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**Role of Municipalities in Business Development
UNIDO Project: YA/MOZ/01/431/11-52
MOZAMBIQUE**

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Explanatory Notes

Exchange Rates Used:

Mozambican Meticaís/US dollar (*source: IMF, end of period*)

1998	12,336
1999	14,403
2000	15,924
2001	21,627 (October 2001)

Current Rate: US\$1 = 23,500 Mt

Acronyms Used

BOOT	Build, Own, Operate and Transfer
CPI	Investment Promotion Centre
CTA	Mozambican Confederation of Economic Associations
DNAL	National Directorate of Local Administration (within MAE)
DNDA	National Directorate of Municipal Development (within MAE)
DPA	Provincial Directorate of Agriculture
DPIC	Provincial Directorate of Industry & Commerce
DPPF	Provincial Directorate of Planning & Finance
EDM	Electricidade de Moçambique
FCA	Municipal Compensation Fund (<i>Fundo de Compensação Autárquico</i>)
FIIL	Local Investment Fund (<i>Fundo do Investimento de Iniciativa Local</i>)
FIAS	Foreign Investment Advisory Service
GPZ	Zambezi Valley Development Authority
IMAP	Intermediate Institute of Public Administration
IPA	Municipal Poll Tax (<i>Imposto Pessoal Autárquico</i>)
IPRA	Municipal Buildings Tax (<i>Imposto Predial Autárquico</i>)
JICA	Japan International Cooperation Agency
MAE	Ministry of State Administration
MC	Municipal Council
MA	Municipal Assembly
MPF	Ministry of Planning & Finance
OLE's	local state organs (including provincial, district and sub-district administrations)
PSP	private sector participation
PSR	public sector reform
SIFAP	Training System in Public Administration
SME	small and medium-scale enterprise
TDM	Telecomunicações de Moçambique
URTI	Technical Unit for Tax Reform (within MPF)
UTRESP	Technical Unit for Public Sector Reform (within MAE)

ABSTRACT

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This report examines the existing status and functions of municipal authorities in Mozambique, focusing particularly on their degree of interaction with and impact upon their local business sectors and the wider investment community.

A range of business-related issues linked to the 1998 decentralisation of political and administrative functions to 33 locally-elected councils in major urban centres throughout Mozambique are discussed. These include (a) local taxation and municipal finance, (b) the role of private agents in delivery of urban services and infrastructure development, (c) regulation and licensing of business activities and the creation of a more conducive business operating environment, (d) the role of municipal authorities in investment promotion and enterprise development initiatives and (e) the scope for future public/ private partnership initiatives.

Case studies are presented of the experiences of municipal governments in two major cities in north-central Mozambique, namely Tete City (capital of Tete Province) and Quelimane (capital of Zambézia Province). Work on this report was undertaken in Maputo, Tete City and Quelimane during the period 19 November – 15 December 2001, including one week visits to Tete City and Quelimane to meet with municipal officials and representatives of the local business community.

TABLE OF CONTENTS

I: INTRODUCTION	6
<i>PART A: CURRENT STATUS OF MUNICIPALITIES</i>	9
II. BACKGROUND & LEGAL BASIS OF MUNICIPALITIES	9
A. Historical Background	9
B. Legal Mandate	11
C. Accountability of Municipalities	12
D. Relationships with Other State Organs	14
III. MUNICIPAL STRUCTURES AND GOVERNANCE	17
A. Main Municipal Structures	17
B. Human Resource Issues.....	18
C. Governance & Transparency Issues	22
<i>PART B: IMPACT OF MUNICIPALITIES ON BUSINESS SECTOR</i>	24
IV: MUNICIPAL FINANCES AND FISCAL BURDEN	24
A. Municipal Finances	24
B. Local Taxation Reforms	34
V: URBAN SERVICE DELIVERY & INFRASTRUCTURE DEVELOPMENT	37
A. Actual Levels of Service Delivery	37
B. Achieving Enhanced Service Delivery.....	39
C. Infrastructure Development & Strategic Planning	41
VI: OTHER AREAS OF IMPACT ON PRIVATE SECTOR DEVELOPMENT	44
A. Business & Other Forms of Licensing.....	44
B. Role in Regulatory Reform Programme.....	47
C. Investment Promotion	49
D. Public Procurement	50
E. Business & Public Opinion	51
VII. OVERVIEW OF DONOR SUPPORT TO MUNICIPALITIES	52
VIII: CONCLUSIONS & RECOMMENDATIONS	54
Bibliography	58
Annex: Boxes	61

List of Tables

1. Tete City Municipality Human Resources - Alternative Estimates	19
2. Quelimane City Municipality Human Resources - Actual 2001	20
3. Tete City Municipality Salary Structure	21
4. Quelimane City Municipality Salary Structure.....	22
5. Tete City Municipality Evolution of Financial Position 1998-2001	25
6. Quelimane City Municipality Evolution of Financial Position 1998-2001	26
Evolution of Financial Position 1998-2001.....	26
7. Tete City Municipality Breakdown of Budgeted Revenues 2000/2001.....	28
8. Tete City Municipality Breakdown of Planned Expenditures 2000/2001	29
9. Quelimane City Municipality Breakdown of Realised Revenues 2001 (Jan. – Oct.)	30
10. Quelimane City Municipality Breakdown of Actual Expenditure 2001 (Jan. – Oct.)	31
11. Quelimane City Municipality Detailed Sources of Local Revenue: Daily market revenues for 05-12-01	46

List of Boxes

Box 1: Structure of Quelimane Municipality.....	61
Box 2: Structure of Tete City Municipality.....	62
Box 3: Governance & Transparency Issues in Tete City and Quelimane.....	63
Box 4: Summary of Municipal Taxes.....	64
Box 5: Urban Service Delivery in Tete City and Quelimane.....	65
Box 6: Tete City Municipal Council, Main Licences & Service Fees 2001 (Selected).....	67
Box 7: Quelimane Municipal Council, Main Licences & Service Fees 2001 (Selected)	68

I: INTRODUCTION

The objective of this report is to assess the effect of the operations of the new municipal authorities created in Mozambique in 1998 on the investment climate and local business operating conditions within their areas of jurisdiction. This has been undertaken based upon case studies of two cities in the north of Mozambique, Tete City and Quelimane, where new investment levels have been limited in recent years. The report is divided into two main parts. Part A gives an overview of the current status of municipal development in Mozambique. Part B focuses more closely upon the various areas in which they currently impact upon and interact with the business sector.

The current report builds upon recent work carried out by UNIDO and others in examining regulatory barriers to private sector development at a provincial level in Mozambique [UNIDO (2000)]. It is also a contribution to the ongoing programme of private sector regulatory reform being undertaken by the Government of Mozambique in conjunction with the Mozambican Confederation of Economic Associations (CTA) and supported by USAID and the Foreign Investment Advisory Service (FIAS) of the World Bank.

This report also relates closely to and seeks to inform work being undertaken by UNIDO's field offices in Beira, Tete City and Quelimane to support the development of small and medium scale enterprises (SMEs) through the simplification of licensing and other regulatory procedures, particularly through the introduction of the "Balcão Unico" concept for processing of investor applications.

The Government of Mozambique, through the Ministry of State Administration and particularly its National Directorate for Municipal Development (DNDA), realises that the next few years will be a learning period for the municipalities and the central government in how to conduct their new relationship. Based upon these lessons, the government plans to advance with further decentralisation. This will be based upon an evaluation of the performance of existing municipalities during their first 5 years of existence, the procedures for which are currently being formalized.

It is also recognised that a number of the essential preconditions for successful local government – appropriate staff, adequate financial resources and a functional regulatory environment – will take years, if not decades, to develop. This process can be greatly assisted in the next few years by targeted external interventions designed to genuinely build municipal capacity and by exposing municipal officials to international best practice in a number of key areas of local government practices, including revenue collection mechanisms, public service delivery, strategic planning and contracting out of services to private sector participation (PSP).

There are a number of existing donor support programmes, of which the most comprehensive and ambitious is the World Bank's Municipal Development Project worth US\$ 41 million over 5 years (2001-2005) including a US\$ 25 million Municipal Grant Fund for capital investment projects in five cities. UNDP is concentrating its support to the public sector training programme (SIFAP) and other forms of capacity building for provincial and district administrations, in parallel to the World Bank's work with municipalities. There are also a number of bilateral donors with interests in municipalities in provinces in which they have current sectoral support programmes.

One of the most important issues facing both government and donors in the next 5 – 10 years concerns the marginal and aggregate fiscal burden that further development of municipal government may place upon the private sector at local level. Businesses in Mozambique already face a high-cost operating environment, due, amongst other factors, to infrastructural deficiencies and a wide range of regulatory requirements. It will be important to carefully evaluate the investment, growth and employment effects of both the introduction of new municipal taxes and moves to increase the general efficiency of tax collection at municipal level, particularly upon small-scale enterprises and the informal sector.

It is necessary to bear in mind that, in order to be sustainable without indefinite external transfers, the size of public administration and the public services need to be proportionate to the taxable economic base. Over time, as local economic capacity grows, levels of fiscal transfers (both local and national) will also be augmented, potentially allowing for a virtuous cycle of improved public service provision and infrastructure development leading to further scope for

private sector capital formation, productivity increases and employment generation. The key risk is in imposing a bloated local administration and high fiscal burden on a still fragile and nascent economic base and thus choking off potential investment and growth opportunities. In order to avoid this outcome, the ideal model should be the short-term development of smaller, leaner and more efficient local administrations, providing a range of higher-quality core services, while contracting out secondary services to a range of other potential service providers, including the private sector. Some suggestions for necessary steps to achieve such an outcome are included in Part B of this report.

To anticipate some of our main conclusions, what is the potential contribution that UNIDO can make in supporting municipal development? Some possible options are a short-term focus on (a) support to closer integration of municipalities into the regulatory reform agenda and (b) also some capacity building measures focused upon areas in which municipalities currently play a significant negative role in the investment process i.e. allocation of industrial and commercial land and granting of construction permits. In the medium term, (c) focus on capacity building for the development of public/ private partnerships and support to contracting out of services. In the long-term, (d) examine ways in which municipalities can begin to play a positive role in investment and business promotion initiatives.

PART A: CURRENT STATUS OF MUNICIPALITIES

II. BACKGROUND & LEGAL BASIS OF MUNICIPALITIES

A. Historical Background

From independence in 1974, Mozambique developed a highly centralised system of state administration, many of whose structures and features were inherited from the Portuguese colonial administration. This was based upon the socialist concept of “democratic centralism” under one-party rule. Decision-making and resources were largely concentrated at the centre, and vertically distributed to lower levels of administration. However, weak infrastructures and lack of qualified public officials meant that many of these resources failed to reach their intended beneficiaries, particularly in rural areas. These tendencies were reinforced during the civil war period, when the exercise of central government control over budgetary allocations (particularly defence) took precedence over attempts to improve the efficiency of public service delivery, and when large areas of the country were effectively cut off from government administration. The establishment of a new governance regime based on democratic principles and on multi-party participation, introduced in the 1990 constitution, laid the framework for a rethinking of the structure and philosophy of state administration in Mozambique. The signing of the Rome Peace Accords in October 1992, ending a 12 year civil war, and the holding of multi-party elections for President and National Assembly in October 1994, created a normalised political environment in which implementation of local government reform could begin.

From the late 1980’s onwards, the Government of Mozambique recognised that a comprehensive decentralisation of the political/ administrative system was one of the major preconditions for more effective and democratic government and more sustainable development [Weimar (2000)]. An original blueprint for the decentralisation programme was approved in 1994 (Law 3/94) based on the concept of creating both rural and urban municipal districts throughout Mozambique with relative autonomy and local representative bodies (assembly and President of elected municipal councils). This initial model of decentralisation was changed through a constitutional amendment (Law 9/96) which created a framework for the coexistence of local

organs of the central state (provincial government/ districts/ administrative posts) and directly elected local authorities.

The legal framework for the creation of elected local authorities (known in Portuguese as “autarquias locais”) was eventually passed by the National Assembly in April 1998 and comprises Law 2/97 and Laws 4-11/97¹. There were significant delays in the passage of this legislation, particularly due to Renamo objections about the restricted number of locations chosen for the initial phase of municipalisation. These delays meant that some fundamental complementary legislation and regulations (for example, the regulations governing the implementation of new municipal tax instruments) were not in place before the initial round of local elections, which had already been postponed on at least two occasions, adding further to political uncertainty.

Local government elections were finally held for the first time in 33 cities and towns throughout Mozambique on 30th July 1998. Renamo boycotted the 1998 elections, hence all of the Municipal Councils (MC’s) are currently controlled by Frelimo, with some participation by minor opposition parties and independent citizen’s groups in the Municipal Assemblies (MA’s). Of particular concern was the low level of voter participation in the 1998 elections, with a national average of only 15% of registered voters turning out to vote. The most common reasons given for non-participation were poor electoral organisation and limited civic education, the opposition boycott and general public disillusionment with politics and politicians.

