-to-date bank reconciliations  
• Complete Final Accounts for the previous FY produced and submitted to the MoLG timely with the statutory period  
• Existence on internal audit function  
• Number of Internal Audit reports  
• Final audit of accounts for the previous FY audited and not qualified (if not the previous FY, then the latest but not more than two years back). |
| Capacity Building                         | • Annual Capacity Building Plan in place and approved by council. |
| Local Administration                      | • Fulltime District Council Secretary, Economic Planner, Finance Manager, HR officer, Principal Technical Officer (engineer), Physical Planner, Procurement Officer, Administration Manager, and Senior Legal Officer--all with written job descriptions  
• Filled positions for all heads of departments |

**Note:** These indicators include those already identified under the DDP.
Overall conclusions and policy recommendations

This study has documented the status of decentralization in Lesotho, focusing mainly on the institutional and organization aspects, as well as on the fiscal operations of the local authorities. In its examination, it has focused on institutional and fiscal operations within local authorities—district, municipal, community, and urban councils—and in their relation with central government. Accordingly, key findings and recommendations of this study relate to these spheres of government. This study provides baseline data on which progress in decentralization will be assessed, particularly as the Government implements its Deepening Decentralization Programme. It was also the intention of the Ministry of Local Government and Chieftainship, that the study would inform an ongoing process for the formulation of the decentralization policy of Lesotho. Efforts have been made to identify and document policy recommendations that will need to be considered in this policy development process.

The commitment to decentralization within the MLGC and within local authorities is in no doubt. The study has established that as a result of Government’s commitment, political decentralization has moved considerably, with the establishment of elected district, community, urban, and municipal councils across the country. Councils at all levels have been provided with administrative structures which are largely staffed and equipped. Fiscal decentralization has also progressed considerably, particularly as significant amounts of resources are now transferred through the MLGC to councils in a manner that is fairly predictable. Budgeting and accounting practices have improved over the years, and councils now undertake regular expenditure reporting.

However, this study also confirms many of the issues affecting decentralization that have been raised by previous assessments. Major weaknesses remain, particularly in administrative and fiscal decentralization. An emerging critical question is the model of decentralization that Lesotho wishes to have. This will have to be answered and owned at the highest political level of the Government of Lesotho. Fortunately, the policy formulation currently underway provides an appropriate mechanism to address this question. The choice made with regard to the model of decentralization will shape decentralization going forward. Accordingly, the approach taken by this report to many of the recommendations in this study has been to provide options that the Government will need to consider as it moves ahead in this process.

The report has identified wide-ranging recommendations. Below is a set of key policy recommendations made under the study:

- As pointed out, the questions of the model of decentralization (de-concentration, delegation or devolution) must be settled clearly. The local government actions and interactions with councils point to decentralization by devolution as the preferred model. This would also suit the conditions of Lesotho, whose terrain makes it difficult to deliver services in a centralised framework.
- The policy will need to determine the relationship between district councils and lower councils (urban and community). Are these to act as delegated agents of DC or devolved entities?
- Once the model of decentralization is established, it is necessary to reassess the service functions (health, education, agriculture, roads) and determine which aspect and powers will be devolved to local authorities (district, urban, or community councils) and which remain with central government. The conventional approach is to assign basic services (basic / secondary education, primary health care, etc.) to local governments.
- The policy should address the human resource aspect of decentralization, particularly in the key service areas of education (teachers) and health (health workers). In the context of the decentralization model that will be selected, it is important to identify the optimal approach to sharing responsibilities for recruitment, deployment, and supervision between central government and district councils. If all these functions are left to local authorities, the more disadvantaged districts, for example those with difficult terrain may be unattractive and have difficulty in attracting and retaining key staff and thus may become more marginalised. It is possible to recruit and deploy centrally, but supervise locally. The bottom line for the choice made is to promote local accountability while ensuring availability of critical staff to all districts.
- The policy needs to clearly restate the powers of councils over local revenues in the areas of determining sources, assessment, setting rates, collection, and use of local revenues. Once those matters are clari-
fied, the powers of local authorities to establish bylaws should also be examined.

- The policy should provide clarity on the sharing of revenue between district and lower councils. Ordinarily, user charges and penalties are best retained in full at the points of collections – the lower councils. Sharing may be considered for permits and licenses. However, in view of the levels of collections, the policy may consider retaining all revenues by community councils.

- Include in the policy a requirement to protect transfers to local authorities in real terms over the period to allow them to maintain a minimum level of service delivery.

- The policy should consider a system of incentives, including the possibility of financial rewards, to encourage local authorities to improve local revenue administration and collections over time.

- The policy should be clear on treatment of payment arrears by local authorities. Arrears should be met fully out of local authorities’ budgets and should not be assumed by central government. The bottom line is to instil discipline in budget management by local authorities.

- Human resource policy should remain the responsibility of central government. In this regard, central government should be required to set the pay levels, and to meet the full cost of salaries and pensions for staff of local authorities. However, a balance is needed to ensure local accountability of staff. Therefore, supervision and reporting on staff should remain a function of the district councils.

- The policy will need to clarify the transfer mechanisms to local authorities from national budget–whether it will be on the basis of sharing or grants system. Sharing entitles local authorities to block transfers, while the grants system allows the use of conditional transfers.

- The policy should clarify the treatment of balances of transfers unspent by local authorities at the end of the year in the case of a conditional grant system.

- The policy should clarify the treatment of district councils in the national budget. The policy should grant district councils vote status within the national budget to increase transparency of funds allocated to them.

- The policy should require separate accounts for urban councils to improve control over resources transferred to them.

- Re-examine the accounting staff position in community councils and raise it to assistant accountant with diploma in accounting at minimum.

- Establish an internal audit function within each district, urban, and municipal council.

- Review the position of the DCS as Chief Executive of the district council to grant the position clear responsibilities as accounting officer for the district responsible to the council for delivering functions assigned to the district.

- Move district planning function staff under the DAs to the Office the DCS.
## Proposed Plan of Action

The table below proposes actions and their timing on key recommendations made in this study. Suffice to note many of these actions will depend on the completion of the decentralization policy—currently under formulation. Therefore, this action plan will be finalised once the policy is completed.

