

HARVARDIA

AN INDEPENDENT COUNTRY

INCORPORATING

THE CITY OF HARVARD

AND ITS

URBAN DEVELOPMENT

(A CASE STUDY)

By

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FOREWORD

Efficiency, Accountability and Local Democracy

In the attached example of Harvardia, much is made of the concern of sharing the responsibility for urban development policy between appointed officials and elected representatives. For example, although the Harvard City Council and the Hardacre County Council are elected local governments, there are several policy-making bodies with little local accountability. These bodies include: The Harvard Urban Development Authority (HUDA); The Harvard Yard Development Enterprise (HYDE); and, The Harvard Yard Light Railway (HAYRAIL). Some might claim that they are usurping formal powers which are more properly the responsibility of the elected local governments. The counter argument is that this is in the interests of greater rationality and efficiency.

Unlike the situation in the USA, where local government prestige and power is quite jealously guarded, many countries in Europe and elsewhere have to face the dilemma of more limited local democracy, coupled with central government interference. For example, the establishment of the London Docklands Development Authority, under central patronage, was a clear "slap in the face" for the relevant local governments, albeit for claimed reasons of efficiency.

One eminent British scholar has addressed this situation, as it applies in the United Kingdom, with some degree of alarm. Because these matters are of considerable importance to decision-making in urban planning and development, the following extracts from his writings are, perhaps, apposite.

THE REBUILDING OF PUBLIC ACCOUNTABILITY

"Public accountability rests both on giving account and being held to account. There is a growing crisis of accountability in the emerging pattern of government, which places an ever increasing burden on a single line of accountability to ministers. The creation of a new magistracy merely highlights the crisis. Market accountability and contractual accountability are inadequate responses. Public accountability has to be invigorated, but that cannot be achieved by accountability of an over-burdened centre or by local government in its traditional forms.....

"The weakening of local authorities

The accountability of local authorities to their electorate was a critical element in traditional approaches to accountability, avoiding the over-burdening of the line of accountability through ministers to Parliament. Over recent years, an increasing range of responsibilities have been removed from local authorities to non-elected agencies and organizations.

"The accountability of the new magistracy

In 1888, responsibility for the administration of counties was taken away from the magistrates, a lay appointed elite, and given to elected councils. A new magistracy is being created in the sense that a non-elected elite are assuming responsibility for a large part of local governance. They are found on the boards of health authorities and hospital trusts, training and enterprise councils, the board of governors of grant-maintained schools, the governing bodies of colleges and housing action trusts.

There is no sense in which those appointed can be regarded as locally accountable. Indeed, the membership of these bodies is largely unknown, locally. Nor are they necessarily subject to the same requirements for open meetings, access to information and external scrutiny that local authorities are subject to. Accountability, such as it is, rests on the accountability of these bodies to central government, although even that appears uncertain in the case of the governing bodies of, for example, hospital trusts and grant-maintained schools.

"The Growing Burden of Central Accountability

Most of the changes set out above mean that what accountability there is within the system will increasingly rest on central government. The accountability of the new agencies and organizations that make up the new structure of local governance rests upon their accountability to central government. The weakening of local authorities and the growing responsibility of central government for their expenditure and taxation decisions adds to that burden. More and more rests therefore upon the accountability of central government and of Parliament to the electorate.

A long and little understood line of accountability has been created. A burden is being put upon the accountability of ministers that is probably beyond their capacity to bear. It is difficult enough to expect ministers to accept responsibility for the acts of civil servants who are directly under their own control, without expecting them to extend their responsibilities as is required by the erosion of accountability at local level. It is likely that the increasing burden of accountability on ministers will not be matched by an acceptance of responsibilities."

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HARVARDIA - AN INDEPENDENT DEVELOPING COUNTRY

Introduction

Harvardia has been an independent country for several centuries. After over half a century of political experimentation and turmoil, it is now reasonably well established as a modern, market-friendly, mixed-economy, democracy.