The next round of municipal elections is due to take place in 2003, at the end of the current 5 year mandate. It is widely expected that Renamo will participate in these elections and stands a reasonable chance of winning control of a number of the existing councils. The creation of new municipalities, in addition to the 33 existing, is currently being considered by the Government, through the Ministry of State Administration, with decisions expected in early 2002. The decision-making process for the selection of new municipalities is somewhat unclear and has not, as yet, been made open to public debate and scrutiny.

¹ The relevant legislation has been compiled and published in Waty (2000).

There are a total of 23 cities and 68 towns in Mozambique. In cities, the powers of the previous appointed Executive Councils were transferred to the new Municipal Councils; whereas towns had previously been administrated as a part of their surrounding district, resulting in the need to create their Municipal Councils from scratch. Additionally, the law provides for elected councils in rural areas (known as *povoações*, rather than *municípios*), to be based in the main villages of the 394 administrative posts in Mozambique – giving the potential for an eventual total of 485 elected local councils.

B. Legal Mandate

The legislation defines the main objective of the municipalities as the “promotion of local development”² and grants them a considerable degree of autonomy in order to achieve this objective.

Areas in which municipalities have legislated powers include:

1. local social and economic development;
2. environment, basic sanitation and quality of life;
3. supply of public utilities (water, roads, electricity);
4. health and education;
5. culture, leisure activities and sport;
6. public order (municipal police);
7. urban development, construction and habitation

In terms of their impact on the local business community, municipalities have additional powers to regulate/ license a wide range of economic activities exercised within the municipal boundaries and powers to levy a number of local taxes and fees for provision of specific services. Within the scope of the legislation, there are also a number of provisions for direct private sector involvement in the delivery of municipal services: municipalities have powers to create their own public companies, make contracts with third parties for service provision and also to invest in private companies which meet local public interests.

² This section is largely based upon the discussion in Hanlon (2000), “Basic Guide to Elected Local Governments” published by AWEPA and the Ministry of State Administration.

The principal of gradual decentralisation means that, in its initial phase, only a limited number of major urban centres meeting certain basic criteria (set out in Article 5 of Law No. 2/97) were considered for municipalisation. It also means that the newly elected bodies are only expected to take over responsibility for their full range of functions on a gradual basis. Initially this has mainly involved services provided by the previous appointed city councils, including rubbish collection, maintenance of sanitation systems, control and regulation of urban markets and, in some cases, the provision of local public transport.

In practice, it is widely recognised that the drastically low levels of human, technical and financial capacity of the municipalities will mean that (a) it will take a considerable time for them to become fully functional and (b) there is a need for training and capacity building initiatives to ensure that these new institutions work effectively and are able to fulfill their mandate. It is also recognised by the central government that transfer of additional functions, in areas such as health, education and provision of public utilities, will need to be carefully matched by commensurate transfers of additional financial and human resources in order to be successful.

C. Accountability of Municipalities

Central government oversight of the municipalities is jointly carried out by the Ministry of State Administration (through DNDA³) and the Ministry of Planning & Finance. These institutions must review the following documents produced and approved by the municipalities:

1. annual budget (orçamento annual);
2. development plan (plano de desenvolvimento);
3. plan of land use (plano de ordenamento do território);
4. staffing plan (quadro de pessoal);
5. details of any long-term loans contracted

³ There are two directorates within the Ministry of State Administration (MAE) dealing with local government institutions. The National Directorate for Municipal Development (DNDA) is responsible for the elected municipal governments (autarquias); the National Directorate for Local Administration (DNAL) deals with the appointed local state organs, including districts, administrative posts and localities.

The central government has the power to approve or reject these documents, but not to modify them. The basis on which MC activities can be rejected are (a) if they contradict national legislation, (b) if MC's attempt to introduce regulations in areas which do not fall within their competency⁴ or (c) if their activities are in conflict with existing national/ provincial level sectoral policies.

An additional mechanism exists to review the accounts of the municipalities – these must be sent, together with the opinion of the Ministry of Planning & Finance, to an Administrative Tribunal (part of the judicial branch) for final approval. There have recently been several reported examples of financial mismanagement and lack of transparency in use of funds by Municipal Councils which have meant that these powers are now beginning to be exercised more regularly. It would be advisable to supplement these measures by a general requirement that the accounts of Municipal Councils should be externally audited by an independent body on a regular basis⁵.

The main review and coordination forum is currently the National Meeting of Municipalities (Reunião Nacional dos Municípios). This is convened by MAE and the second meeting was held in Pequenos Libombos, Maputo Province from 6-8 December 2000 and sought in general to evaluate the first two years of experience of municipal government operations. At this meeting provincial reports were delivered on the functioning of the Municipal Councils and Municipal Assemblies, including financial statements and an outline of infrastructural development projects undertaken. Other issues analysed included principal problems faced, questions on legal interpretation and methods to improve delivery of urban services.

Several municipalities are currently in the process of establishing a “National Association of Municipalities” to strengthen their bargaining position with central government, over for example the levels of fiscal transfers undertaken.

⁴ A recent example of this concerns the attempt by several MC's (including Marracuene) to enforce night-time curfews. The power to impose curfews or other impediments to free movement of people or goods belongs to the Ministry of Interior and hence these measures have been ruled illegal.

⁵ Currently, this responsibility rests with the General Finance Inspectorate (IGF) within the MPF. Municipal finance and asset management is meant to be inspected at least twice per electoral term. Between July 2000 and mid-2001 only seven municipalities were audited. The IGF apparently plans to undertake audits of all municipalities by the end of 2001.

D. Relationships with Other State Organs

The relationship between the elected municipal authorities and the appointed local state institutions (OLE's) at provincial and district level is both complex and in a situation of gradual evolution. This evolution is occurring as municipalities begin to develop their own individual identities and attempt to put into practice the powers and functions attributed to them by the municipal legislation. To further complicate matters, there is also a parallel process of administrative "deconcentration" taking place which seeks to delegate additional functions and resources to the OLE's. To clarify these issues, a recent UNDP paper on their support to the democratic governance and decentralisation programme in Mozambique [UNDP (2001)] distinguishes between:

- (a) Political decentralisation – the devolution of powers to locally elected bodies that are accountable to the local population;
- (b) Administrative decentralisation – the deconcentration or delegation of functions to local government or non-governmental agencies that are accountable to the central government;
- (c) Fiscal decentralisation – mechanisms for resource generation and resource allocation between different levels of government.

A comprehensive programme of public sector reform (PSR) has already begun at national level, coordinated by MAE, which aims to institutionalise greater participation and accountability mechanisms. This programme will be implemented over the next 10-15 years, with an initial phase of 3 years in which government and donors are concentrating on the achievement of "quick wins", some defined and high profile examples of improved public sector service delivery⁶. It is hoped that initial successes can be used as a catalyst for more wide-ranging reforms. The reform process is being overseen by a technical unit (UTRESP) based within MAE and sectoral ministries have also created their own reform units.

⁶ One initial example being implemented in early 2002 is a new daily timetable for all government offices involved in dealing with members of the public, which will now open from 7.30am until 15.30pm and will not close for a long lunch break.

The government has published a draft of a new law (June 2000), which is currently under discussion, regarding changes in methods of district level administration, designed to give greater autonomy to these local state agencies. This is an interim measure while conditions for locally elected councils are developed in these areas. District administrators will continue to be appointed by the Minister of State Administration, but will have powers to draw up their own budgets and raise local finance through service charges and licence fees. The law also envisages the creation of non-elected district councils (involving representatives of civil society as well as government officials), which will act as consultative bodies to the district administration. An existing Decree 15/2000 identifies the community authorities that OLE's need to recognise in order to promote closer dialogue and popular participation.

However, it should be recognised that there exists a potential for future conflict between the interests of the locally elected MG's and the appointed district administrations, particularly when it comes to implementation of government sectoral policies (programas sectoriais integrados) and the ownership of locally generated financial resources⁷. In practice, the fact that many of the existing Presidents of the Municipal Councils are Frelimo party cadres means that their working relationship with appointed District Administrators appears to be one of cooperation and mutual support. This is particularly the case in the towns (vilas) which did not have a separate city administration previously, where they often share the same administrative headquarters e.g. Moatize.

The nature of these relationships may change in the future due to (a) changes in the political complexion of some Municipal Councils, (b) the potential for greater autonomy of action as municipalities gain experience and confidence, (c) the potential for some municipalities to gain a significant degree of financial autonomy from the central government due to the depth of their local economic base e.g. Maputo, Matola.

There has been some concern expressed amongst commentators on the democratisation process [see discussion in UNDP (2000)] about the role/ future of the Provincial Government

⁷ For example, imagine an agro-industrial enterprise with its head office based in the provincial capital city, but with most of its operations in the surrounding districts. Who would be responsible for the taxing and licensing of its activities, the district or the municipality?

Directorates and their capacity to frustrate initiatives being undertaken by the municipalities. These institutions operate according to the principle of “double subordination” - to their relevant sectoral ministry at central level and to the Provincial Governor, appointed by the President, to oversee the implementation of government policy at the provincial and district levels. For example, attempts to decentralise decision-making powers over the licensing/ approval of new investment projects have been partly frustrated by the “centralising” interests of Provincial Directorates – whose first responsibility is to their line ministry in Maputo.

Another area in which problems have arisen in some areas concerns the geographical delimitation of the “municipality” and hence control over the process of land title attribution and development zoning (and also revenue collection). In Quelimane, there is an ongoing dispute between the MC and the Provincial Directorate of Agriculture (DPA) over a substantial area of land which the MC wishes to designate for future commercial/ industrial development.

III. MUNICIPAL STRUCTURES AND GOVERNANCE

A. Main Municipal Structures

The newly elected bodies comprise a Municipal Council (MC), with a directly elected President (or Mayor), which is responsible for the execution of local administrative functions, and a Municipal Assembly (MA) which has a deliberative and review function. An overview of the current organisational structures of the municipal authorities in Quelimane and Tete City are shown in Boxes 1 and 2 respectively.

The President of the Municipal Council, who represents the highest level of local political power and administrative responsibility, appoints a number of vereadores (council ministers) with the number being based upon the total population (Quelimane = 8; Tete = 8). In both cities the vereadores have a sectoral responsibility but have also been assigned to one of the city suburbs (bairros) where they are responsible for communicating MC policy and activities to local populations and gathering information about local needs and grievances. It should be noted that in both cities visited, the majority of vereadores only exercise their public functions on a part-time basis and continue to undertake a range of other professional activities (including, for example, enterprise management and ownership, teaching and work with donor-funded NGO's).

The number of members of the Municipal Assembly is based upon the number of electors in the municipality. Quelimane MA has a total of 39 members who are organised into a permanent commission and 5 working groups (water, roads & transit, energy & lighting, education and health). Tete MA has 33 members including the President and Vice President and 6 working commissions. Decisions in the MA are taken on the basis of a simple majority of members present. Meetings of the MA are open to members of the public and their ordinary sessions are announced in advance via local media, particularly local radio stations.

Municipal Assembly Presidents in both Tete and Quelimane complained about their continued dependence upon the MC for the financing of their activities and their inability to effectively scrutinise MC activities due to lack of resources (including transport). This is an area in which

additional training and also twinning opportunities with city councils overseas, to examine alternative mechanisms for legislative oversight of executive functions, would be beneficial.

B. Human Resource Issues

The issue of lack of adequate human resources is one that affects all levels of public administration in Mozambique. Municipal governments are particularly weak in this regard. Except to a limited degree in Maputo, most municipalities have no senior level engineers, planners or financial specialists. It is reported to be extremely difficult to recruit technically qualified people for long-term assignments outside of Maputo. Technical staff that do exist at provincial capital level are commonly employed by donor organisations and international NGO's in a project capacity.

Table 1 (following page) provides some alternative measures of current staffing levels within Tete City Municipal Council. These estimates come from a number of different documentary sources, as clear information was extremely difficult to obtain. The original staffing plan (quadro de pessoal) approved by the Municipal Assembly in 1999 envisaged a total staffing requirement of 406 employees, of which only 151 posts were then filled. A breakdown provided by the human resources department in December 2001 gave the current total as 327 employees (including 80 administrative staff and 130 workers in the main urban services directorates). This is considerably higher than the total of 194 employees quoted in the JICA (2001) study.

Table 2 shows the current employment structure of Quelimane Municipal Council. There are a total of 568 employees in four categories of employment contract – state employees (pessoal do quadro), full-time contracted staff (pessoal contratado), short-term contracted staff (pessoal eventual) and part-time staff. Only 13 staff members have any post-secondary education, including two with university education and the rest with medium-level technical qualifications. A number of these qualified staff work only on a part-time basis for the municipality, some having responsibilities with provincial government institutions (for example, in the land planning department). There is a clear problem of overstaffing at lower administrative ranks, with the need for rationalisation and the implementation of a retrenchment programme.