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<td>2.2 Clarify further the sharing of functions between CG, DCs, CC, UC and MC</td>
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<td>2.3 Clarify the powers of local authorities to collect and retain local revenues</td>
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<td>2.4 Clarify the sharing of revenues and transfers between DC and lower councils</td>
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<td>2.5 Establish a local government association and provide resources to operate</td>
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<td>2.6 Review / revise the Local Government Act to align with policy</td>
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<td>3</td>
<td><strong>Administrative Decentralization</strong></td>
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<tr>
<td></td>
<td>3.1 Review and strengthen the position of DCS as Chief Executive of DC</td>
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<td>3.2 Develop a policy on sharing human resource responsibilities under decentralization</td>
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<td></td>
<td>3.3 Re-examine and upgrade competences for accounting position in CC</td>
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<td></td>
<td>3.4 Develop a model staff structure of local authorities (district, community and urban) in view of functional assignments</td>
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<td>3.5 Draft and disseminate administrative guidelines on decentralization for both central and local governments</td>
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<td>3.6 Develop and implement a plan to reorganising functions between central ministries and Councils in line with the policy</td>
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<td>3.7 Develop and implement a proposal for strengthening community participation and local governance program</td>
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### Fiscal Decentralization

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<tr>
<td>4.1</td>
<td>Review / revise the Public finance Management law</td>
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<td>4.2</td>
<td>Establish financial regulations for local authorities</td>
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<td>4.3</td>
<td>Disseminate the public finance law and regulations to LGs</td>
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<tr>
<td>4.4</td>
<td>Review / revise the public procurement regulations to cover MMC and disseminate</td>
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<td>4.5</td>
<td>Assess local revenue sources in line with functions assigned to local authorities</td>
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<td>4.6</td>
<td>Establish and implement allocation formulae for transfer to LGs</td>
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<tr>
<td>4.7</td>
<td>Restructure budgeting and accountability processes to align with decentralization policy</td>
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<td>4.8</td>
<td>Develop and publicise a detailed planning and budgeting calendar combining national and local budget processes</td>
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<td>4.9</td>
<td>Develop and disseminate a comprehensive planning guidelines for LGs</td>
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<td>4.10</td>
<td>Begin to implement a scheme to protect transfers to LGs from cuts and reductions in real terms</td>
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<td>4.11</td>
<td>Introduce a system of incentives to encourage local authorities on revenue</td>
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<td>4.12</td>
<td>Continue to support councils in the use of budget framework papers (BFP) and other budget tools</td>
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<td>4.13</td>
<td>Support the development of annual district forums to increase participations and coordination in the preparation of annual plans and budget</td>
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<td>4.14</td>
<td>Support the National Conference for Local authorities to promote dialogues with central government</td>
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<td>4.15</td>
<td>Develop and implement an internal audit strategy for local authorities</td>
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<td>4.16</td>
<td>Undertake a study and implement an IFMS for local authorities</td>
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<td>4.17</td>
<td>Develop / implement a capacity building plan for councils including CC for</td>
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</table>

- Strengthening capacity of local authorities in collecting revenues
- Preparing development plans
- To develop capacity for preparation of annual financial statements
Annex 1: List of references


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nomic and Manpower Development”.

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Annexes
## Annex 2: People interviewed and meetings

<table>
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<th>NAME</th>
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<td>Ms. Celina Jane</td>
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<tr>
<td>Butha-Buthe</td>
<td>Mr. Motsamai Mokoto</td>
<td>DA Butha-Buthe</td>
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<td></td>
<td>Mr. Richard Ramookoena</td>
<td>Assistant HR</td>
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<td>Mrs. Nthabiseng Tekane</td>
<td>Butha-Buthe Town Clerk</td>
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<td>Mr. Napo Lehata</td>
<td>Economic Planner, Butha-Buthe</td>
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<td>Town Clerk Butha-Buthe Urban Council</td>
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<td>Mr. Mohlominyane Hlaoli</td>
<td>District Council Secretary Mokhotlong</td>
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<td>Town Clerk Mokhotlong Urban Council</td>
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<td>Berea</td>
<td>Mr. Rorisang Motsopa</td>
<td>Town Clerk Berea Urban Council</td>
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<td>Mrs. Mathabang Tlali</td>
<td>District Council Secretary Berea</td>
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<td>Mrs. Malefelisa Setloboko</td>
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<td>Mr. Palo Mphethi</td>
<td>District Council Secretary Thaba-Tseka</td>
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<td>Mr. Tsabela Tlali</td>
<td>Town Clerk Thaba-Tseka Urban Council</td>
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<td>Mr. Thabang Khoioane</td>
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<td>Ms. Lerato Motsokotsi</td>
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<td>Mr. Kali Molefe</td>
<td>Thaba-Tseka Urban Council; Assistant Administrative Officer,</td>
</tr>
<tr>
<td>Location</td>
<td>Name</td>
<td>Position</td>
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<tr>
<td><strong>QACHAS NEK</strong></td>
<td>Mr. Mofota Phathela</td>
<td>District Council Secretary</td>
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<td></td>
<td>Mr. Mpho Lesia</td>
<td>Town Clerk Qachas Nek</td>
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<tr>
<td><strong>QUTHING</strong></td>
<td>Mr. Litsits Ramakhula</td>
<td>Urban Council</td>
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<tr>
<td></td>
<td>Mrs. Mothontsi Lekau</td>
<td>Town Clerk Quthing District</td>
</tr>
<tr>
<td><strong>MOHALES HOEK</strong></td>
<td>Ms. Maalina Maleke</td>
<td>District Council Secretary</td>
</tr>
<tr>
<td></td>
<td>Mr. Seleso Mokali</td>
<td>DC Chairperson</td>
</tr>
<tr>
<td></td>
<td>Ms. Dintle Bafazin</td>
<td>Senior Accountant</td>
</tr>
<tr>
<td></td>
<td>Ms. Sandile Pinda</td>
<td>Assistant Administration Officer</td>
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<tr>
<td></td>
<td>Taelo Thejane</td>
<td>DA Finance Manager</td>
</tr>
<tr>
<td></td>
<td>Mr. Tefo Mofolo</td>
<td>Town Clerk Mohales Hoek</td>
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<td></td>
<td>Mapalesa Sakoane</td>
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<td></td>
<td>Ms. Mamokana Sophio Mokawa</td>
<td>22780225 / 58946578</td>
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<td></td>
<td>Mr. Tseare Stephen Mokmanlane</td>
<td>Asst. Administration Officer (sitting in for Town Clerk)</td>
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<tr>
<td></td>
<td>Mr. Manase Mosinoa</td>
<td>Accounts Clerk</td>
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<td></td>
<td>Klaus-Dieter Sefrin</td>
<td>Advisor on Land Use &amp; Settlement Planning, Mohale’s Hoek GIZ</td>
</tr>
<tr>
<td><strong>MOHALES HOEK</strong></td>
<td>Molaod Melaa</td>
<td>Chairperson</td>
</tr>
<tr>
<td><strong>Community Council Thaba-Machele</strong></td>
<td>Molaod Melaa</td>
<td>Chairperson</td>
</tr>
<tr>
<td><strong>Khoelenya (CC)</strong></td>
<td>Mampeche Nthulanyane</td>
<td>Community Council Secretary</td>
</tr>
<tr>
<td><strong>Sioe (CC)</strong></td>
<td>Nthabeleng Sethuga</td>
<td>Community accounts Clerk</td>
</tr>
<tr>
<td><strong>MAFETENG</strong></td>
<td>Mrs. Mamotheba Mokhokhoba</td>
<td>District Council Secretary</td>
</tr>
<tr>
<td></td>
<td>Mr. Thabo Maema</td>
<td>Town Clerk Mafeteng Urban Council</td>
</tr>
</tbody>
</table>
Decentralization in Lesotho dates back to colonial time, which saw District Councils and Basutoland National Council (BNC) as people’s representative bodies in their different ways and even at the end of colonial rule in 1965. After Lesotho gained independence in 1966, the then Government of Lesotho under the rule of the Basotho National Party (BNP) abolished the District Councils through the local Government Act 1968 because it felt that they complicated lines of communication between the Central authorities and the districts which demanded more power and autonomy in decision making.