It is a middle-income developing country, with a population of about 15 million, growing at the rate of about 1.0% pa. Its GNP is around \$25 billion equivalent. The capital city is Harvard, with a population of about 2 million. There are two secondary cities, with populations of about half a million each. One, Gonbridge, approximately 25 miles from Harvard, is the seaport. The other, Charlestown, is about 10 miles from the international airport.

There are about 15 other towns, with populations of between 50,000 and 200,000. Smaller urban settlements make up for about another quarter-million of population, giving a total urban population of about 5.5 million. The remaining population is principally composed of rural-based farmers and fishing-folk, although there is growing urbanization as agriculture becomes more productive.

The People

All but about 3 million of the population is indigenous. The remainder is of foreign origin, although many families have lived in the country for generations. Some are business-people and professionals, engaged in commerce, industry and public services. Compared with the indigenous population, they are, in general, both wealthier and far better educated. They are also much better provided with housing, health services and other public utilities.

The Economy

The economy of Harvardia is largely agricultural. Principal cash products for export are grains, fruit, vegetables, coffee, tea, sugar and cotton. Fish and seafood exports are increasing, also. The benign tropical climate lends itself to a variety of crops for subsistence and local marketing. Cattle-raising is prominent - some for subsistence, some as a traditional way of life for farming families. There is, however, a growing meat-processing industry. Chickens, also are increasing, both for cash and subsistence.

There is some mining industry, notably bauxite - for aluminum production - and copper. There is a good supply of hydro-electric power, some of which is exported to a neighboring country and some of which is "exported," in the form of aluminum ingots, smelted from some of the local bauxite. The remainder of the bauxite is exported raw. Further exploitation of hydro-electric power is possible from the development of potential dam-sites. All petroleum products are imported. Despite off-shore exploration, nothing significant has been discovered.

Other industries are related to the processing of local agricultural and fishing products. Thus, there are textile, meat-processing, fish-processing and agro-industrial enterprises.

Apart from the electricity and other utilities, all the industries are in the private sector, often with some degree of foreign capitalization and management participation. There is, naturally, apprehension as to whether the degree of foreign ownership is satisfactory.

A railway system carries both passengers and freight, linking the main towns, including the mining locations. It is run by the Harvardia National Docks and Railway Corporation (HANDRAIL).

There is a good system of major roads, many of them with hard surface. The remainder (although perceived of as "dirt roads") are of high-quality construction from local materials derived from quarries. The roads are constructed and adequately maintained by the Ministry of Public Works. The secondary roads, including both urban and rural roads, are much less well-maintained. In the towns, they are the responsibility of the local government. In the countryside, they are nominally the responsibility of the central government - but there is a great lack of clarity as to what is or is not a road. The majority of roads in the towns are tarmac. Many of the rural roads are "dirt roads".

There is a viable commercial sector, ranging from quite large department stores in the major towns to small single-purpose shops in minor towns and trading centers. Most processed foods and household products are imported.

Every town and many trading centers have municipal or private markets for trading among the local population. These are colorful and crowded places, where it is said that almost anything can be obtained, provided the price is right - new or second-hand. Thus, there will be stalls selling fish, meat, fruit, vegetables, radios, books and even re-cycled bottles, cans and packing cases.

There are a significant number of motor vehicles, both commercial and domestic. All are imported, together with parts. There is a competent vehicle repair and maintenance industry, with formal "dealerships" in main towns and less formal activity elsewhere. Fuel and small parts are on sale at a limited number of outlets, throughout the country.

There is a modest tourism industry, serving both local and foreign tourists. Specific attractions include small game parks and beach resorts. However, the majority of foreign tourists are mainly interested in visiting a different culture, meeting with people who have an international reputation for hospitality. This feature, coupled with the warm, year-round, climate suggests a significant potential for tourism development.

There is a reasonably adequate network of commercial banks, hotels and airline offices - but not an over-abundance of these. Commercial banks maintain correspondence relationships with overseas headquarters, notably in the UK and the USA.