Table 1
Tete City Municipality
Human Resources - Alternative Estimates

A. Municipal Council - Staffing Plan

December 1999

Total Posts	406
Filled	151
Vacant	255

B. Municipal Council - Staffing Plan 2000

Classification	No. employees
Pessoal do Quadro	149
<i>Group 1</i>	48
<i>Group 2</i>	63
<i>Group 3</i>	38
Pessoal fora do quadro	268
Total	417

C. JICA study 2001

Tete City Municipality - Human Resources

Admin.	0
Technical	2
Assist. Tech	17
Other Admin.	18
Workers	149
Service & other	8
Total	194

D. Actual Employment Levels (Estimates)

Human Resources Dept, CM, December 2001

Total	327
President's Administration	50
Sanitation	16
Rubbish collection	70
Drain maintenance	11
Cemetery	12
Inspection department	20
Maintenance	7

Table 2
Quelimane City Municipality
Human Resources - Actual 2001

Department	State Employees (<i>Pessoal do Quadro</i>)	Full-time contracted staff (<i>Pessoal Contratado</i>)	Short-term contract staff (<i>Pessoal Eventual</i>)	Part-time staff	Total	
President's office		1	4	7	1	13
Secretaries	10		10		12	32
Accounts	7		9			16
Human Resources	4					4
Dir. Urban Services	1		8	3	1	13
Rubbish collection	2		7	34		43
Gardens			2	46		48
Inspection	1		7	1		9
Cemeteries	2			15		17
Abattoir	2		2	10		14
Núcleo de Apoio			3			3
Cleaners			9	58		67
Maintenance dept.	7		17	2		26
Swimming pool			1	11	1	13
Urbanisation & Construction	4		5	1	1	11
Public works	2		9	21		32
Security guards	11		1	1		13
Carpentry	8		6	1		15
Markets	2		17	31		50
Municipal Police			68		1	69
Postal addresses			11	6		17
						0
Members, Municipal Assembly						35
Vereadores						8
Totals	64	196	260	5		568

Note: Staffing levels have increased substantially since 1998 (from 300 employees)
Staff with post-Secondary qualifications = 13
University degrees : 2
Técnico Médio : 11

Salary structures and other types of remuneration for elected officials are laid down by the legislation [see Hanlon (1997), pp. 35 – 37], but not for appointed officials.⁸ Total salary costs for all municipal employees are theoretically pegged to a maximum of 30% of the total own source receipts of the municipality. This is designed as an incentive for municipal officials to increase revenue collection efforts, in order to be able to thus augment their own salary levels. It has proven possible in practice however to partially overcome this restriction by categorising some forms of personnel costs under other expenditure categories e.g. fuel and vehicle maintenance subsidies and funeral subsidies. Some (rough) calculations of trends in average real (US\$) remuneration levels, including salaries plus allowances, within the two municipalities are given in Tables 3 and 4. These show average monthly remuneration levels in Tete City rising from approximately US\$ 60 in 1999 to US\$ 90 in 2001, while those in Quelimane have stayed constant at between US\$75 – 80 over this period. These rates are approximately three times the national minimum salary of US\$25 per month. Data on the distribution of incomes by job classification or by age and gender of employees were not available.

Table 3
Tete City Municipality Salary Structure

Year	Total Employment	Total Salary & Emoluments (million Mt)	Ave. Monthly Salary (Mt)	Real Monthly Salary (USD)
1999	255	2297,6	750.850	63
2000	327	3937,9	1.003.542	84
2001	417	5400,6	1.079.257	90

Note: Total salaries for 2001 is budgeted figure

⁸ Some municipal employees (*peçoal do quadro*) fall under the central government's employment regulations, both in terms of their conditions of employment and remuneration levels. This represents a serious constraint upon the autonomy of municipalities to decide their own human resource requirements and control the municipal wage bill, which represents their single largest expenditure item.

Table 4
Quelimane City Municipality
Salary Structure

Year	Total Employment	Total Salary & Emoluments (million Mt)	Ave. Monthly Salary (Mt)	Real Monthly Salary (US\$)
1999	400	4603,5	959.063	80
2000	500	7125,27	1.187.545	79
2001	568	10020,2	1.470.100	74

Note: Total salaries for 2001 is budgeted figure

The government's training system for public administration (SIFAP) is a programme designed to provide formal and non-formal training to public servants at all levels of administration. Training methods include modular courses and distance education programmes. The objective is to increase the overall level of skills and education in the area of public service. Many specific features of SIFAP have been designed to cater for the needs of public servants at local level. The Intermediate Institute for Public Administration (IMAP) has been established in Matola to deliver in-service training courses to elected and appointed public sector officials, including those operating at municipal level. IMAP is also developing curriculum materials for pre-service qualifications. IMAP has been designated as the institution responsible for the delivery of the government's new civil service training system.

C. Governance & Transparency Issues

Municipal Councils appear to be complying with most of the formal governance and transparency requirements laid down by the legislation (see Box 3 for an overview of the situation in Tete City and Quelimane).

However, one area in which significant improvements are required is that of access to information for members of the general public. This is currently severely limited and reflects a continued lack of appreciation on the part of many municipal officials (a significant proportion

of whom served in the previous appointed Executive Councils) of the importance of good public relations. During visits to Tete City and Quelimane Municipal Councils, this consultant observed several examples of rude and obstructive behaviour on the part of municipal staff when dealing with members of the public, who were seeking to obtain information.

This is an area in which donor and civil society support could have a significant short-term beneficial impact, at relatively low cost. This could be achieved through direct support to the improvement of information systems and dissemination of information on Municipal activities and finances (e.g. through the publication and dissemination of a biannual Municipal Report). Such actions would be valuable in further increasing transparency and a sense of local ownership of municipal initiatives and challenges. All municipal councils should be required to establish a public information office with one or more officers trained in public relations/ media relations. This office would then be responsible for the development of an information/ publicity strategy for the MC and Municipal Assembly. Donor intervention in this area could usefully draw upon recent experiences by municipalities in other developing countries with the implementation of quality principles and quality management systems, leading to ISO 9001 accreditation⁹.

⁹ This was the subject of a series of presentations given by Dr. Marcelo de Souza, Total Quality Manager and Health Secretary of the Municipality of Itamaracá (Brazil) during Mozambique's Quality Week in December 2001. His visit was sponsored by UNIDO and a copy of his visit report is available from the UNIDO office, Maputo.

PART B: IMPACT OF MUNICIPALITIES ON BUSINESS SECTOR

IV: MUNICIPAL FINANCES AND FISCAL BURDEN

A. Municipal Finances

Municipal governments throughout Mozambique face significant financial constraints and particularly lack the investment funds necessary to begin to systematically tackle chronic under provision of quality urban infrastructures and services. One potential source of additional revenues is taxation of private sector activity, both through the introduction of new business-related municipal taxation and enhanced efficiency in the collection of existing direct and indirect tax instruments (from which a proportion of total national revenue is transferred to municipalities). This raises a number of issues concerned appropriate and sustainable levels of fiscal burden on the business sector, and particularly upon the many small-scale and informal sector enterprises which predominate in many sectors of both productive and commercial activity at local level.

Total municipal revenues are extremely low, even in comparison with other low-income countries for which recent data is available. The World Bank (2000) estimates that total revenues for five major cities (Maputo, Beira, Quelimane, Nampula and Pemba) averaged US\$ 6.71 per capita in 2000. Of these resources, less than 50% are own source or locally collected revenues, with the majority comprising a range of fiscal transfers from the central government. On the expenditure side, recurrent expenditures are increasing and constituted 70% of total expenditures in 2000, of which over 40% represented personnel costs.

These general conclusions are confirmed by a more detailed analysis of the evolution of the financial position of Tete City (Table 5) and Quelimane (Table 6) from 1998-2001. There was a dramatic increase in revenues (both locally collected and central government transfers) between 1998 and 1999 attributable to the initial implementation of new revenue collection mechanisms by the incoming administrations. Since 1999, however, total revenues have remained broadly constant in real (US\$) terms. Total revenues per capita in 2000 were US\$4.52 in Tete City and

US\$3.99 in Quelimane, based upon estimates of the total urban populations derived from the results of the 1997 census¹⁰.

Table 5
Tete City Municipality
Evolution of Financial Position 1998-2001

	Meticais, millions				US Dollars			
	1998	1999	2000	2001	1998	1999	2000	2001
Own Revenue	1.203.7	2.761.2	3.992.2	3.052.0	120,370	230,100	266,147	152,600
Central Govt. Transfers	1.102.1	3.372.7	4.135.8	4.317.1	110,210	281,058	275,720	215,853
Total	2.305.8	6.133.9	8.128.0	7.369.1	230.580	511,158	541,867	368,453
Growth Rate (%)		166.0%	32.5%	-9.3%		121.7%	6.0%	-32.0%
Revenue per capita					\$1.92	\$4.26	\$4.52	\$3.07
Salaries	309.7	2.297.6	3.937.9	2.050.2	30,970	191,467	262,527	102,510
Goods & Services	1.635.6	2.612.6	2.056.2	2.262.5	163,560	217,717	137,080	113,125
Capital Investment	161.7	1.427.1	2.063.9	1.366.8	16,170	118,925	137,593	68,339
Total	2.107.0	6.337.3	8.058.0	5.679.5	210,700	528,108	537,200	283,974
Growth Rate (%)		200.8%	27.2%	-29.5%		150.6%	1.7%	-47.1%
Expenditure per capita					\$1.76	\$4.19	\$4.06	\$2.04

Source: Tete Municipal Council

Notes: Figures for 2001 refer to Jan-Sept; bold figures are programmed values for 2001 from 2000 budget

¹⁰ In Tete City, municipal officials claim that the 1997 census figure of 120,000 inhabitants considerably underestimates the true urban population. This is apparently due to the fact that the census was undertaken during an agricultural planting period when many periurban residents had temporarily migrated to surrounding rural areas. The issue of accurate measurement of urban populations is becoming increasingly important and politically sensitive, as significant financial resource flows are now based upon these levels.

Table 6
Quelimane City Municipality
Evolution of Financial Position 1998-2001

	Meticais, millions				US Dollars			
	1998	1999	2000	2001	1998	1999	2000	2001
<i>Revenue:</i>								
Local Taxes	11	12,7	26,5	45,8	1.100	1.062	1.767	2.289
Market Fees	2.467,0	3.158,7	4.130,3	4.428,2	246.700	263.225	275.355	221.411
Other Licences	116,0	1.424,6	2.104,3	3.638,0	11.600	118.717	140.288	181.898
FCA	917,0	3.651,7	3.947,4	4.342,0	91.700	304.308	263.160	217.098
Fundo de Investimento	0,0	1.691,3	1.775,9	2.351,9	0	140.942	118.390	117.593
Counterpart APIE	454,0	598,0	446,0	327,0	45.400	49.836	29.736	16.349
Total	4.153,0	10.537,1	12.430,4	15.132,7	396.500	878.089	828.695	756.636
Growth Rate (%)		153,7%	18,0%	21,7%		121,5%	-5,6%	-8,7%
Revenue per capita					\$2,11	\$4,43	\$3,99	\$3,47
<i>Expenditures:</i>								
Salaries	1.349,0	4.603,5	5.695,7	10.020,2	134.900	383.626	379.713	501.008
Goods & Services	1.941,0	3.373,6	4.558,8	3.660,3	194.100	281.133	303.921	183.014
Capital Investment	841,0	1.230,3	1.350,0	1.495,7	84.100	102.524	90.000	74.783
Total	4.131,0	9.207,4	11.604,5	15.176,1	413.100	767.283	773.634	758.805
Growth Rate (%)		122,9%	26,0%	30,8%		85,7%	0,8%	-1,9%
Despesas per capita					\$2,09	\$3,88	\$3,72	\$3,48

Source: Quelimane Municipal Council

Notes:

Figures are actual (rather than budgeted); 2001 revenues are annualised based upon Jan-Nov actual revenues; 2001 expenditures are annualised figures based on Jan-Oct 2001 actual

At end of 2000, Quelimane MC had total outstanding debts owed to third party suppliers of around \$24,000

Year	Average Nominal Exchange Rate	Estimated population (assume 5% annual growth since 1997 census)	
		Quelimane	Tete City
1998	Mt/US\$ 10000	188100	120000
1999	12000	198000	126000
2000	15000	207900	132300
2001	20000	218295	138915

To put existing annual revenue levels in the two cities into a national context, the following are comparative total revenue figures for Mozambique’s two largest cities for 1999 (in US\$):

City	Total Revenue	Population (est.)	Revenue per capita
Maputo	\$11,421,000	2,000,000	\$5.71
Beira	\$2,385,200	500,000	\$4.77
Quelimane	\$749,900	180,000	\$4.16
Tete City	\$422,450	120,000	\$3.52

Source: Ministry of State Administration (2000), own estimates

Tables 7 and 8 (next pages) give a breakdown of major current sources of revenue and expenditure items for Tete City Municipal Council in 2000 and 2001 (year to date). On the revenue side, in 2001 the major sources are from “fees and licences” (42.4% of total) and particularly market fees (30% of total)¹¹ and also from central government fiscal transfers (49.5%) and particularly the Municipal Compensation Fund (FCA). Local tax receipts have increased from 3.7% in 2000 to 8.2% in 2001 with the partial introduction of the Municipal Buildings Tax in the urban zones of the city. Expenditures are dominated by recurrent expenditures (87% of total expenditure) and particularly by salaries and other personnel-related expenditures (55.9%), which continue to grow as a proportion of total expenditure. Capital expenditures represented 12.5% of total expenditure in 2001 with a value of US\$58,000, of which over 60% was spent on the acquisition of transport and other equipment.