After the Government abolished the District Councils, it put in place its own model of decentralization wherein the Central Government maintained power, but allocated functions to local structures to run on its own terms on a patron-client basis for administrative functions. In 1968, administrative decentralization based on prefectoral model was put in place, wherein the head of the district – District Administrator - supported by heads of line Ministries departments as his/her consultants, saw to it that the decisions imposed by the Central Government headquarters in Maseru were implemented. In 1969, the Local Government Act 1969 was put in place to establish District Development Committees (DDCs) and Village Development Committees (VDCs) to promote participatory local development planning and administration. Complementory local institutions were Constituency Committees (CCs) which were exclusively BNP composed and mandated, and Ward Development Committees (WDCs). In the late 1970s and early 1980s, efforts were made to open up decentralization to become more inclusive in order to minimize the negative impacts of the centralized model of decentralization practiced between 1969 and 1980. This model was constrained by lack of training to the local authorities (VDCs, DDCs, and WDCs), marginalization of chieftainship and subsequent struggle for power and functions between VDCs and chiefs, lack of clear separation of functions in service delivery between VDCs, line ministries and chiefs, no working space and funds, weak community participation in decision making, planning and elections of VDC members because the BNP Government often manipulated the election outcome in its favour, which politicised the decentralization process.

The 1980s saw a change in name of the head of district from that of District Administrator (DA) to that of District Coordinator (DC). The DCs were directly under the Prime Minister’s Office. Again, these efforts lacked clarity on specific powers of the DCs, their specific mandates, lack of mandates of stakeholders and line ministries with the local authorities. Also there was a lack of decentralized budget to effect implementation, poor retentive capacity of the DC and their technical support personnel in the districts, low morale, marginalization of chiefs, institutional hierarchical instead of horizontal allegiance, and continued politicization of decentralization process.

In 1986, following the Military Coup, new legislation (Order, No. 8) was put in place to guide decentralization and participatory development planning, implementation and service delivery. This Order created the post of the District Military Officer (DMO) as the top manager at district level. The DMO was a military officer of high ranking and a trustee of top Military Government, who took orders from the Central Military Government and past them down to the district for implementation.

During the Military Government, decentralization was backed-up with elections every 5 years in order to become democratic and people-driven. A decentralized lump-sum budget allocation was given to each district per annum. Political party participation was banned nationally and locally under Order No. 4.

The BNP government introduced the Urban Government Act of 1983 which created Urban Boards as the urban local authorities to be in charge of urban gov-
ernance. The Act was not implemented because it was politically sensitive, side-lined the chiefs especially in land matters, and empowered the Town Clerks and the urban boards instead. There was a shortage of available willing personnel for the key post of Chief Local Government Officer.

With regard to decentralization of urban governance and service delivery, the Maseru City Council (MCC) was established through Order No. 11 during the Military Government. The MCC was to be autonomous and govern the Maseru City in all respects in terms of administration, land allocation, planning, service delivery, taxation, byelaws and so forth. Yet, again this experiment has been obstructed by politicization, lack of central government will to relinquish power, poor training, poor retention of qualified staff, lack of clear separation of powers between the MCC and the sister institutions in Central Government such as Directorate of Lands, Surveys and Physical Planning, no financial decentralization, poor knowledge and understanding of the MCC’s mandate by the communities and the Ministries, and continued conflict instead of consensus between the MCC, the Ministries, the Chiefs, the Committees and the government.

3.2 Governance and tradition in Lesotho

Lesotho is a parliamentary constitutional monarchy and her system of governance follows a two-tier structure - Chieftainship and representatives who are democratically elected. At the lowest level (village), however, chiefs remain the centre of all aspects of governance – particularly important for community security, community mobilisation for development and administer restorable justice. The country adopted a new electoral model – mixed member proportional model (MMP) prior to the 2002 general elections. This is a combination of first past the post (FPP) and proportional representation (PR) systems. Two thirds of the National Assembly members are elected through FPP model while forty are nominated through PR model.

The Senate acts as a “WATCH DOG” and among many of its functions in Parliament it is charged with protecting the peoples’ interests. Senate ensures that any potential excesses of the National Assembly are pointed out and appropriately mitigated before they could have negative impact on society.