Education and Health

Primary and secondary schooling is compulsory. It is provided by a mixture of schools run by religious and private institutions, as well as public schools. Public primary schools are run by local government units. Major secondary schools are provided by the Ministry of Education.

Personal health services are provided in much the same fashion. There are private physicians, with their own clinics and also health centers provided by local government units. There are several major hospitals, provided by the Ministry of Health of the central government.

Cost recovery, for health and education services, is haphazard. Whereas private services charge market prices, public entities provide highly subsidized services, typically over-burdened. The extent of the subsidies has not been well-defined, not least because of relatively rudimentary systems of public sector accounting, financial management and reporting.

There is, in the capital city, a fine and prestigious university, especially noted for its medical school. This is linked with the Harvardian "National College of Surgeons" and the "National College of Physicians," which monitor the degree-granting and licensing of the graduates. However, whilst there is also a "law school" "a school of engineering" and a "school of public administration", each of growing repute, there is very little emphasis on "business administration", "accounting" or "economics". Many professors and senior administrators are expatriates.

Fiscal and Monetary Framework

National tax revenues are derived from import customs duties and from export taxes on the major commodities. There are retail sales taxes. Income taxes are levied on individuals and businesses, mainly collecting from middle and upper income groups.

In the municipalities, there are property taxes, based on assessed capital values of land and buildings. Legally, each jurisdiction is empowered to set its own rate. In practice, the jurisdictions follow guidance from the Ministry of Local Government, which in turn is influenced by the Treasury.

Every local government budget has to be submitted for approval by the national government Treasury, via the Department of Local Government. Each, based on local revenues only, is always in a deficit position. Thus, it is really a request for central government grant funding. Yet, the business of analysis of local budgets is time-consuming, tedious and inefficient. This, together with continuous fiscal restraint, results in a poor response, with consequent resentment from the local governments.

Roughly the same system prevails with public utility enterprises. Though they are legally separate from the government, they have not been required to be financially self-supporting. Instead, charging and subsidy is an arbitrary policy or administrative compromise, with hardly any grounding in financial analysis.

Enforcement of tax collection, at all levels, leaves much to be desired. Lack of administrative, valuation and accounting skills make for far less than optimum collection of most of the taxes.

The national currency of Harvardia is the "Hardern." It has a fixed but flexible (crawling peg) value against the British pound - currently about two harderns to the pound - and is divided into 100 cents. The foreign exchange reserves of Harvardia are held principally at the Bank of Harvardia which is responsible for any adjustments to the rate of exchange, whether devaluation or revaluation. It also prints currency and controls minting of coin.

The Bank of Harvardia, from time to time, lends money to the government in the form of a line of credit. In other words, the government overdraws its account. The Bank may also buy and sell government debt (Treasury Bills) in the open money markets.

Foreign exchange control is in operation. All residents coming into possession of foreign currency are required to sell it, within one month, to an authorized dealer of foreign exchange (normally a commercial bank) in return for local currency. Foreign currency for commerce and foreign travel must be purchased from a bank. Citizens and permanent residents of Harvardia are not permitted to own foreign currency or to hold foreign currency bank accounts.

Central Government

Legislature

Harvardia has a unitary (non-federal) parliamentary system of government, with a bicameral legislature. The legislature comprises a non-executive President, a "House of Delegates" and a "Senate."

The President is elected for a four-year term of office by an electoral college, composed of the two houses of parliament sitting together, with each member having a single vote. The President must be qualified to be a member of the Senate.

The Senate comprises thirty-six members, each serving for a term of office of six years. One third of the members retire every two years. On each occasion of the retirement of twelve members from the Senate, they are replaced as follows¹:

- (a) Two members are nominated by the President from among eligible persons; and,
- (b) The remaining ten members are chosen by lottery from among eligible persons, who submit their names to the Senate Lottery Commission, not later than thirty days before the beginning of the next session of Parliament.