Tables 9 and 10 give a similar financial breakdown for Quelimane Municipal Council. Major sources of revenue in 2001 were from “fees and licences” (46.7% of total) and particularly market fees (31% of total) and also from central government fiscal transfers (52.9%) and particularly the Municipal Compensation Fund (FCA). Expenditures are dominated by recurrent expenditures (90.1% of total expenditure) and particularly by salaries and other personnel-related expenditures (66%). Capital investment levels were minimal at around US\$ 53,000 for 2001.

¹¹ Licensing and license fees are discussed in more detail in Section V below.

Table 7
Tete City Municipality
Breakdown of Budgeted Revenues 2000/2001

	Meticais, Millions		% Total	
	2000	2001	2000	2001
Total Tax Receipts	308.0	713.5	3.7%	8.2%
Tourism Tax (30% of IT)	50.0			
Buildings Tax (IPRA)	0.0	396.0		
Poll Tax (IPA)	180.0	200.0		
Vehicle Tax (75% do IVA)	21.0	17.0		
Commerce and Industry Tax (IACI)	0.0	0.0		
Income Tax (IRTB)	0.0	0.0		
Economic Activity Tax				
	57.0	100.0		
Non – Tax receipts	3.992.9	3.699.5	47.3%	42.4%
Loteamento		151.4		
Building Licences	77.6	224.4		
Service Fees	450.0	234.0		
Market stall fees – temporary	1.946.0	2.250.0		
Market stall fees – fixed	90.0	403.9		
Fees from street hawkers	14.0	219.0		
Weights and Measures		160.0		
Vehicle parking fees		210.0		
Signs and advertising fees	90.0	200.1		
Cemetery fees	14.0	50.2		
<i>Service Provision Fees:</i>				
Waste disposal fees	540.0	660.0		
Water and energy supply	100.0	61.2		
Abattoir user fee	90.0	260.0		
Fines imposed (multas)	250.0	200.0		
Bicycle and motorcycle licences		155.3		
Other fees	350.0	507.6		
Central Govt. Transfers	4.135.8	4.317.1	49.0%	49.5%
Compensation Fund (FCA)		2921.0		
Investment Fund		1.276.8		
Total Receitas	8.436.7	8.730.0		

Source: Tete Municipal Council, Plano Orçamental 2000, 2001

Table 8
Tete City Municipality
Breakdown of Planned Expenditures 2000/2001

	Meticais, Millions		% Total Expenditure	
	2000	2001	2000	2001
Total Personnel Costs	3.351,2	6.115,6	51,3%	55,9%
Salaries & remuneration	2.738,8	5.400,6		
Other expenses	612,5	715,0		
Total – Goods & Services	2.058,8	3.455,5	31,5%	31,6%
Fuel & Lubricants	405,0	330,0		
Buildings maintenance	180,0	150,0		
Equipment maintenance	65,0	117,0		
Office materials	159,3	205,0		
Office equipment	50,0	100,0		
Uniforms	66,0	150,0		
Other goods	158,0	229,5		
Communication	170,0	143,0		
Travel expenses	70,0	160,0		
Building rental				
Buildings maintenance	110,0	100,0		
Equipment maintenance	65,0	150,0		
Transport & Freight	50,0	50,0		
Insurance	103,0	226,5		
Legal costs	105,0	154,5		
Consultancy costs	102,5	120,0		
Water & Electricity	200,0	270,0		
Other services		646,2		
Capital Investments	1123,1	1366,8	17,2%	12,5%
General construction	583,8	500,0		
Housing				
Other buildings				
Transport equipment	339,2	600,0		
Other equipment	200,0	266,8		
Total Expenditure	6.533,1	10.937,9	100%	100%

Source: Tete Municipal Council, Plano Orcamental 2000, 2001

Note: it was not possible to obtain a detailed breakdown of actual revenues/ expenditures for this period; budgets are drawn up based upon previous year results

Table 9
Quelimane City Municipality
Breakdown of Realised Revenues 2001 (January - October)

	Meticais, millions 2001	% total
Total Tax Receipts	42,0	0,4%
Tourism Tax (30% of IT)	0,0	
Buildings Tax (IPRA)	0,0	
Poll Tax (IPA)	42,0	
Vehicle Tax (75% do IVA)	0,0	
Commerce and Industry Tax (IACI)	0,0	
Income Tax – Section B (IRTB)	0,0	
Economic Activity Tax	0,0	
Non-Tax receipts	5.221,5	46,7%
Building Licences	5,5	
Land Taxes (land use fee)	349,0	
Market stall fees - temporary	3.494,2	
Market stall fees – permanent	0,0	
Fees from street hawkers (vend. ambulantes)	64,6	
Weights & Measures	1,5	
Vehicle parking fees	241,0	
Signs & advertising fees	53,8	
Cemetery fees	10,9	
<i>Service Taxes:</i>		
Waste disposal fees	527,2	
Water and Electricity supply	0,0	
Abattoir user fee	137,2	
Fines imposed (multas)	31,5	
Bicycle and Motorcycle licences	0,0	
Other fees	326,0	
Central Govt. transfers	5.913,2	52,9%
Compensation Fund (FCA)	3.245,2	
Investment Fund	2.405,9	
Share of APIE proceeds	262,1	
Global Total Revenues	11.176,7	100%

Source: Quelimane Municipal Council

Table 10
Quelimane City Municipality
Breakdown of Actual Expenditure 2001 (January - October)

	Meticais, Millions 2001	% total expend. 2001
Total Personnel Costs	8.350,0	66,0%
Salaries & remuneration	7.310,0	
Other expenses	1.040,0	
Total – Goods & Services	3.050,2	24,1%
<i>Goods</i>		
Fuel & lubricants	494,8	
Buildings maintenance	118,4	
Equipment maintenance	126,5	
Office materials	296,3	
Office equipment	57,6	
Uniforms	14,4	
Other goods	160,7	
Communication	380,9	
Travel expenses	96,4	
Building rental	23,6	
Buildings maintenance	112,7	
Equipment maintenance	153,7	
Transport & Freight	30,8	
Insurance	2,9	
Legal costs	12,1	
Consultancy costs	3,8	
Water & Electricity	210,5	
Other services	753,7	
Capital Investments	1.246,4	9,9%
General construction	13,5	
Housing	0,0	
Other buildings	675,9	
Transport equipment	557,0	
Other equipment		
Total Expenditure	12.646,6	100,0%

Source: Quelimane Municipal Council

Note: Budget approved for capital expenditure in 2001 was 5,056 million Mt (only 24% realised by October)

There are a number of different central government transfers allowed for in the Municipal Finance Law 11/97. For further details see Brockman & Wojtyla (2000), pp.13-14. The three main transfers which have been available to municipalities to date are as follows:

Municipal Compensation Fund [*Fundo de Compensação Autarquica – FCA*]

Law 11/97, Articles 40-42

Non-matching grant fund to cover operating expenditures. Divided amongst all 33 municipalities according to a formula which includes municipal population (to date the only indicator used), area of municipality, index of municipal tax performance and weighted index of development. Amount can vary between 1.5% to 3.0% of estimated and realised national tax receipts annually. Amount and allocation formula approved annually as part of general state budget (OGE). In 1999 and 2000 lower figure of 1.5% was applied.

Local Investment Fund [*Fundo do Investimento de Iniciativa Local – FIIL*]

Law 11/97, Article 45

Non-matching grant for capital investment with uses determined by municipality. Allocated to all municipalities on basis of population. Amount determined annually in national budget.

Receipts from APIE (State Housing Agency)

Law 11/97, Article 92

Counterpart revenues from the state housing agency set up to own and manage all assets acquired through the nationalisation of residential and small commercial properties after independence in 1974. Municipalities receive 15% of the rental receipts from properties within the municipality as collected by APIE (30% in Maputo). These properties are, in principal, exempted from the payment of the Municipal Property Tax (IPRA)

Funds are released to the municipalities by the Provincial Directorate of Planning & Finance (DPPF) on a quarterly basis. It was noted in both Tete City and Quelimane that the DPPF's have recently been attempting to exert greater control over this process. Municipal Councils are now required to account for their previous usage of these funds in some detail, in terms of providing proof of usage and supporting documentation, in order to secure additional tranches. This is particularly the case for Investment Fund (FIIL) transfers, which have restrictions on their areas of application. Considerable delays in the release of funds are reported, with the MC blaming this on over-complex procedures in the DPPF and the Provincial Finance departments blaming this on inadequate financial management and reporting systems in the MC's.

In an international context, recent research [Devas et al (2001)] argues that the greatest constraint facing city governments wishing to address urban poverty is the inadequacy of local financial

resources. City budgets in poor cities are extremely low (under US\$ 5 per capita in Kumasi, US\$14 in Bangalore, US\$ 25 in Cebu City) and they also represent a smaller proportion of local GNP per capita than do city budgets in middle income countries.

In most large cities, property and business taxes are the major sources of revenue. However, property taxes are politically sensitive, unresponsive to inflation and economic growth and difficult to collect. In many cities as much as 50% of property taxes remain uncollected. More effective revenue collection, through property revaluation and enforcement measures, could thus increase resources significantly. Exempting low value properties and informal sector businesses would also minimise the tax burden on the poor. By contrast, flat-rate business taxes often fall disproportionately on the poor and turnover-based taxes are difficult to assess and may have a negative impact on the growth of the local economy.

A report prepared for the World Bank's Municipal Development Project by Brockman & Wojtyla (2000) "Municipal Finance and Fiscal Impact Analysis" emphasises that significant extra efforts to generate local revenues, through both local taxation and the introduction of user fees for selected services, will be required if municipalities are to have any chance of developing sustainable capital investment programmes in the next 5 to 10 years. This study also develops a useful financial projection model, which allows a range of projections to be made based upon key variables such as general price inflation, rate of economic growth, growth rates of MC operating revenue and recurrent expenditures, local taxation rates and coverage and levels of central government fiscal transfers. Their "financial improvement" (or best case) scenario allows for a capital investment program in five main cities of US\$48.5 million over five years¹², of which 78% would be implemented in Maputo, Beira and Nampula, 8% in Pemba and 13% in Quelimane. Such a programme assumes (a) success in increasing revenue generation through user fees, (b) new tax revenues that exceed the cost of collection, (c) actively controlled recurrent expenditures and (d) an increase in current fiscal transfers.

¹² The majority of this capital investment programme would be financed by a World Bank grant fund, with amounts available based upon a "performance formula" related to success in generating additional own revenues and controlling recurrent expenditures and in which municipalities are required to make a 10% counterpart contribution.

An excellent review of the ongoing process of fiscal decentralisation in Mozambique, covering both municipal financing and the delegation of fiscal powers to provincial and district administrations in Mozambique, is contained in Chapter 3 of the 2001 Public Expenditure Review.¹³ This chapter provides a detailed analysis of recent experience with fiscal reform at local level and also makes recommendations for the strengthening of this process. One important conclusion of this analysis is that “The risk for the municipal decentralisation program is that limited revenue raising capacity will act as a binding constraint on the transfer of responsibilities from the central government to the *autarquias*, thus stalling the program.” A further issue of concern is that municipalisation has created inequalities with respect to the districts, with municipalities seen as having a “favoured status” at the local level.

B. Local Taxation Reforms

The original municipal legislation (Law 11/97) contained provisions for the implementation of a number of specific municipal taxes. These are listed in Box 5 along with details of their intended coverage, potential collection mechanisms and information about the current status of the collection of these taxes in Tete City and Quelimane. The appropriate supporting regulations (*Código Tributário Autárquico* - Municipal Tax Code) to allow the implementation of these new taxes were only finalised, after substantial delays, in late 2001. They include the provision that, with the exception of the Municipal Poll Tax and the Economic Activity Tax, all other taxes will initially be collected by the MPF, who will then transfer the net revenues (after deducting administrative costs) to the municipalities, until the stage that they are ready to take responsibility for their own tax collection¹⁴.