The chiefs are regarded by many ordinary people as symbols of unity and cultural preservation. Even Central Government officials, such as security and Judicial officers, acknowledge the fundamental role played by chiefs. They refer to the chiefs as “the first police officer” in the communities because the chief is the first custodian of law at village level.

3.3 Rationale for decentralization

It is important to explain exactly what Decentralization entails and the various political and legal forms it may take on - depending on the country’s circumstances. In the context of Lesotho, the Team found a lot of misunderstanding and lack of communication regarding the required structures of decentralization, roles and responsibilities and the legal framework to support a sustainable Local Government system that is both motivated and empowered to make decisions in a participatory manner for the appropriate and efficient delivery of services for their localities.

Much of the efforts in Lesotho to promote decentralization have been motivated by political concerns. In many developing Countries, decentralization has been an essential part of the democratization process as dysfunctional central governments are replaced by elected governments operating under new constitutions. In Africa, the spread of multi-party political systems is creating demand for more local voice in decision making. In some countries, such as Ethiopia, decentralization has been a response to pressures from regional or ethnic groups for more control or participation in the political process. In the extreme, decentralization represents a desperate attempt to keep
the country together in the face of these pressures by granting more autonomy to all localities or by forging “asymmetrical federations.” A variation on this theme has been decentralization as an outcome of long civil wars, such as in Mozambique, Uganda and the genocide in Rwanda, where opening political opportunities at the local levels has allowed for greater participation by all former warring factions in the governance of the country. The transition economies of the former socialist states have also massively decentralized as the old central apparatus crumbled. In many countries, decentralization simply has happened in the absence of any meaningful alternative governance structure to provide local government services. In some cases (particularly in East Asia) decentralization appears to have been motivated by the need to improve service delivery to large populations and the recognition of the limitations of the central administration.

Economists justify decentralization on the grounds of allocative efficiency. The rationale is that decisions about public expenditure that are taken by a level of government closer, and more responsive, to a local constituency are more likely to reflect the demand for local services than similar decisions taken by a remote central government. The secondary, also important benefit, is that people are more willing to pay for services which they find to be responsive to their priorities, especially if they have been involved in the decision making process with regard to delivering the services. One argument asserts that a primary economic rationale for decentralization is to improve the “competitiveness” of governments and enhance innovation -- hence the likelihood that they will act to satisfy the wishes of citizens.

Despite the economic issues, generally politics are the driving force behind decentralization in most countries. Fortunately, decentralization may be one of those instances where good politics and good economics may serve the same end. The political objectives to increase political responsiveness and participation at the local level can coincide with the economic objectives of better decisions about the use of public resources and increased willingness to pay for local services. At least five conditions are important for successful decentralization:

1. The decentralization framework must link local financing and fiscal authority to the service provision responsibilities and functions of the local government - so that local politicians can bear the costs of their decisions and deliver on their promises;
2. The local community must be informed about the costs of services and service delivery options involved and the resource envelope and its sources - so that the decisions they make are meaningful. Participatory budgeting is one way to create this condition;
3. There must be a mechanism by which the community can express its preferences in a way that is binding on the politicians --so that there is a credible incentive for people to participate;
4. There must be a system of accountability that relies on public and transparent information which enables the community to effectively monitor the performance of the local government and react appropriately to that performance- so that politicians and local officials have an incentive to be responsive; and,
5. The instruments of decentralization --the legal and institutional framework, the structure of service delivery responsibilities and the intergovernmental fiscal system-- are designed to support the political objectives.

Successful decentralization is closely related to observing the design principles of: finance following functions; informed decision making; adherence to local priorities; and accountability. However, applying these principles in practice has not proven to be simple. Country circumstances differ, often in subtle and complex ways; consequently the policy and institutional instruments that establish decentralization have to be shaped to the specific conditions of individual countries.

a) What is decentralization?

The term “decentralization” embraces a variety of concepts which must be carefully analysed in any particular country before determining if projects or programs...
should support reorganization of financial, administrative, or service delivery systems. Decentralization, the transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent government organizations and/or the private sector, is a complex multifaceted concept.

b) Types of decentralization

The types of decentralization include political, administrative, fiscal, and market decentralization. Drawing distinctions between these various concepts is useful for highlighting the many dimensions to successful decentralization and the need for coordination among them. Nevertheless, there is clearly overlap in defining any of these terms and the precise definitions are not as important as the need for a comprehensive approach. Political, administrative, fiscal and market decentralization can also appear in different forms and combinations across countries, within countries and even within sectors.

c) Political decentralization

Political decentralization aims to give citizens or their elected representatives more power in public decision-making. It is often associated with pluralistic politics and representative government, but it can also support democratization by giving citizens, or their representatives, more influence in the formulation and implementation of policies. The concept implies that the selection of representatives from local electoral jurisdictions allows citizens to know better their political representatives and allows elected officials to know better the needs and desires of their constituents. Political decentralization often requires constitutional or statutory reforms, the development of pluralistic political parties, the strengthening of legislatures, creation of local political units, and the encouragement of effective public interest groups.

d) Administrative Decentralization

Administrative decentralization seeks to redistribute authority, responsibility and financial resources for providing public services among different levels of government. It is the transfer of responsibility for the plan-ning, financing and management of certain public functions from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, or area-wide, regional or functional authorities. The three major forms of administrative decentralization, de-concentration, delegation, and devolution, each have different characteristics.

1. Deconcentration is often considered to be the weakest form of decentralization and is used most frequently in unitary states. De-concentration redistributes decision making authority and financial and management responsibilities among different levels of the central government. It can merely shift responsibilities from central government officials in the capital city to those working in regions, provinces or districts, or it can create strong field administration or local administrative capacity under the supervision of central government ministries. i.e. DA’s Office. The Study Team considers de-concentration and Delegation the state of Lesotho.

2. Delegation is a more extensive form of decentralization. Through delegation central governments transfer responsibility for decision-making and administration of public functions to semi-autonomous organizations not wholly controlled by the central government, but ultimately accountable to it. Governments delegate responsibilities when they create public enterprises or corporations, housing authorities, transportation authorities, special service districts, semi-autonomous school districts, regional development corporations, or special project implementation units. Usually these organizations have a great deal of discretion in decision-making. They may be exempt from constraints on reg-
ular civil service personnel and may be able to charge users directly for services.