Those eligible for the Senate must have served for a minimum of five years as a member of either the House of Delegates or a local government council and must, on the date of taking office, be not less than forty years of age nor more than seventy-five years.

The House of Delegates comprises two hundred and fifty members, all elected by universal adult suffrage. Members of the House of Delegates must have the same qualifications as the general electorate. In addition, there are certain restrictions upon the election of those who have been convicted of felonies or have committed some breach of public trust, as defined in election laws.

The House of Delegates has a term of office no greater than five years. It can, however, be dissolved by the President in the event of a defeat of the government, in the House, on a vote of confidence. There must then be a new election.

Legislation must be passed by a simple majority of both houses of parliament and assented to by the President. The President may veto legislation, unless a veto be over-ridden by a minimum of two-thirds of the total membership of each house.

¹ This system, while unlikely to be found in practice, illustrates a possible solution to the concern to provide "elder statespersons" in the "upper chamber" by a different, yet stable, electoral process from the universal suffrage used for the lower house, while maintaining a somewhat democratic approach.

Judiciary²

The Judiciary is headed by a Supreme Court of five judges, appointed for life, or until reaching age seventy-five. The appointments are nominated by the President from among judges of the High Court³ and confirmed by the Senate. The longest serving member of the Supreme Court is automatically the Chief Justice.

This system of appointment also applies to the Auditor General, except that the appointee must hold a recognized accounting qualification and serves for a single term of not more than ten years.

The Judiciary comprises a number of High Court Judges, appointed by the Chief Justice and serving for life or until age seventy. High Court Judges exercise unlimited authority in civil and criminal matters, with power to try cases in courts of original jurisdiction, either by jury or alone, at the option of the parties to the trial. The judges of the High Court also comprise (on appointment) the Court of Appeal and the Supreme Court.

There is also a Court of Appeal, comprising a minimum of three High Court Judges. They are appointed, on a limited time basis, by the Chief Justice.

Trial of minor offenses, as well as committal for trial of all other offenses by the High Court, is by county or municipal courts, using lay magistrates. The magistrates are chosen for renewable periods of five years, by municipal or county councils, from among persons who are qualified to be - but are not - local councilors. Typically, they are prominent and respected local citizens, though unlikely to be lawyers. Each court is advised by a legally qualified "clerk of the court." The county or municipal courts also try minor civil cases.

Supreme Court and High Court judges, together with the Auditor General, must have their salaries and expenses of office directly charged against public funds, requiring no appropriation by parliament. They may be removed from office for misconduct only by a special parliamentary procedure.

² Although not a member of the Judiciary, the Auditor General is referred to in this section, as an official who is independent of the executive arm of government.

³ The High Court, in this situation, is not the Supreme Court. Thus, it follows British and not US tradition.

Executive

The President, though formally head of state, is not (effectively) the chief executive. The Presidential role is largely formal, although the President has some specific constitutional responsibility, which may be exercised at his or her discretion.

The executive arm of government is led by a prime minister, appointed by the President from among the majority party in the House of Delegates. It is customary to appoint the party leader. The Prime Minister holds office at the pleasure of the House of Delegates. He or she is the chief minister of the government and is assisted by a Cabinet, appointed by the Prime Minister from among members of either house of Parliament.

Through their Ministers, each Ministry is responsible to the Prime Minister. Collectively, the Cabinet is responsible to Parliament.

Ministries, operating under the general supervision of Ministers, are headed by permanent officials, each normally designated as a "Director General." Some officials, such as the "Accountant General" have special titles and a degree of independent authority.

Among the ministries of government are the Ministry of Local Government and the Ministry of Finance and Planning. The latter is also known as the Treasury.

The Ministry of Finance and Planning has five principal divisions:

- (a) The Accountant General's Department - responsible for the keeping of the government's accounts;
- (b) The Office of Management and Budget - responsible for advising the Minister of Finance on the preparation and execution of the government budget;
- (c) The Economic Planning Department - responsible for advising the Minister of Finance (and coordinating with the Central Bank) on macro-economic planning, including fiscal and monetary policy;
- (d) The Financial Regulation Unit - responsible for control over the nation's securities and money markets; and,
- (e) The Department of Revenue - responsible for the main collection of taxes.