The only one of these taxes that is currently being collected by the two municipalities reviewed here is the Municipal Poll Tax (*Imposto Pessoal Autárquico* - IPA). The reported revenue yields in the two cities surveyed (see Tables 7 and 9) indicate that coverage levels are very low, due

¹³ Chapter 3 of Part 1 of the 2001 Public Expenditure Review, “Fiscal Decentralisation – Taking Stock and Looking Ahead” (unpublished draft, November 2001). The PER is jointly undertaken by the Ministry of Planning and Finance, the World Bank and other bilateral donors.

¹⁴ The Municipal Council of Maputo City published announcements in the press in early January 2002 concerning the introduction of the Municipal Buildings Tax and the Municipal Tax on Commerce & Industry, both to be collected by the MPF in 2002, but with the intention that this responsibility will be taken on by the Municipal Council itself from 2003.

largely to inefficient and haphazard collection mechanisms, particularly in Quelimane City. In Tete City, potential revenue from IPA with 100% coverage would be approximately Mt 1.2 billion, compared to actual revenue in 2000 of Mt 180 million, giving an actual collection rate of 15%. In Quelimane, collection rates are even lower at less than 2.5% of potential. This experience does not give great confidence about the capacity of these municipalities to collect other tax instruments in an effective manner.

The aggregate impact of these new revenue sources, net of collection costs, on total municipal finances and their potential fiscal burden on the private sector is as yet unclear, due to continued uncertainty about (a) the exact timing of their introduction in different municipalities, (b) the likely extent of their enforcement and (c) the initial rates that will be set. In theory, the yields from these taxes should significantly expand the current revenue base of the municipalities. However, there has to be serious concern about the existing financial management capacity of many of the MC's to (a) effectively collect these new taxes and (b) to then effectively apply increased revenue inflows to improved service delivery. A formal evaluation will be required (by the DPPF or other auditing body) of the capacity of individual municipalities to effectively manage collection of these new fiscal instruments, before transfer of responsibilities is undertaken.

However, regardless of initial success in implementing effective collection mechanisms, one important impact of these new taxes will be to give municipalities a direct financial interest in the level and growth of formal sector economic activity within their areas of jurisdiction. This is in sharp contrast to their current focus upon informal commercial activities, particularly market trading, which generates almost one-third of their total revenues through the collection of daily licence fees.

It should also be noted that the reform of local government taxation is part of a more general reform of the Mozambican tax system being coordinated by the Technical Unit for Tax Reform (URTI), within the Ministry of Planning & Finance. Following the introduction of Value Added Tax (IVA) in 1999 and reforms to import duty schedules, the current focus is on reforms to direct taxation systems. In November 2001, the government published a new draft basic law on taxation systems for discussion (the *Anteprojecto da Lei de Bases do Sistema Tributário*). A

number of current taxes on personal and corporate incomes will be replaced by a simplified system of two taxes: a tax on personal incomes (IPS) and a tax on corporate or collective incomes (IPC). These harmonized taxes will be levied on incomes from a number of sources, including employment, investments and savings, business profits and rental income from buildings and properties.

V: URBAN SERVICE DELIVERY & INFRASTRUCTURE

DEVELOPMENT

A. Actual Levels of Service Delivery

The civil war in Mozambique had a severe negative impact on living conditions in major urban centres. A large proportion of the rural population were internally displaced (approximately 4 million in total) and many of these forced to migrate to the relative security of major cities, thus rapidly swelling existing urban populations. World Bank data for Mozambique (WDI 2000) show that the urban population represents about 38% of the national total and is estimated to be growing at approximately 6% per annum (significantly faster than the gross population growth rate). The influx of mainly poor rural migrants into the cities and towns served to overwhelm already fragile infrastructures and the capacity of the city administrations to deliver adequate urban services. The most obvious deficiencies include lack of adequate low-cost housing, deteriorating road systems, inadequate supplies of drinking water, sporadic solid waste collection and poor drainage and sanitation facilities, leading, amongst other health and social problems, to the high prevalence of water-borne diseases, including cholera, dysentery and infant diarrhoea.

An overview of the actual range and levels of Municipal Council provision of a number of basic urban services in Quelimane and Tete City is shown in Box 5. This service delivery “fulfilment matrix” also attempts to provide an indication of the level of private sector involvement in the delivery of these services. This is currently extremely limited in these two cities, which is not believed to be unrepresentative of the situation in the other municipalities.

In general, a range of basic services (see Box 5) are currently being delivered in the central zones of both cities, but are almost completely lacking in the suburban and rural areas which fall under MC responsibility and where the majority of the urban poor live. It is of course a natural inclination of municipal officials to concentrate on service provision in central areas, which achieve the most visible results and where the most influential lobby groups, including the formal business sector, are based. The elected Municipal Councils in both cities have inherited most of their equipment and operational personnel from the previous city administrations and have essentially continued to operate within the parameters set by their predecessors. In neither

city has any systematic attempt been made to (a) identify areas of greatest need, (b) prioritise expenditures based upon a social cost/ benefit analysis, (c) seek to identify the poverty impact, environmental impact and gender implications of current programmes.

Regarding the introduction of user fees, the only current example in both cities is the user fee charged for sanitation services (taxa de saneamento) which is collected monthly with electricity bills by EDM on behalf of the Municipal Council. This is a flat fee of Mt 5000 per month in Tete City and ranges between Mt 10,000 for domestic users and Mt 100,000 for large business users in Quelimane. In terms of its effects on income distribution, this is probably a progressive method for collecting this tax, since only the relatively higher-income households who are electricity users are paying. However, the levels of revenue generated (a) do not currently meet cost of service provision and (b) also do not appear to be dedicated to expenditures in improvement of sanitation services. The general principle of user fees is that they should be designed to at least recover the direct costs of the service provided.

The current involvement of private sector companies in aspects of municipal service delivery is virtually non-existent. No examples were found of formal mechanisms to contract out aspects of service delivery. In Quelimane, the Municipal Council has licensed a local entrepreneur to run a restaurant in one of the municipal gardens, which involves responsibility for maintenance of the general area. By contrast, both Municipal Councils are currently cooperating with donor agencies, including WFP and UNICEF, in the areas of social welfare, street cleaning and basic sanitation. In Quelimane, UNICEF is working in selected suburbs to build public sanitation units and septic tanks. They are also training some municipal staff in the construction of improved latrines, with the intention that this would be a commercial service that could be offered to local residents. WFP have a food-for-work programme in Tete and a cash payment programme in Quelimane to employ disadvantaged women in urban street cleaning.

Limited infrastructure development programmes in the last 3 years have focused on priority maintenance programmes for city drainage systems (in Quelimane), relocation of urban markets and improvement of market facilities including latrines (in both Tete City and Quelimane) and the construction of several schools and classroom blocks. Responsibility for the provision of health and education services remains with the relevant government ministries, although the

eventual devolution of these powers to the municipalities is foreseen in the legislation. Given that these are sectors with existing government and donor programmes for infrastructure development, it is unclear why Municipal Councils are devoting scarce investment resources to school construction projects? This is presumably due to their relative simplicity and low cost compared to the more complex, but essential, areas of road maintenance, drainage and sanitation.

In terms of the current distribution of municipal expenditures, it would be beneficial to undertake a closer analysis of who benefits from current expenditure patterns? Research work in other developing country cities [Devas et al. (2001)] points to the frequent need for a general reorientation of expenditures from the provision of high standard services that benefit a few to provision of more basic services that benefit the majority. While the executive body needs to retain control over a city's budget and use of resources, greater transparency is essential to counteract corruption and break down exclusive client-based power relationships. This may be partly achieved through the introduction of participatory budgeting (PB) procedures¹⁵ which would aim to ensure that poor and marginalised communities are able to have a more active role in determining priorities for use of public funds¹⁶.

B. Achieving Enhanced Service Delivery

Given current technical and financial resource constraints, it seems obvious that some, less intrinsic, activities of the Municipal Councils in Tete City and Quelimane should be immediately privatised e.g. abattoirs and swimming pools. Running of cemeteries should be handed over to the responsibility of local churches and religious organisations. A range of other services could and should be contracted out in the short term e.g. maintenance of parks and gardens, tree surgery and the provision of sports and leisure facilities.

¹⁵ Further information on participatory budgeting and other techniques to involve communities in local governance can be found on the website of the Local Governance Learning Project (a joint initiative of the Institute of Development Studies and the Ford Foundation) <http://nt1.ids.ac.uk/ids/particip/research/localgov>.

¹⁶ UNDP have a pilot project with local government institutions in Nampula Province involving the use of participatory budgeting techniques.

Another area in which private sector involvement should be seriously considered in the short-term is that of solid waste collection. However, recent experience in Maputo shows the potential risks involved with flawed procedures for contracting of private companies to undertake rubbish collection (in this case, Interwaste, a local subsidiary of a South African waste services company). A major factor seems to have been the lack of experience of municipal officials in how to design and implement a suitable service delivery contract. Another factor concerns internal divisions within the MC over responsibility for contract fulfilment, with the vereador claiming that the responsibility for payments under the contract rested with the Director of the department responsible for implementation.

Contracting out of municipal services is an area in which there is an almost complete lack of experience and knowledge of international best practice at provincial level in Mozambique. Requisite technical and legal knowledge is not available to Municipal Councils e.g. in how to draw up and design a service delivery contract, defining the legal obligations of both parties, designing an effective system for the collection of user fees and deciding upon appropriate levels of revenue sharing. This is an area in which interested donor agencies, such as UNIDO, could profitably provide technical support in the short and medium term. However, there are a number of important preparatory steps that would need to be undertaken to ensure that specific initiatives were both sustainable and cost effective (see examples below for water supply and sanitation contracts)¹⁷.

What has been recent international experience in encouraging private delivery of urban services? Johnstone et al. (1999) looks at recent experience in the regulation of private sector involvement in urban water supply and sanitation in five cities in developing countries (Manila, Buenos Aires, Cordoba, Mexico City and Abidjan). They report that water sector private sector participation (PSP) is expanding rapidly as globalisation and deregulation allow European and North American firms to enter new markets. They estimate that between 1990-1997 new private sector capital expenditure on water supply and sanitation projects reached US\$ 25 billion, compared to only US\$ 300 million in 1984-1990. These estimates are based upon a review of 97 projects in

¹⁷ A recent overview of best practice in the area of contracting out of basic public services is contained in Brook & Smith (2001), "Contracting for Public Services: Output Based Aid and its Applications", World Bank Publications.

35 developing countries. They highlight the fact that such PSP's can take a number of different forms, including:

- service contracts for limited services (e.g. meter reading, leak detection, billing);
- management contracts in which governments retain financial and legal responsibility for delivery;
- leasing out of water supply systems for a limited period;
- Build, Own, Operate & Transfer (BOOT) arrangements, which are increasingly being used to build new wastewater treatment facilities;
- concessions (the most popular form of PSP), which usually give the concessionaire monopoly service provision rights for a fixed period;
- divestiture (partial or total) of state ownership¹⁸;

Some of the main conclusions from this study are that (a) contracts require more than technical specifications to be successful, (b) that household surveys are needed to determine preferences and ability to pay for services, (c) that service improvements in poor neighbourhoods would be more affordable with increased access to credit and alternative payment schemes, (d) the general model of providing free raw water to concessionaires is not conducive to the creation of a climate in which the scarcity value of water is reflected in the costs faced by service providers and users, (e) for many cities the goal of providing universal water and sewerage coverage is only achievable in the long-term; in the short-medium term, other measures are required to oblige operators to provide and manage public wells/ standpipes and septic tanks in poorer neighbourhoods, pending their eventual integration into city-wide water supply and sanitation schemes¹⁹.

C. Infrastructure Development & Strategic Planning

¹⁸ Since 1999, water supply management in Maputo, Beira, Quelimane, Nampula and Pemba has been privatised to a consortium (Águas de Moçambique) headed by the French company SAUR International and also involving the Portuguese company Águas de Portugal and local partners. Initial management and financial sustainability problems have led to a recent restructuring of this company, with SAUR International withdrawing from the project. The current levels of water tariffs will be maintained, pending further investigation by the government's regulatory body (CRA).

¹⁹ This is one of the objectives of the UNICEF-supported sanitation/ improved latrines project in Quelimane.

A recent survey of manufacturing sector firms in Mozambique [Biggs et al. (1999)] highlights deficient public infrastructure provision (roads, water supply, electricity and telecommunications) as a serious impediment to economic growth and higher levels of private investment, particularly in northern regions of the country. Improvement of urban infrastructures is probably the most significant positive contribution that municipal authorities can make to stimulating local business development. Any level of proactive investment promotion and special tax incentives will be of little use in attracting companies to less developed regions if basic infrastructures are missing or are too costly to allow for project viability in an increasingly competitive market environment²⁰.

Current development objectives and strategy of Municipal Councils in public infrastructure provision are largely reactionary and driven by events (firefighting) and responding to the interests of other agencies. These include major donors e.g. World Bank and bilateral donors in some provinces and also other government bodies e.g. National Roads Department, Electricidade de Moçambique (EDM) and Telecomunicações de Moçambique (TDM). Municipalities are still at the very early stages of developing their own capacity and autonomy in the area of urban structural planning and this is an area in which they require comprehensive technical and other forms of assistance.