3. Devolution is the third type of administrative decentralization. When governments devolve functions, they transfer authority for decision-making, finance, and management to quasi-autonomous units of local government with corporate status. Devolution usually transfers responsibilities for services to municipalities that elect their own mayors and councils, raise their own revenues, and have independent authority to make investment decisions. In a devolved system, local governments have clear and legally recognized geographical boundaries over which they exercise authority and within which they perform public functions. It is this type of administrative decentralization that underlies most political decentralization.

e) Fiscal decentralization

Financial responsibility is a core component of decentralization. If local governments and private organizations are to carry out decentralized functions effectively, they must have an adequate level of revenues, either raised locally or transferred from the central government, as well as the authority to make decisions about expenditures. Fiscal decentralization can take many forms, including: a) self-financing or cost recovery through user charges; b) co-financing or co-production arrangements through which the users participate in providing services and infrastructure through monetary or labour contributions; c) expansion of local revenues through property or sales taxes, or indirect charges; d) intergovernmental transfers that shift general revenues from taxes collected by the central government to local governments for general or specific uses; and e) authorization of municipal borrowing and the mobilization of either national or local government resources through loan guarantees. In many developing countries, local governments or administrative units possess the legal authority to impose taxes, but the tax base is so weak and the dependence on central government subsidies so ingrained that no attempt is made to exercise that authority.

31 Ibid
Annex 4: Investigation protocol used during field visits (survey)

- Please provide preliminary responses ahead of visits. Each Officials or unit (DA, DC/MC, RC/CC) may restrict themselves to those areas marked “X”.
- **Note:** DA= District Administrator, DC=District Council, MC=Municipal Council, TC=Town Council, CC=Community Council

<table>
<thead>
<tr>
<th>#</th>
<th>Institutional and organizational management of local authorities’ Factor to be investigated</th>
<th>Institution invovled in the consultations DA DC/ MC TC / CC</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td><strong>The analysis of the state of local democracy</strong></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td><strong>Gender</strong></td>
<td></td>
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<tr>
<td>1.1</td>
<td>What is the Gender representation after the 2011 elections?</td>
<td>X X X</td>
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<tr>
<td>1.2</td>
<td>What levels of active participation in decision-making do women have in the political and planning processes?</td>
<td>X X X</td>
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<tr>
<td>1.3</td>
<td>What important roles do women contribute to the community, and are there any women’s Community Based Organizations. Please explain their functions and activities and how they work with the Council.</td>
<td>X X X</td>
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<tr>
<td>1.4</td>
<td>Are laws and regulations sufficient to support women’s empowerment? If not, examples of deficiencies and recommendations</td>
<td>X X</td>
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<tr>
<td>1.5</td>
<td>In your opinion, what areas are required to improve the roles, responsibilities and empowerment of women at the local government levels?</td>
<td>X X X</td>
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<tr>
<td>2</td>
<td><strong>Citizen Participation</strong></td>
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<tr>
<td>3.1</td>
<td>How well do councils operate such as regular meetings of the council, accounting, budgeting, keeping of records and the attendance of elected councillors?</td>
<td>X X X</td>
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<td>2.2</td>
<td>Do the Councils consult citizens, if so, how?</td>
<td>X X X</td>
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<td>2.3</td>
<td>Are there official channels open to citizens to make their concerns and issues be considered - such as public meetings, workshops, public relations contact people they can easily access at the Council/DA to make their concerns known.</td>
<td>X X X</td>
</tr>
<tr>
<td>2.4</td>
<td>The Participatory Planning Process is one of the most important activities in Decentralization. Are citizens included in this process from the beginning and do they have a say in prioritizing projects in their community?</td>
<td>X X X</td>
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<tr>
<td>2.5</td>
<td>Do the Community Councils and Chiefs provide citizens with ways citizens can provide their concerns, opinions and inputs? How?</td>
<td>X X X</td>
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<td>2.6</td>
<td>Are their ways that can improve citizen participation? How?</td>
<td>X X X</td>
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<tr>
<td>3</td>
<td><strong>Administrative efficiency of local authorities</strong></td>
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<tr>
<td>3.1</td>
<td>How well do councils operate such as regular meetings of the council, accounting, budgeting, keeping of records and the attendance of elected councillors?</td>
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<td></td>
<td>How well do the Councils and the District Administration work together. (formal or informal)? Do they have a good working relationship and discuss issues with regular meetings.</td>
<td>X X</td>
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</table>
### Fiscal Decentralization

<table>
<thead>
<tr>
<th>Factor to be investigated</th>
<th>Institution involved in the consultations</th>
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<tr>
<td></td>
<td>DA</td>
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<tr>
<td>A Local Authorities Revenue (LAR)</td>
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</tr>
<tr>
<td>1 LAR Policies and Legislation</td>
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<tr>
<td>1.1 Is the DA, councils fully know revenue sources assigned to Councils?</td>
<td>X</td>
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<tr>
<td>1.2 What are limitations in powers assignment to Councils over revenues sources, for example for policy, setting rates, etc.?</td>
<td>X</td>
</tr>
<tr>
<td>1.3 Which other sources of revenues could suit Local councils apart from in 1.1 above</td>
<td>X</td>
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<td>1.4 Are laws and regulations sufficient to support LAR administration by LGs? If not, examples of deficiencies</td>
<td>X</td>
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<tr>
<td>1.5 How may current laws and regulations be improved in relation to LAR</td>
<td>X</td>
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<tr>
<td>2 LAR Administration</td>
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<tr>
<td>2.1 Institutions and powers of units collecting LAR (example, setting rates, issuing regulations); What powers should be transferred from Central Government to Councils of LAR</td>
<td>X</td>
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<tr>
<td>2.2</td>
<td>What tool, facilities or systems are used in LAR collection of fees, charges and property rates, etc.</td>
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<td>2.3</td>
<td>What are arrangements for LAR recording, banking, accounting and reporting? To whom and how often is reporting done</td>
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<td>2.4</td>
<td>Identify tools and systems you use in revenue accounting and reporting</td>
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<td>2.5</td>
<td>What improvements do you wish to see in revenue administration and management?</td>
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</tbody>
</table>