The Ministry of Finance is headed by a "Director-General of the Treasury" who is assisted by the heads of the five departments: Accountant General; Director of Management and Budget; Chief Economist; Chief Financial Regulator; and, Commissioner of Revenue.

There are other government departments or ministries. These include the prime minister's office and the department of personnel, together with ministries of: foreign affairs; defence; interior; public works; transport; public health; education; agriculture, food and fisheries; and, public utilities. There is also a government printing office and a central supplies department. Immigration is under the Ministry of Interior and Customs and Excise is managed by a division of the Treasury's Department of Revenue.

Ministers direct their ministries only as to policy, through their directors'-general. The latter are responsible for administration, and are held accountable for public funds under their control.

The Civil Service

Day-to-day administration of government is headed by a "Chief Secretary" in the office of the prime minister and who reports directly to him or her. He is also secretary to the Cabinet. Each government department is headed by a "director-general." He or she is, administratively, accountable to the Chief Secretary for the work of the department. He or she is also responsible for policy guidance to the departmental Minister. Each director-general is assisted by a hierarchy of deputies, assistants and principals.

All of the administrators so-far mentioned belong to an elite "administrative cadre." They owe their loyalties, through their superiors (including the Chief Secretary) to the prime minister's office, rather than to any particular department. They are moved around, on promotion or otherwise, from department to department.

The administrators of Harvardia have, in general, earned the respect of most people within the country for conscientiousness and fairness, even when perceived of as administering unpopular policies. In keeping with the traditions of a neutral civil service, their responsibilities are readily distinguishable from those of the (political) government, whose actions are naturally, from time to time, unpopular or controversial.

The other senior cadre of government is the professional class. This includes a wide range of specialists, such as engineers, agriculturalists, physicians, university professors, college teachers, statisticians, geologists, foresters etc. There are rather fewer financial specialists. All these professionals, with the exception of financial specialists, normally remain in their own departments, with promotions coming internally. They are typically well-trained, highly-qualified and experienced.

Almost all of the remaining civil servants will be "executive" or "managerial" officers, supervising other executives, together with the "clerical" officers. Both the executive and clerical officers carry out the day-to-day tasks of government, following the policies laid down by the administrators, on behalf of ministers.

Police

There is a national police-force, commanded by an "Inspector-General of Police". It is a respected and prestigious force, analogous to the "Royal Canadian Mounted Police." Policing is, however, to a degree decentralized. There is a unit of the force in every municipality and county, designated as the police force of that community. For example, the police unit in Harvard City (Municipality) is known as the "Harvard Police."

Each local unit is commanded by a "Chief of Police." He or she is appointed by the Inspector-General, but only after consultation with the municipal government and confirmation by the council. The police chief reports to the Inspector-General, not to the local government. However, the local government is required to provide premises (not vehicles and equipment) for the police, out of its own resources. All other police expenses are funded nationally.

State Owned Enterprises

In addition to the core government functions, there are a number of "state-owned enterprises." They are quasi-autonomous corporations, responsible for the delivery of public utility services. These include: electric power, postal services, telecommunications, natural gas and railways.

Central government administrators manage these public utility enterprises, where the most senior are known as "managing directors." They report to ministerially appointed boards of directors. There are also deputy or assistant managing directors.

Divisional directors will usually be professionals. Thus, for example, the "managing directors" of the electricity, gas or telecommunications enterprises are administrators - but the directors of the technical divisions are power, gas or telephone engineers, as appropriate. This professionalism also extends to the realm of finance. Finance directors, together with their senior staff, are usually qualified accountants or hold other financial credentials.

Other Utility Services

Water supply, in urban areas and some rural areas, is typically provided by municipalities or counties. Elsewhere, it is either very informal or comes from private (or community) wells. There are sewer systems (or septic tanks) only in the major towns. Otherwise, especially in rural areas, sewerage is non-existent.