The Municipal Councils in both Tete and Quelimane have yet to produce their own urban development plans or land use plans, despite this being a legislative requirement. In Quelimane, current activities are based upon a “Structural Plan and Plan of Priority Actions for Quelimane” produced in 1998 under the World Bank’s PROL project (Louis Berger/ Consultec). I am not aware of any similar physical plan for Tete City. The JICA (2001) study for the development of the Angonia Region, commissioned by GPZ, includes a number of urban development projects for Tete City in the roads, water and electricity supply sectors, although these projects have yet to be properly costed or potential financing identified.

²⁰ Reinikka and Svensson (1999) analyse the effects of inadequate provision of public infrastructure and services on levels of private investment in Uganda’s manufacturing sector and conclude that this “significantly reduces productive investment by firms” (page 16).

One area in which Municipal Councils should be encouraged to play a more active role is in the coordination (if not actual implementation) of infrastructure development projects within their municipal boundaries. This could be implemented through, for example, the establishment of a “Municipal Planning Commission”, involving all stakeholders, including private sector representatives. This would seek to improve coordination with the relevant state and private companies with direct responsibility for supplying public utilities as well as relevant government departments²¹.

The Ministry of Planning & Finance is currently working with the World Bank to formulate a “National Programme for Decentralised Planning and Finance” which aims to replicate nationally the experiences of a pilot project in Nampula Province, which included participatory planning methods and local infrastructure investments [source UNDP (2001)]. Although explicitly targeted at provincial and particularly district administrations, it would be highly desirable to involve municipal authorities in the development and implementation of such a national programme.

²¹ For example, Oxford City Council have a Planning Commission that is responsible for general urban planning, city zoning and inspections of all new construction projects (<http://www.cityofoxford.org/>). They hold monthly meetings which are open to members of the public.

VI: OTHER AREAS OF IMPACT ON PRIVATE SECTOR DEVELOPMENT

A. Business & Other Forms of Licensing

Licensing for the establishment of new formal sector commercial and industrial activities is currently handled exclusively by the Provincial Directorates of Industry & Commerce (DPIC), rather than by Municipal Councils, for business activities located within city boundaries. There are different procedural requirements for different categories of industries²², which are described in detail in UNIDO's November 2000 review of the private sector regulatory framework at provincial level in Mozambique [UNIDO (2000)]. However, an important role for the MC in this process is the approval of the land use plan for any new project located within the city boundaries. This requires a planning authorisation (*autorização para edificação*) from the MC urban planning department before the application for a trading licence (*alvara*) can be completed. In Tete City, this department is mainly staffed by technicians from the Provincial Directorate of Public Works & Housing (working on a part-time basis) and their capacity to process applications is severely limited, which often results in significant delays in final project approval.

The main current focus for municipalities in the area of business licensing are the large number of informal trading and service enterprises operating throughout most major towns and cities. These activities are subject to a range of daily, monthly and annual licences issued by Municipal officials depending upon the degree of "informality" of the operation²³. These procedures appear to be relatively simple (with few if any requirements to be able to obtain the relevant licence) and largely avoid the complex formal licensing process and associated costs of formalisation. These enterprises are however extremely vulnerable to arbitrary decisions by inspection officials (both municipal and other) regarding their location and conditions of operation. Examples of informal businesses operating in the suburban areas of the cities visited include small grain milling units, food kiosks and bars, car repair and metal-working firms, hairdressing salons and

²² The relevant regulations being applied are Decree 43/98 for commerce, Decree 44/98 for industry and Decree 69/99 covering all activities.

informal enterprises making and selling firewood and charcoal. There are no formal limits set upon the number of licences issued for particular activities, with the potential revenue gains to the municipal treasury outweighing any desire to regulate in this area²⁴.

By far the dominant source of licence revenues for Municipal Councils are the daily fees charged to traders using council run markets and also to street traders. This is an area in which municipal efforts to organise and localise market activities, in appropriate locations, seems to be appreciated by both traders and customers. In Tete City, new market facilities are currently being constructed away from zones of the city recently affected by flooding. Details of the market licence fees collected in 11 municipal markets in Quelimane City on 5 December 2001 are shown in Table 11. Total revenue from 1958 licences issued was over Mt 13 million, with rates varying between Mt 5000 to Mt 10,000 per trader. Treasury officials in Quelimane estimated that their average daily receipts from all licensing activities are Mt 25 million (just over US\$ 1000).

Municipal Councils are also responsible for the application of a wide range of other licences and service fees including: (a) construction licences, (b) land licences, including issuing of land titles, (c) vehicle licensing, (d) animal licences, (e) public sign & advertising fees, (f) fees for verifying weights & measures and (g) cemetery fees and (h) licensing of public transport providers. A list of some of the main licences and other service fees levied in Tete City and Quelimane, with respective rates and penalty fees (multas) for infringements is shown in Box 6.

²³ In Tete City, kiosks in the central area are required to obtain an annual licence costing Mt150,000 and pay a monthly fee of Mt90,000 (soon to be increased to Mt150,000, except in suburbs).

²⁴ The majority of these “informal” businesses will soon be subject to the new Municipal Tax on Commerce and Industry. In Maputo City, annual fees ranging from 600,000 Mt (US\$ 25) to 2 million Mt (US\$ 85) will be levied on a range of small-scale businesses with establishments from January 2002. Equivalent fees for those without establishments range from 400,000 Mt to 1 million Mt. Businesses covered includes artisans, tailors, barbers, electricians, plumbers, gardeners, auto mechanics and taxi drivers.

Table 11
Quelimane City Municipality
Detailed Sources of Local Revenue: Daily market revenues
for 5 December 2001

Market	No. Licences (senhas)	Revenue (‘000 Mt)	Ave. Licence fee per vendor (Mt)
Central	715	6.055	8.469
Brandao	194	1.170	6.031
Aeroporto	322	2.010	6.242
Santagua	106	530	5.000
Manhaua	40	200	5.000
Padeiro	121	605	5.000
Coalane	206	1.030	5.000
Torrone	165	1.150	6.970
Sangariveira	18	90	5.000
Icudia	62	310	5.000
Namuinhu	9	45	5.000
Total	1.958	13.195	
Other Licences issued (5 December)		9299	
Average daily total (licence revenues)		25.000	
Monthly (estimate)		750.000	
Annual (estimate)		9.000.000	

Most of these licence fees raise little revenue for the municipality (see breakdowns given in Tables 7 and 9) and rely upon potential users of these services personally visiting the municipal offices to obtain the relevant licence. In Tete City, persons undertaking any of the regulated activities without the appropriate licence are subject to penalties (multas) corresponding to 300% of the respective licence fee for the first infraction and 600% for additional infractions. Penalties for infringing public health & hygiene regulations vary between 100,000Mt and 1,000,000Mt although these seem to be infrequently applied. The majority of these licences and fees are “nuisance payments” to the business community and do not have a major effect on formal sector activities.

One important exception concerns construction licences, which currently involve overly complicated procedures that cannot be feasibly enforced in a transparent manner by city inspection officials. For example, in Quelimane, the criteria applied for the cost of licences for building projects include (a) expected period of execution as well as (b) size in square metres of construction area. There are also separate fees for registering the construction company and registration of legal responsibility for the construction project – all of which has to be confirmed by a technician from the Urbanisation Directorate of the Municipal Council. In addition, there are separate fees if the project involves new constructions of or modifications to the following structures: windows, window sills, pavements, terraces, walls and fences, gardens, house frontage, lifts and internal alterations.

A single “comprehensive” building licence should be introduced which would incorporate all aspects of the construction process. The cost of obtaining this licence should be based on a limited number of readily observable criteria, rather than the current multiple criteria, for example (a) type of construction (residential, commercial, other); (b) total dimensions of the construction project (in square metres or length in metres) and (c) new versus rehabilitation projects. Examples of international best practice in this area should be investigated and included in the discussions on regulatory reform currently being undertaken by the Mozambican private sector and the relevant government departments (see next section).

B. Role in Regulatory Reform Programme

The issue of regulatory reform has been the subject of considerable attention at national level since the creation in February 1997 of an inter-ministerial working group on “red tape” issues, which includes direct representation of the Mozambican private sector, in the form of the Confederação das Associações Económicas (CTA). It has been increasingly recognised, however, that real progress on regulatory reform cannot be achieved through changes of law, policy and procedure alone [see CTA (2001) and FIAS (2001)]. The issue of effective implementation of revised procedures at provincial and municipal level is now seen as one of the binding constraints.

Municipalities undoubtedly have the potential to act as an important impediment to the creation of a favourable operating environment for business operation, particularly for local small and medium size enterprises (SMEs). These generally have a more limited capacity to implement and comply with the complex set of regulatory procedures governing business licensing, importation, production and employment. It is also now widely recognised that traditional programmes for SME development, including credit provision, technical and managerial advice and provision of physical facilities, are unlikely to be effective in a dysfunctional policy and regulatory environment [for a good review of policy options towards SMEs, see Snodgrass & Biggs (1996)].

The two areas in which private companies interviewed complain of significant delays and complications in dealing with the Municipal Councils in Tete City and Quelimane are (a) the approval/ licensing of construction projects²⁵ and (b) obtaining planning approval for new projects as part of the process of obtaining land titles²⁶. These are two areas in which further analysis of current procedures and capacity building to support more effective implementation is urgently required. In particular, it would be worth considering some technical assistance to the MC's to improve their capacity to respond to requests for land and premises for industrial and commercial development. This is also an area in which private sector involvement in service delivery would be highly desirable. In Maputo, the entry of private land and quantity surveyors (*agromensures*) to undertake some of the steps in the surveying and demarcation of plots has greatly accelerated the process of obtaining land titles. A useful study could also be undertaken in both cities to identify existing vacant industrial property, with indicative costs for the development of a selected number of prime industrial sites, for dissemination to potential investors.

An initial step in the process of implementing regulatory reform would be to seek to integrate the Municipal Councils into the “Balcão Unico” initiatives currently being implemented in Quelimane and Tete City with UNIDO support. These “one-stop” regulatory centres seek to promote greater coordination amongst local government departments in handling a range of

²⁵ Details of procedures for obtaining construction permits are contained in UNIDO (2000).

business-related approval procedures and to promote greater transparency by publishing details of the nature of each application and the time periods taken to complete various steps in the approval process. The main potential risk of the “Balcão Unico” approach is that it merely serves to formalise a set of unnecessary licensing and regulatory procedures, while not leading to significant gains in the effective “debureaucratisation” of these systems.

C. Investment Promotion

The Municipal Councils have yet to develop any perception or vision that they may have an active role to play in encouraging/ attracting inward investment into their cities. This is largely seen at municipal level as being the preserve of other government bodies, particularly the Investment Promotion Centre (CPI). Probably the best approach to changing this mentality is through exposure of key municipal officials to international experiences e.g. through twinning programmes, study visits and promoting dialogue with private sector representatives.

CPI is currently developing its own strategy for the facilitation of investment promotion and project approval in the provinces. This may include the creation of further provincial delegations, in addition to their Beira office. Currently, Provincial Governors have the ability to approve projects involving national investors only below a certain threshold, otherwise all applications under the 1993 Investment Law must be dealt with in Maputo. A regional/ provincial investment promotion strategy makes more sense in the short-medium term, rather than one based on major cities (with the possible exception of Maputo and Beira). However, CPI should seek to inform and consult with municipal authorities on (a) investment promotion strategy for their regions and (b) the importance of their role in facilitating new investment projects and also supporting existing investors.

Both Tete City and Quelimane fall within the area covered by the Zambezi Valley Development Authority (GPZ). This offers a special set of fiscal and other incentives for investments undertaken in this area, including profit tax reductions and import duty exemptions for

²⁶ Further details of the current procedures for obtaining land for commercial development and recommendations for policy and regulatory reforms in this area are contained in Chapter 3 of the FIAS administrative barriers report,

investment goods. GPZ is currently in process of establishing its main office in Tete Province. This initiative should facilitate the attraction and hosting of potential investors in the region e.g. a recent visit by the Chinese Ambassador to Mozambique to look at possible opportunities for Chinese investment and trade activities and a delegation from the Industrial Development Corporation (IDC) from South Africa looking at the potential for further exploration of the Moatize coal fields, amongst other projects.²⁷

GPZ commissioned a detailed study for the development of the Angonia Region (including Tete City) which was undertaken with Japanese Government (JICA) funding in 2001. This has identified a series of investment projects in the region, a number of which are infrastructure development projects which would require substantial public financing. These plans need to be integrated into the urban development plans of Tete Municipal Council and could provide an opportunity to build capacity within the MC to participate in the negotiation and management of large investment projects.