3 **Relation with communities**

| 3.1 | What practices are used to encourage citizens to pay their taxes? |
| | • Sharing information with communities on LAR |
| | • Linking LAR to services delivery | X | X | X |

4 **General**

| 4.1 | What are overall causes for low performance of LAR other than those above do you wish to be addressed? | X | X | X |

8 **Local Council’s Planning, Budgeting, accounting and reporting**

5 **Planning Process**

| 5.1 | Does the Council have guidelines for planning process | X | X |
| 5.2 | How has participation of local citizens in developing council plans been conducted | X | X |
| 5.3 | What are the roles of councils in planning process | X | X | X |
| 5.4 | How do communities participate in identification of projects and development priorities for financing in the budget? | X | X |

6 **Budget preparation process**

| 6.1 | Does Council have guidelines for budget preparation | X | X |
| 6.2 | How adequate is of time provided in the national budget calendar and for participation of LGs | X | X | X |
| 6.3 | What are tools and methods used for estimating annual local revenues (LAR)? | X | X |
| 6.4 | What role do Local councils play in the determination of transfer ceilings by Central Government? | X | X |
| 6.6 | How well is the annual approved budget in line with Council plans spending priorities? | X | X |
| 6.7 | What is the role of DA, District, urban and community Councils in budget preparation and approval | X | X | X |

7 **Budget Execution processes**

| 7.1 | Does the Council have guidelines for budget execution? | X |
| 7.2 | Once money is received, how is it distributed cross areas of expenditure? Does the Council have a budget committee to facilitate this? | X | X | X |
| 7.3 | Does the council maintain and use procurement plans in its operations? | X |
| 7.4 | Budget and commitment control practices: What are the levels of arrears and extra-budgetary operations? | X | X |
| 7.5 | Internal audit arrangements; how does Council ensure financial controls? | X | X |

Accounting and financial reporting practices;
• What accounting records are kept?
• Did the Council prepare financial statements for 2012/13?
• What are banking arrangements for the Council?
<table>
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<tr>
<th></th>
<th>What tools and systems are used for budget execution?</th>
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<tr>
<td><strong>Accountability practices</strong></td>
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<td>8.1</td>
<td>Does the Council have Accounting regulations / manuals?</td>
<td>X</td>
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<td>8.2</td>
<td>What are Central government reporting requirements and does it provide feedback?</td>
<td>X</td>
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<td>8.3</td>
<td>Accountability arrangements; What is the role of Councils in reviewing financial statements/ audit reports</td>
<td>X</td>
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<tr>
<td><strong>General</strong></td>
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<tr>
<td>9.1</td>
<td>What improvements could be made to Local Councils’ Planning, Budgeting, accounting and reporting systems?</td>
<td>X</td>
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<td><strong>Fiscal Intergovernmental Relations (FIGR)</strong></td>
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<td>10.1</td>
<td>What are the roles and practise of Central Government, DA, Districts and Municipal Council in sharing of revenues between districts / municipal councils and lower councils (community / urban councils)</td>
<td>X</td>
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<td>10.2</td>
<td>What are the roles and practices by DA, Districts Councils in distribution of grants across urban and community councils</td>
<td>X</td>
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<td>10.3</td>
<td>Suggest other improvements you would like to see to the relations between central government and Councils and between district/ municipal councils and community or urban councils in relation to financial management</td>
<td>X</td>
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### 4.1 Tables of data for meetings

1. **Revenues budgets and Collections over past 5 years (where possible)**

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App = Approved Revenue budget provision  
Actual = Actual revenue collections during the financial year

2. **Expenditure budgets by Departments over past 5 years (where possible)**

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App = Approved Revenue budget provision  
Actual = Actual expenditure

3. **Expenditure budgets by Category over past 5 years (where possible)**

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</table>

App = Approved Revenue budget provision  
Actual = Actual expenditure

### Materials (copies of documents) to arrange ahead of visits

- The Council Development plan  
- Annual work plan for 2013/14  
- Annual budget (approved) for 2012/13 and 2013/14  
- Annual financial statements for 2011/12 and 2012/13  
- Annual Report for 2011/12 and 2012/13  
- Annual audit – most recent audit of the Council
Annex 5: Sample ToC for District Development Plans

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1. Introduction

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   2.1 Basic area Data Set
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      2.2.1 General Features and Settlement Structure
      2.2.2 Physiographic Regions and Natural Conditions
      2.2.3 The District Economy
      2.2.4 Socio-economic Structure
      2.2.5 Infrastructure
   2.3 Base Maps of major sector indicators
   2.4 Development ‘Zones’ by GIS mapping

3. Problems and Potentials by Stakeholders
   3.1 Area and Local Government Coordinating Bodies
      3.1.1 District Council
      3.1.2 Community Council
      3.1.2 LG Planning Committee (DPU)
   3.2 Sector Analysis
      3.2.1 Health
      3.2.2 Education
      3.2.3 Agriculture
      3.2.4 Livestock
      3.2.5 Forestry / Natural Resources
      3.2.6 Social Welfare / Community Development
      3.2.8 Roads
      3.2.8 Water
      3.2.9 Electricity
      3.2.10 Other Government Departments
   3.3 National Programs, NGOs and other Projects
      3.3.1 Important Social Programs or NGOs
      3.3.2 Civil Society Organizations
   3.4 Private Sector
      3.4.1 Commercial Farmers and Agro-business Companies
      3.4.2 Traders / Transport Companies
      3.4.3 Industrial Enterprises and Mining Companies

4. Goals, Objectives and Priorities
   4.1 Medium-term Development Objectives and Priorities
   4.2 Development of Objectives and Priorities
   4.3 Project Planning Matrixes of Development Coordinating Bodies
   4.4 Development Priorities at the Local Government Units
   4.5 List of Projects Implemented

5. Implementation of the Development Plan
   5.1 Integration with Budget Process and Resource Identification
   5.2 Preparing the Work Plan
   5.3 Participatory Monitoring and Evaluation
### Annex 6: Sample template for community priorities

#### 1 General Information

<table>
<thead>
<tr>
<th>District Name:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of People participating in the community meeting for priority setting</td>
<td>Men:</td>
</tr>
<tr>
<td>Organizations involved in Priority Setting</td>
<td>Date of Community Meeting on Priorities:</td>
</tr>
</tbody>
</table>