In addition to water supplies, municipalities provide services of preventive public health, solid waste management, sewerage and sanitation, minor road maintenance and cleaning, urban planning and building control, recreation and some degree of primary education.

Local Government

In Harvardia, local government has no special constitutional status⁴. Thus, there is no direct parliamentary appropriation of funds for the individual local government units.

Local government is regulated by a national Local Government Act. Urban areas are governed by various forms of municipal government, each differing only in matters of detail and title. Rural areas are covered by a county government system, similar to municipal government but typically responsible for a smaller range of services.

Funding systems for local government services is authorized only by parliamentary legislation. This prescribes the limited, but independent, levy and collection of taxes, fees and charges, as well as borrowing power, by local government units. There is also provision for general government grants, including revenue-sharing, as well as specific grants for particular services. These are intended to support the operation and maintenance of ongoing activities. They are administered as part of the overall budget of the Ministry of Local Government. The principal source of local revenue is the real estate (property) tax. This typically provides about half of the local government revenue.

Each municipal government (and county government) is a corporate body, with such financial autonomy as is prescribed by law. The capital, Harvard, has a municipal government known as the "City of Harvard." It has a City Council, elected by universal adult suffrage, comprising 25 members.

The Mayor is elected by the City Council from among its members. He or she thereupon becomes the chief political administrator of the City, with power to give general management instructions to its Chief Executive. The Mayor continues to be a member of the City Council but not its chairperson. This office is separately elected.

The Council may demand reports from the Chief Executive or other officials, at formal Council meetings. Individual members of the Council are prohibited from giving instructions to staff. Effective instructions are by council resolutions only.

The Chief Executive is a permanent official, appointed by - but not a member of - the Council and serving at its pleasure. He or she manages the staff of the Council, assisted by deputy chief executives. These include deputies for: finance; administration and personnel; technical services; and, social services.

⁴ This is consistent with the doctrines of both "Ultra vires" in the UK and "Dillon's rule" in the USA. The "sovereign power" resides in the "state," "federal" or "central" government.

Operating departments, together with sub-departments or divisions under their control, manage the regular, day-to-day delivery of public services. Each major service has a director, reporting to one of the deputy chief executives.

There is also a planning and development department. Its technical services are managed by a director. He controls a staff specialized in planning and civil engineering. Financial resources for capital development are allocated through the budgetary procedures of the City Council. They are marshalled and managed by the Deputy Chief Executive for Finance, in cooperation with the Director of Planning and Development. Both report to the Chief Executive. Thus, the Chief Executive's "top management team" comprises the four deputy chief executives and the Director of Planning and Development.

Much, but not all, of the capital development funding is managed, (by the Deputy for Finance) through a "Capital Fund." This fund receives all borrowing, capital grants and other funding specifically intended for capital development. The Capital Fund makes "internal loans" to the various departments and services of the Council for approved capital development projects. The loans are for the acquisition or construction of fixed assets.

Long-term loans may not be raised or allocated for recurrent expenditures, except under very exceptional conditions. Otherwise, it is legally prohibited. A rare exception would be where such borrowing was considered necessary to cover large emergency expenditures, such as in the aftermath of a natural disaster. This must be specifically approved by the Minister of Local Government.

Schedules are established, whereby each "internal loan" is repaid to the Capital Fund - with appropriate interest on outstanding balances - over the working life of the asset financed. This establishes a charge against the budget of the particular service for which the capital asset is used.

The system is intended to ensure that:

- (a) the capital recovery costs of asset usage⁵ are recognized as costs of service delivery, along with the costs of operation, maintenance and administration of that service; and, consequently,
- (b) all such service delivery costs are covered from revenues collected or appropriated for each specific service.

⁵ This is the financial "rent," the annuity (annual payment) to redeem the capital cost. It is similar to a "mortgage payment" on a house loan, where the occupier (in this case the user service) is responsible for operation, maintenance and repairs.