D. Public Procurement

Public tendering procedures have been used in both Quelimane and Tete City for large-scale contracts e.g. construction projects, acquiring vehicles. For general procurement of goods and services there does not appear to be any specific procedure (e.g. obtaining 3 pro forma invoices), apart from direct negotiation with potential suppliers. This is an area which is open to abuse, with favoured local companies continuing to obtain supply contracts at above market rates. The existing lack of alternative locally-based companies makes the introduction of more competitive bidding procedures for supply contracts difficult in some areas. However, this is an area which could be opened up to regional competition, particularly in Tete City, with its proximity and good road access to Malawi and Zimbabwe. This is also an area in which cooperation between municipalities would be beneficial, to compare existing procurement costs and possibly launch joint tenders in the future.

FIAS (2001).

²⁷ There is currently only one operational mine, with coal being exported via Malawi and Zimbabwe by road; the viability of Moatize as a coal producing area is very dependent on the reconstruction of the Sena railway bridge across the Zambezi River to allow transport of coal by rail to Beira Port.

E. Business & Public Opinion

The general sentiment observed amongst the business community is that (a) municipal authorities lack the capacity (both financial and technical) to make significant improvements in the delivery of services which particularly affect their operations e.g. roads, water supply, energy and telecommunications and (b) they perceive the MC as another government agency with powers to interfere in the operation of their businesses through licensing procedures and inspections, leading to fines.

Despite this, amongst the general public (and some members of the business community) there is a recognition that some areas of service delivery have improved since 1998 e.g. road cleaning, street lighting, rubbish collection, organisation of urban markets and that the newly elected bodies are trying to fulfill their electoral commitments in difficult circumstances.

There is also a feeling that the new MC's are more open and participatory bodies (in which ordinary citizens can have a say and influence decision-making) than the old appointed Executive Councils. This seems to be particularly due to the fact that the vereadores and members of the Municipal Assembly are all local people, often known and respected in their local communities. Municipal interaction with local communities could be further enhanced through the conduct of opinion surveys on a regular basis, undertaken with the active involvement of local community groups and media organisations.

VII. OVERVIEW OF DONOR SUPPORT TO MUNICIPALITIES

From 1994 onwards, there was a significant level of donor/ international pressure placed upon the Mozambican Government to advance swiftly with the process of local democratisation. The World Bank provided support to MAE through their Local Government Reform & Engineering (PROL) project for the development of the legislation supporting municipalisation. UNDP has also provided significant technical support before and during the municipal elections and continues to be active in aspects of the ongoing public sector reform process including SIFAP. Details of current projects are included in the UNDP strategy paper on decentralisation programmes (Maputo, September 2001), which has a greater focus upon support to local state organs, rather than municipalities.

The most comprehensive programme of donor support to municipalities is the World Bank's Municipal Development Project (Project MZPE1806). The project is currently in a preparatory phase and is due to be officially launched in February 2002. The estimated project cost is US\$41 million over 5 years. The main objectives of the programme are to strengthen the capacity of the municipalities in the areas of management, finance and provision of infrastructures and urban services. There are three main components: (a) legal and institutional reform – focusing on the provision of technical assistance to MAE for further development of the legal and policy framework; (b) municipal capacity building – focusing upon in-service training for municipal officials at IMAP and funded by the Nordic Development Fund; (c) Municipal Grants Fund (worth \$25m) – providing direct grants to 5 municipalities, in initial pilot phase, for priority infrastructure development projects and building their capacity to implement and manage such projects.

GTZ has an ongoing “Decentralisation and Municipal Development Project” (PDDM) programme to provide training and capacity building to a total of 9 municipalities in three provinces (Manica, Nampula and Inhambane). The objectives are to strengthen cooperation between the municipalities and MAE, to improve inter-municipal cooperation, to support the development of strategic and participatory planning exercises and to provide targeted training for officials. The project office is based in Chimoio with a branch office in Nampula. GTZ also have

a support programme for SMEs in Inhambane Province and are interested in the experience of the “Balcão Unico” being implemented with UNIDO support in Quelimane.

Several other bilateral donors are beginning to be active in directly supporting municipal governments, although their support is usually restricted to particular urban centres and specific aspects of urban development. The Irish Government’s aid programme is considering the provision of some capital investment funds (initially \$100,000) to municipalities in Inhambane on a trial basis, commencing in Vilanculos for locally selected urban improvement projects. The Norwegian Government/ NORAD have been providing technical and other support to the Pemba Municipal Council. The Nordic Development Fund is also supporting the operations of IMAP.

The International Monetary Fund (IMF) are supporting the reform/ development of the existing system of local taxation, with a view to improving both tax administration and collection procedures. The main counterpart agency is the Technical Unit for Tax Reform (UTRI) within the Ministry of Planning & Finance headed by Dr. Abubacar Changa. UTRI are in the process of finalising regulations governing the local government tax code (Código Tributário Autárquico) which will allow municipalities to begin to collect a number of new local taxes.

VIII: CONCLUSIONS & RECOMMENDATIONS

In this initial five year period of municipal government (1998 – 2003) in Mozambique, the main preoccupation of the municipal authorities has been with internal organisation and the attempt to clarify legal ambiguities regarding their scope and modes of operation. They are only just beginning the process of developing comprehensive urban development plans and prioritising activities to (a) improve key urban infrastructures, including roads, drainage and sewage systems and (b) improve the quality and coverage of basic urban services, including waste collection, sanitation and water supply. They are severely constrained in both these areas by lack of investment funds and an almost total lack of skilled technical staff.

It is widely recognised that a number of the essential preconditions for successful local government – appropriate staff, adequate financial resources and a functional regulatory environment – will take years, if not decades, to develop. This process can be greatly assisted by targeted external interventions designed to genuinely build municipal capacity and by exposing municipal officials to international best practice in a number of key areas of local government practices, including revenue collection mechanisms, public service delivery and contracting out of services to private sector participation (PSP).

The current development objectives and strategy of MC's are largely reactionary and driven by events (firefighting) and the interests of other agencies, particularly other government bodies e.g national roads department, EDM and TDM. Municipalities have yet to develop their own capacity and autonomy in the area of urban planning. Municipal Councils should be encouraged to play a more active role in coordinating (if not actually implementing) infrastructure development projects within municipal boundaries, for example through the establishment of a "Municipal Planning Commission", involving all stakeholders including private sector representatives.

In terms of municipal financing, the majority of existing financial resources are absorbed by staff salaries and other allowances. There seem to be few existing internal attempts to rationalise

functions or staffing requirements and municipalities are also constrained in human resource management by national civil service regulations, which cover a significant proportion of their senior officials.²⁸ In the absence of effective expenditure control and human resource management mechanisms, there is a risk that MC's will continue to develop as self-perpetuating bureaucracies, with additional financial resources being channelled into further job creation/salary improvements rather than improved service delivery. External reviews of human resource requirements (conducted through MAE) and the examination of alternative retrenchment programmes should be considered as priorities.

In order to be sustainable, the size of the municipal administrations and the level of public services provided need to grow in proportion to the taxable economic base. There is a potential risk in current municipal taxation reforms that imposing too high a fiscal burden on a still fragile and nascent economic base could choke off potential investment, growth and employment opportunities. In order to avoid this outcome, the ideal model should be the short-term development of smaller, leaner and more efficient local administrations, providing a more limited range of core services of higher-quality and with greater coverage, while contracting out secondary services to a range of other potential service providers, including the private sector.

Skilled human resource levels are extremely low, leading to extremely low levels of efficiency in carrying out existing functions. There is an immediate need to provide technical assistance and capacity building in areas of (a) budgeting and financial control, (b) internal auditing systems, (c) procurement procedures, (d) physical planning, (e) civil engineering and (f) revenue collection mechanisms amongst others. Some training needs for existing MC staff are beginning to be met by the Intermediate Institute of Public Administration (IMAP) in Maputo through their programmes of in-service training, but their capacity is currently limited.

The general sentiment amongst the business community is that (a) municipal authorities lack the capacity (both financial and technical) to make significant improvements in the delivery of services which particularly affect their operations e.g. roads, water supply, energy and telecommunications and (b) they perceive the MC as another government agency with powers to

²⁸ In Quelimane, the Municipal Assembly has begun to question current staffing levels in the Municipal Council and

interfere in the operation of their businesses through licensing procedures and inspections, leading to fines. Despite this, amongst the general public (and some members of the business community) there is a recognition that some areas of service delivery have improved since 1998 e.g. road cleaning, street lighting, rubbish collection, organisation of urban markets and that the newly elected bodies are trying to fulfil their electoral commitments in difficult circumstances.

Municipal Councils appear to be complying with most of the governance/ transparency requirements laid down by the legislation, but access to information for members of the general public is severely limited. Donor/ civil society support to the improvement of information systems and dissemination of information on Municipal activities and finances would be valuable in further increasing transparency and sense of local ownership. The introduction of quality management systems and principles (with the ultimate objective of achieving ISO certification) is one potentially cost-effective way of improving both transparency and efficiency.

MC's appear to have only a marginal role in the current process of private sector regulatory reform. They continue to be seen by the private sector as part of the problem, rather than part of the solution. Based upon the experiences of investors in Tete City and Quelimane, the main regulatory bottlenecks at municipal level are in the areas of (a) gaining access to urban land and buildings for commercial/ industrial purposes and (b) long delays and complex procedures in obtaining construction permits. These are two areas in which further detailed analysis of policy and regulatory options, based upon experiences in other LDC's, is urgently required and should be included in the matrix of regulatory reforms being discussed between the CTA and the relevant government ministries.

Improvements in these and other regulatory areas could also be achieved in the short-run by encouraging the active participation of the MC in the "Balcão Unico" initiatives in both Tete and Quelimane. It would also be worth considering some technical assistance to the MC to improve their capacity to respond to requests for land and premises for industrial and commercial development. A useful study could be undertaken to identify existing vacant industrial property with indicative costs for the development of a selected number of prime industrial sites.

are examining ways to reduce total salary bill.

In terms of a specific intervention strategy for UNIDO to strengthen the role of municipalities in business development, we would advise a short-term focus on (a) support to integration of municipalities into the regulatory reform agenda and (b) also some capacity building measures focused upon areas in which they currently play a significant negative role in the investment process e.g. allocation of industrial and commercial land and building permits. In the medium term, (c) focus on capacity building for the development of public/ private partnerships and support to contracting out of services. In the long-term, (d) examine ways in which municipalities can begin to play a more positive role in investment and business promotion initiatives.

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Annex: Boxes

Box 1: Structure of Quelimane Municipality

A. Municipal Assembly

President of Municipal Assembly: Sr. Bernardo Gonçalo

Municipal Assembly has 39 members (all Frelimo) organised into a Permanent Working Commission and 5 working groups: water, roads, energy & lighting, schools and health posts. Ordinary sessions of MA held quarterly and last 3-5 days.

B. Municipal Council

President of Municipal Council: Sr. Pia Matos

Overall responsibility for the formulation and subsequent implementation of MC policy belongs to 8 main council departments or “*vereações*” (with responsible person in brackets):

- water & sanitation (Sr. Chagunda)
- urban development & construction (Sra. Maria de Jesus)
- commerce & tourism (Sr. Portugal)
- administration & finances (Sr. Portugal)
- education & health (Sr. Gouveia)
- women’s affairs (Sra. Madeira)
- sport, youth & recreation (Sr. Silvestre)
- water & electricity (Sr. Aramandina)

Quelimane City is divided into 5 separate suburbs (*bairros*). Each *bairro* has its own administrative post and Secretary (2 new administrative offices being constructed)

Delivery of specific public services is the responsibility of separate municipal directorates, which report to their respective *vereações*. These are:

- *Directorate of Urban Services* (with majority 350+ of municipal employees): responsible for public hygiene, municipal abattoir, cemeteries, drainage, municipal markets, roads, materials stores, maintenance department and environmental services;
- *Directorate of Urban Development & Construction*: responsible for land title attribution and issue of building permits with only 4 qualified technical staff;
- *Inspection Service*: responsible for enforcement of licencing requirements and other inspection activities (note: some existing responsibilities seem to overlap with new Municipal Police force);
- *Municipal Police Force*: inaugurated on 21 August 2001 with 67 officers, responsible for control of markets, guarding municipal properties, undertaking night-time patrols, controlling informal commercial activities. Will only operate initially in central urban area of city;
- *Directorate of Finances*: responsible for budgeting (revenue & expenditure control), salary payments, municipal treasury and management of municipal assets;
- *Directorate of Human Resources*;
- *President’s Office & Administration Department*.

Box 2: Structure of Tete City Municipality

A. Municipal Assembly

President of Municipal Assembly: Sr. Cesar de Carvalho (also Director, Agua de Tete)

Municipal Assembly has 33 members (all Frelimo), with an executive committee “mesa” composed of the President, Vice-President and Secretary elected by the members of the MA. Members are organised into 6 working commissions, each with its own Chairperson. Ordinary sessions of MA held every 3 months and last 3 days.