#### 2 Population Figures

<table>
<thead>
<tr>
<th></th>
<th>Men:</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Population</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Households &lt; 15 yrs.</td>
<td>&lt; 15 yrs.</td>
<td>&lt; 15 years</td>
</tr>
</tbody>
</table>

#### 3 Main Problems of the Community

(Please describe according to the explanation of the villagers)

#### 4 Community Priorities

Short Description of Priorities, referring to access to the following categories:

1. Access/feeder Roads  
2. Education Facilities  
3. Health Facilities  
4. Animal Dip Tank  
5. Borehole / well /Dam  
6. Bridges  
7. Vegetable Garden  
8. Employment  
9. Gender/Women Devt.  
10. Other

#### 5 Sources of Funding

<table>
<thead>
<tr>
<th>Own Contribution</th>
<th>Unskilled labourers:</th>
<th>Cash:</th>
<th>Materials</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need of support</td>
<td>(Please describe)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Diagnostic Assessment of Decentralization in Lesotho
Annex 7: Training criteria/capacity building

Choosing appropriate capacity building programs demands careful consideration. Among the most important factors to be assessed before making a final decision includes:

- Which staff should be in the main target group?
- What should the training format be?
- How long should the training period be?
- Where should training be held?
- What type of training materials should be used?
- What should be the core evaluation methods?

There are three key target areas that normally require training. Below offers considerations when planning capacity building.

**Human Resource Development:**
- Does the staff have the necessary knowledge to fulfil its responsibilities (legislation, foreign languages, computer usage, etc.) properly?
- Does the staff have the necessary skills to fulfil its responsibilities (e.g., communication, teamwork, negotiation) properly?
- Does the staff have the proper attitude to fulfil its responsibilities (e.g., motivation, seriousness, proactive tendencies)?
- Does the staff have sufficient overall experience to fulfil its responsibilities?

**Organizational Development:**
- Does the organization have a development strategy?
- Does the organization have good management?
- Does the organization have viable action plans to achieve objectives?
- Does the organization have quality standards and performance indicators?
- Does the organization have an organization policy for changes & modernization?

**Community Development:**
- Does the LG deliver quality public services, which fulfil citizen’s needs?
- Does the LG have fruitful partnership relations?
- Is the LG development strategy included in the overall community development strategy?
- Does the community believe that the LG budget policy is appropriate?
- Does the community perceive that the LG is an efficient manager of its own interests?
- Is the community experiencing an increased development trend?
- Is the community involved in the decision making process?
Annex 8: Sample: Introduction to participatory planning

Participatory planning is a process by which a defined community undertakes to reach a common socio-economic goal by systematically reviewing its problems and finding a course of action to resolve those problems. The District Development Plan should be the Council’s own creation. Plans prepared by people not living in their community cannot inspire the people to participate in their implementation.

The following steps are intended to be an introduction to the DDCC to build awareness of government officials, CSOs and private sector representatives. The DDCC has also developed a clear ‘user-friendly’ Manual for Integrated Area Development Plan preparation.

STEP ONE

Awareness building on principles and processes of participatory planning

Development should be seen more as a participatory change from the bottom up than from top down. The development process should be managed as a natural process rather than according to plans, goals, objectives, targets and schedules, implying that goals and targets may change and, therefore, their timing should be tentative and flexible to make room for adaptation to local conditions.

Development programs/projects should aim to strengthen local organizations and not state and central government bureaucracies. New programs should be chosen according to their ability to increase local development management capacity. The DDCC should start with a few schemes to solve some immediate local problems to build local confidence and experience.

The key players in the community development process is supported by Civil Society Organizations (CSOs), i.e. local institutions, cooperatives, religious groups, youth, community-based users’ and self-help groups as well as the private sector. It is more important to make sure that the development process is rooted in a strong local institution than ensuring that local institutions have a grasp of all the finer technical points. It is easier to arrange technical services from outside than to bring about social involvement and willing popular participation in the development process. Strong CSOs and local institutions are necessary to support the decision making process.

The development process must be based primarily on confidence and learning rather than on experts and training. It is more important for the people who will take decisions at the local level to have full confidence of the people they represent, than to be trained experts. This also implies that technical staff of departments should work in tandem with local institutions.

The participatory planning process has implications for the working methods of a conventional local development planner. Cookie-cutter participatory planning techniques often keep people out of the planning process, which severely limits their ability to deliver the intended results at local level and reinforces the centralizing tendencies in decision-making.

As a facilitator of the participatory planning process, the DDCC will have to shed much of the planning jargon and simplify their techniques so that these are widely understood. In view of the training needs of the local decision-makers and the limited local expertise, there is an urgent need for training material on the introduction of simple local planning methodologies and techniques that can be used at the community level, with minimal need for external assistance.
How to initiate participatory planning

STEP TWO
Identify local needs, particularly of the poorest families

The best way to find what people need and what they see as possible solutions to their problems is to ask them directly. This also creates awareness and willingness among the people to take part in any action that will follow.

But before asking what they want, it is necessary to establish a common ground of understanding with them. There are bound to be conflicting interests within a community. Special skills and sincerity are needed to build consensus. It is important to ensure steadfast community support for a pro-poor development initiative. Local officials, CSOs, private sector, field workers of NGO organizations, teachers, women, and retired people, must be involved in the consultations and discussions.

STEP THREE
Collect basic data

Once local contacts are established, the next step is to collect, with the people’s help, basic data about the community, characteristics of the area, resources situation, socio-economic status and other relevant facts. The aim is to get a factual baseline picture which will help in setting goals and measuring changes brought about by the project at a later stage. It is helpful at this stage is to associate with local officials and CSO representatives in collecting and verifying facts from different sources. To seek people’s cooperation, it is important to respect their ideas and abilities. The focus should be on the community as a whole and seeking its commitment to helping the poor. Participatory rural appraisal (PRA) is a practical tool for participatory data collection and analysis.

STEP FOUR
Formation of working groups

It is helpful is to form working groups that include local officials, to prepare status reports and develop perspectives. The aim of the working groups is to analyse and compare data, draw inferences and identify priority areas for intervention. This is aimed at greater clarity and strengthening of participation of local people, particularly the rural poor, by giving greater local planning responsibility and establishment of good working relationship between technical experts and the local people. Importance is to be given to detailed specification of the roles of participant individuals, groups and committees in carrying out the tasks. Conflicts and disagreements may arise in the process, which are not in themselves a negative factor, but have to be properly resolved and managed at every stage of decision-making.
STEP FIVE

Formulation of the objectives

The first step in participatory local planning is to define precisely what specific objectives are to be achieved, which should be stated in concrete terms, e.g. increasing i) incomes of identified households, ii) production of certain crops and iii) literacy among locally elected officials. The objective may not always be quantifiable, particularly when it involves attitudinal changes. It still helps to be as specific as possible so that people can see how much change has taken place.

STEP SIX

Deciding the strategy

This is the most difficult part of participatory community planning as it involves assessing and mobilizing needed resources and choosing the planning methods. It is important to specify: a) resources that are locally available and those needed from outside (people with skills, funds, raw material inputs, etc.); b) if resources are available when needed; and c) who should be approached, who will approach and with whose help to secure these. Consider alternative local planning methods and approaches such as (i) whether to contract a job to private individuals or to do it on a cooperative basis; (ii) whether to focus on several small household-based units or one big unit; and (iii) whether to train local people as trainers for the jobs or to hire trained personnel from outside. Once a course of action is chosen, it should be explained and specified in clear terms to avoid confusion and misunderstanding among the local stakeholders.

STEP SEVEN

Ensuring feasibility

The working groups at this point should consider whether the objectives are realistic. It is important to ensure that: i) assumptions and stipulations regarding the availability of resources, managerial competence and technical expertise are realistic; ii) proposed activities are economically viable; and iii) local market can absorb the expected outputs. It is important to identify potential project beneficiaries and check how the benefits would flow to them.

STEP EIGHT

Preparing the work plan

This is a blueprint for Local government project management drawn up by the project implementation committee, specifying the ‘what, who, when and how’ of local project implementation. The work plan should contain the following information in simple tabular form: (i) all activities for implementation of the project; (ii) names(s) of the person(s) responsible for each activity; (iii) starting and completion time for each activity; and (iv) the means to carry out the activities. It should also define the outputs expected from each activity to measure performance during implementation or on completion of the project, for effective monitoring and evaluation.
Sample Project Work Plan Format

<table>
<thead>
<tr>
<th>Name of the activity</th>
<th>Name(s) of the persons responsible</th>
<th>When to start</th>
<th>Time Schedule</th>
<th>Resources required (money, material, manpower)</th>
<th>Checking for acceptance, availability</th>
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<tbody>
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STEP NINE

Preparing the budget

The material and human resources must be given a monetary cost, which form the project budget. The cost is further broken down in terms of each period of time and also in terms of availability - whether locally available or to be secured from outside. External resources can be government or donor grants or loans from financial institutions, etc.

Sample Budget Format

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
<th>Total</th>
<th>Sources of funds</th>
<th>Outside</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>1st Year</td>
<td>2nd Year</td>
<td>3rd Year</td>
<td>Local contribution</td>
</tr>
<tr>
<td>Material</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Equipment</td>
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<td>Personnel</td>
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<td>Travel</td>
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<td>Training</td>
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<td>Official</td>
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<tr>
<td>Others</td>
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Participatory Planning Operational Step: Implementation of Area Development Projects

**STEP ONE**
Appointing a coordinator

After staff and technical persons for different jobs are assigned according to the schedule, the DDCC should appoint a coordinator for the project. This will greatly help relieve the work load of the Committee. The coordinator is someone from within the community with the commitment and demonstrated leadership qualities and will be the key counterpart and contact person for the DPU.

**STEP TWO**
Coordinating committee

This is made up of the coordinator, representatives of the local community, CSOs, private sector and a representative from the MLGC to supervise implementation on a day-to-day basis and to work as a crisis management group. In this case, the DDCC must be selected, which consist of 11 members.

**STEP THREE**
Transparency

Transparency is important for retaining community interest and support for participatory planning activities to ensure its smooth progress. Maintain total transparency in procurement and use of resources. Project details, budget and sources of funds can be displayed publicly at different places in the project area. Involve more and more local people in various activities with daily/weekly briefings to inform community leaders about ongoing activities and problems, if any. Care is needed to ensure the quality of inputs procured and used.
**STEP FOUR**

**Timely release of funds**

Implementation is often delayed by the non-availability or inadequacy of funds. Various bureaucratic formalities may delay commencement. If there is more than one source of funding, it is all the more necessary to ensure that no mistake is made in completing formalities of Terms and Condition (T&C) documents and also in submitting timely progress reports, which are needed for timely release of fund instalments. The coordinator should ensure that there are enough funds for the activities. It is important to be prepared for delays by having flexibility in project design for such eventualities. Sticking to the guidelines and instructions of funding agencies and adherence to the project schedule are the best way to ensure timely releases of fund instalments.

**STEP FIVE**

**Monitoring**

This is important for timely and proper project implementation. Monitoring provides feedback so that necessary adjustments can be made in the work plan and budget. Therefore, monitoring schedules are often based on the project work plan. It is essentially a tool that helps both project-implementing and funding agencies.

These are already specified in the work plan. Monitoring reports must be reviewed by the project implementation committee, focusing on information about delays - the extent and implications, needed corrective action and the person or agency responsible for it. This not only points out the source of the fault but also protects project management from blame for the delay. An honest assessment of the implications of delay, under or over-utilization of funds, leads to timely corrective action. It also helps in building a reasonable case for additional funds in case the delay is caused by the late release of funds and results in escalation of project costs.

**Sample Monitoring Format**

<table>
<thead>
<tr>
<th>Name of activity</th>
<th>Due on</th>
<th>Actual on</th>
<th>On time</th>
<th>Implications of delay</th>
<th>Action required</th>
<th>By whom</th>
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It is important for the implementing agency to maintain a high level of financial credibility, which is closely watched by funding agencies. Monitoring, therefore, focuses on cost-flows and wherever there is under or over-expenditure, this should be brought to the immediate attention of the funding agencies. It should be discussed frankly with them in order to reach agreement on the best course of action. Implications of delay or cost-overrun can also be discussed with the community to explore possibilities of mobilizing local contributions to compensate for the extra cost. Integrity pays in the long run.
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