A. Municipal Council

President of Municipal Council: Sr. Luciano Nguirazi

Responsibility for the formulation and subsequent implementation of MC policy belongs to 8 main council departments or “vereações” (with responsible person in brackets):

- infrastructure, transport & transit (Sr. Aurelino Almeida)
- education & public health (Sr. Bernardo Sizala)
- social services & promotion (Sra. Teresa Pinto)
- sanitation & environment
- commerce, industry & tourism (Sr. Cassimo)
- culture, youth & sport
- urban administration inc. land use & habitation (Sr. Chikoko)

4 of the vereadores are also members of the MA (as prescribed by the law); only one of the vereadores works full-time, rest are part-time. Vereadores are appointed by President of MC. Vereadores also have a geographical responsibility for a particular bairro, where they work with the Bairro Secretary.

Tete City is divided into 5 separate suburbs (bairros). Each bairro has its own administrative post and Secretary.

Delivery of specific public services is the responsibility of separate municipal directorates, which report to their respective vereações.

Details of departmental structure in Tete City not available at time of visit, but departments cover similar areas to those shown in Box 1 for Quelimane City.

One major difference is that there is no municipal police force in Tete City

**Box 3: Governance & Transparency Issues in Tete City and Quelimane
Degree of Fulfilment Matrix**

<i>Legal Requirements</i>	<i>Legal Basis</i>	<i>Tete City</i>	<i>Quelimane</i>
Sessions of Municipal Assembly open to public	Law 2/97 art.44	Yes	Yes
Create adequate system for publicising activities	Law 2/97 art. 13	No organised system	Have established an information office and publish a bulletin every 15 days, although there were no copies easily available
Municipal budget published in BR; keep 3 copies available for public consultation	Law 11/97 art. 82	Copies of budgets only available following request to President of MC	No budgets or other organised financial information available to public
Treasury posts daily summary of receipts	Law 11/97 art. 78	Yes	Yes
President of MC and MA responsible for maintaining regular contact with electors to ensure accountability of actions	Law 2/97 art. 96	The main form of regular communication is undertaken by the vereadores holding public meetings in their respective bairros; no dissemination of written material is currently undertaken	Similar
Publicity about concessions of rights to use municipal property	11/97 art. 30, 31	Not seen	Not seen

Box 4: Summary of Municipal Taxes

<i>Local Tax & Legal Basis</i>	<i>Regulations</i>	<i>Current Implementation in TC and QC</i>
<p>Municipal Poll Tax (<i>Imposto Pessoal Autárquico</i>)</p> <p>Law 11/97, Art. 50-53</p>	<p>This substitutes the National Reconstruction Tax (IRN). Payable by all citizens and foreigners resident in the city between 18-60 years of age and able to work. Residents are considered to be all people with their domicile in the city.</p> <p>The Municipal Assembly defines the value of IPA annually and the tax should not be > 20% of the national minimum monthly wage for industrial labourers.</p> <p>The tax can only be paid in cash in the terms and times established by the MA; a percentage of the tax collected (up to 10%) can be used to cover the cost of collection.</p>	<p>TC: In each Bairro, the Secretary is responsible for tax collection – issues receipts and keeps proportion of revenue raised as incentive payment (max. 10%); IPA also collected when individuals seek to acquire other licences & are required to show proof of payment; current rate is 10,000 Mt per annum; many cases of multiple payments reported.</p> <p>QC: Formal sector companies required to pay IPA on their employees behalf; IPA also collected when individuals seek to acquire other licences & are required to show proof of payment; current rate is 10,000 Mt per annum.</p>
<p>Municipal Property Tax (<i>Imposto Predial Autárquico</i>)</p> <p>Law 11/97, Art. 54-58</p>	<p>Tax levied on value of buildings in the municipality, which are defined as those belonging to an individual or collective person (not tenants) and which are not used for agriculture or livestock.</p> <p>IPRA rates are defined by the MA and should be between 0.2% and 1% of the property's value. Article 61 also provides for an Idle Land Tax (undeveloped urban land) which can be 20% - 100% of the annual rent of the property.</p>	<p>TC: local property tax is currently collected by the Provincial Directorate of Finance and proportion of revenues are transferred to MC (in 2001)</p> <p>QC: property taxes collected by DPPF</p>
<p>Economic Activity Tax (<i>Taxa por actividade económico</i>)</p> <p>Law 11/97, Art. 63-64</p>	<p>Annual tax on any commercial and industrial activity including services carried out in a formal establishment (details to be clarified in regulations).</p> <p>Rates are defined annually by the MA and the tax can be paid once in January or in three installments throughout the year.</p>	<p>TC & QC: not currently being collected</p>
<p>Municipal Tax on Industry & Commerce – Section C</p> <p>Law 11/97 Art. 65-66</p>	<p>Companies that currently pay Industrial Contribution Tax – Class C and operate in the municipal territory should pay the tax (and are then exempted from ICT). These include small-scale firms, self employed, family enterprises, street traders and artisans</p> <p>Rates are fixed annually by the MA. For companies with fixed installations the rates can vary from 1-10 times national minimum wage; for other enterprises between 0.5-10 times.</p>	<p>TC & QC: Currently collected by DPPF as Industrial Contribution Tax –Class C; these revenues are not transferred to the MC</p>
<p>Income Tax – Section B (<i>Imposto sobre Rendimentos de Trabalho</i>)</p> <p>Law 11/97 Art. 67</p>	<p>Currently paid by a limited number of small companies, not covered by Industrial Contribution Tax (mainly cooperatives and farmers) will pass to the municipality</p>	<p>TC & QC: not currently collected</p>

Source: Hanlon (1997), Brockman & Wojtyla (2000), author's observations
 TC = Tete City QC= Quelimane City

**Box 5: Urban Service Delivery in Tete City and Quelimane
Degree of Fulfilment Matrix, November 2001**

<i>Specific Services</i>	<i>Tete City</i>	<i>Quelimane</i>
General Infrastructure provision/construction	<p>Recent urban construction projects carried out by CM:</p> <ul style="list-style-type: none"> • two EP1 schools • other classroom blocks • market improvements & latrines <p>No specific donor support to urban development; Tete City is within strategic development plan for Angonia Region (drawn up by JICA for GPZ).</p>	<p>Recent urban infrastructure projects include:</p> <ul style="list-style-type: none"> • construction of new ISPU building; • market improvements – toilet blocks • construction of new market • construction of administrative posts in several bairros <p>World Bank’s Municipal Development Project supporting 3 projects: one market construction, two drainage systems (tenders launched in August 2001).</p>
Maintenance of city sewage & sanitation systems	<p>Much of original area of Tete City was developed in early 1900’s without effective sewage system (due to geological features of area on rock outcrop next to Zambezi River);</p> <p>Construction of sewage treatment plant is one of projects being considered within the GPZ strategic plan for Angonia Region (June 2001);</p> <p>User fee for sewage services collected by EDM with electricity bills at 5000 Mt per month</p>	<p>City system dates from 1950’s with 8 primary sewers and system of septic tanks for the collection of liquid waste and rain water; there is no sewage treatment plant;</p> <p>In suburban areas there are open drains (vales) which link to the city system; no regular maintenance programme – repairs undertaken when specific problems arise;</p> <p>User fee for sewage services (taxa de saneamento) collected by EDM; large users 100,000Mt; medium 25,000Mt; small (domestic) 10,000Mt</p>
Rubbish collection	<p>CM has 5 tractors available for litter collection; reasonably effective in central urban area but problems exist in coverage of suburban and rural areas;</p> <p>No involvement of private sector in litter collection and no current plans for contracting out of services;</p>	<p>Within city 2 lorries available for night-time collection of rubbish in residential areas; two tractors used specifically for clearance of waste from urban markets; some garbage bins in central area of city; no rubbish collection in suburban areas (bairros);</p> <p>MC has been encouraging local communities to collect rubbish into pits for either burning or burying; no user fees charged for solid waste collection & no attempt made to involve private sector in waste collection.</p>
Street cleaning programme	WFP running “food for work” programme which employs mainly	Municipal council employs 100-150 people (mainly women) on an irregular

	women (widows, returning refugees) in street cleaning and city improvements	basis to sweep city streets and cut grass; funds made available by WFP
Control of municipal markets	Each municipal market has a Director who organises a team of fee collectors; MC staff also responsible for cleaning of market area and security; fees collected on a daily basis – amount varies between 5000 – 10,000 Mt depending upon the type of stall; total of 4 markets and around 220 kiosks	See Table 11 for details of Quelimane market licensing (number of licences issued and total revenues)
Gardens & parks	No information available	Area for further privatisation of some activities; MC has licensed restaurant/ bar in one of central gardens & owners are responsible for maintenance of gardens.
Abattoirs	No information available	MC owns and runs only abattoir in Quelimane; conditions are very poor/ in need of rehabilitation; activity should be privatised
Passenger transport	No public transport company operating; MC licences number of private operators within urban and suburban areas.	Similar
Education & health sectors	These are areas in which responsibility for service delivery remains with central government agencies, but which may be transferred to MC's at later stage in decentralisation process MC works with & through the Provincial Directorate of Education to define priority school construction projects within city; projects undertaken as financial resources allow	Similar

Box 6: Tete City Municipal Council, Main Licences & Service Fees 2001 (Selected)

Construction Licences	Fixed Fee (Mt)	Annual Fee (Mt)
Project management fee		1,400,000
House construction	250,000	
Wall construction	85,000	
High building construction	250,000	
Transforming windows & doors		150,000
Demolition of buildings		95,000
Inspection visit (vistoria) – residences	340,000	
Inspection visit – commercial buildings	500,000	

Land Licences	Fixed Fee (Mt)	Annual Fee (Mt)
localisation plan (esboco de localização)	250,000	
publication in BR	475,000	
demarcation of land (up to 500m2)	800,000	
land title	350,000	
topographic survey (by point)	5000	

Commercial Licences	Fixed Fee (Mt)	Annual Fee (Mt)
market licence (daily)	5000	
fixed kiosks in public space (by m2)		40,000
café licence		200,000
cinema licence		360,000
visiting circus licence (10 days)	100,000	
casino/ nightclub licence		1,500,000
24 hour operation licence		600,000
petrol station licence		200,000
fixed publicity signs		50,000
publicity posters & advertising (for 15 days)	100,000	
business name signs (for each letter on sign in Portuguese or local language)		10,000
business name signs (for each letter on sign in a foreign language)		20,000

Other Licences	Fixed Fee (Mt)	Annual Fee (Mt)
fees for drain cleaning	10,000 – 85,000	
fees for cleaning septic tanks (for 5 people)	500,000	
motorcycle licence		90,000
dog licence		30,000
licence for ambulant photographers		250,000

Note: The city is divided into different zones. Zone A (cement city) 100% of fee rates; Zone B (periphery of city) 66% of fee rates; Zone C (outlying areas) 33% of fee rates.

Box 7: Quelimane Municipal Council, Main Licences & Service Fees 2001 (Selected)

Construction Licences	Fixed Fee (Mt)	Annual Fee (Mt)
Project management fee (based on value)	1-5 million	
General Licence (for one month)	100,000	
General Licence (per 10 m2)	6000	
New building fee	120,000	
windows (by metre)	5000 – 10,000	
walls (by metre)	2000 – 4000	
Inspection visit (vistoria) – residences	100,000	
Inspection visit – commercial buildings	120,000	

Land & Property Licences	Fixed Fee (Mt)	Annual Fee (Mt)
land concession (urban/ residential/ per m2)	3000	
land concession (urban/ commercial/per m2)	4000	
occupation fee – commercial (per 100m2)	150,000	
occupation fee – other purposes (per 100m2)	165,000	

Commercial Licences	Fixed Fee (Mt)	Annual Fee (Mt)
market licence (daily)	5000	
fixed kiosks in public space (by m2)		75,000 (monthly)
ambulant trading licence		100,000
shoe repairers licence		50,000
butchery licence		100,000
bakery licence		50,000
licence for ambulant photographers		150,000
occupation of public spaces (by m2, monthly)	75,000	
illuminated publicity signs (up to 4 m2)		1,250,000
publicity posters & advertising (monthly)	5000	
business name signs (annual fee)		100,000
business name signs (for each word)	15,000	

Other Licences	Fixed Fee (Mt)	Annual Fee (Mt)
abattoir fees (head of cattle)	200,000	
abattoir fees (pigs, per kilo)	1000	
cemetery fees (for land area)	60,000	
dog licence (guard dog)		25,000

Penalty Fees (Multas)	Fixed Fee (Mt)	Annual Fee (Mt)
Illegal occupation of land (residences)	1,000,000	
Illegal occupation of land (commercial)	1,500,000	
Non-authorized constructions	0.5 – 5 million	
penalty fee for dropping litter	20,000	
illegal parking of vehicles in public spaces	100,000–500,000	
sound pollution by vehicles	100,000	