For example, costs of road operations will include the capital recovery costs (rent) of road construction, as well as those of operation and maintenance. These total costs will be recovered from any specific revenues, such as (say) tolls, or from allocations of national government annual grant funds for (say) major roads. The balance, unfunded from specific revenues, can then be identified as the net charge against the City Council's general tax revenues.

Other examples would be the charging of the effective rent for the use of schools or clinics - in addition to the more usually recognized expenditures on teachers or nurses - against specific service fees, so as to disclose the net charge on general revenues.

These principles are especially important for "enterprise" or "trading" services, where service recipients can be assessed as the sole or major beneficiaries. This would apply to water supply.

Capital Development Financing

Introduction

Funding of capital development includes limited provision for capital grants to local government units by the Ministry of Local Government. There is also a "Development Fund," administered by the Ministry of Local Government. Partially financed by budgetary appropriations, it is also funded by the issue of special "Local Development Bonds," effectively, central government long-term debt instruments. The funds of the Development Fund are loaned out to local government units for capital projects. Similar loans are also made to local public utility entities, such as water authorities.

All loans are for periods related to the lives of the assets to be financed. They are repaid, periodically, with interest, at variable rates set and adjusted from time to time by the Economic Planning Department of the Ministry of Finance. The rates are, typically, about one percentage point above the current market rates for comparable government debt instruments. They are, however, well below what local government units would have to pay, were they to borrow in the commercial market-place. However, this is somewhat academic at present. Few local government units have established sufficient credit-worthiness to enter the commercial money markets.

Capital Markets

There is a somewhat limited capital market in Harvardia. It is, however, steadily strengthening. Shares of a small number of private sector companies are traded on the Harvard stock exchange. Occasionally there are new issues.

The Government of Harvardia issues, from time to time, publicly tradable bonds, to finance its own budgetary deficits. These bonds are usually in multiples of H.100 million. The issues are managed by a designated official of the Harvardia Central Bank, known as the Government Broker.

There are about three small brokerage firms in Harvardia. These are associated with - and supported by - foreign firms. They "make the market" for the trade in private sector stocks and government bonds. They also take up - and market - regular issues of short-term government lending, in the form of Treasury Bills. They have access to the Bank of Harvardia - the Central Bank - to borrow short-term (overnight) funding. This is done by the "discounting" of Treasury bills at the Central Bank "discount rate."

Money market and stock exchange activities are regulated by the "Financial Regulation Unit" of the Ministry of Finance. The Central Bank is regulated by - and consults with - the Economic Planning Department of the same Ministry. It is this department which, effectively, sets and adjusts the "discount rate." Within this regulatory framework, however, the Central Bank conducts day to day operations more or less independently of the Ministry of Finance.

Capital Market Development

The Central Government wishes to develop more efficient capital markets, where the local government units can borrow directly. This would normally be done by the issue of "general obligation" bonds, secured on the tax and other general revenues of individual local government units. For services directly earning revenues, there would be "revenue bonds" secured only against these revenues.

It would be expected that every loan issue by a local government unit would need to receive the approval of both the Ministry of Local Government and the Ministry of Finance. There are already legal provisions for this, at present confined to borrowing from the Development Fund. Before permission to borrow is granted, the relevant project must be appraised in a variety of ways.

The Ministry of Local Government seeks assurance that the local government unit will continue to operate in a financially viable manner, even when covering the operation, maintenance and debt service on the new project. Approval by the Ministry of Finance is directed at whether a proposed project represents a priority in the national economic planning process.

In addition to encouraging direct market borrowing, the Central Government is considering the establishment of a Municipal Bank. This would raise private funding in the market-place and use this to supplement the capital raised by the Development Fund. Indeed, eventually, the Development Fund might be incorporated within the Municipal Bank or be administered by it.

Capital Market Constraints

The Central Government, however, has several concerns. First, it claims to have great difficulty in inducing local government units to be financially viable. Until they are, private funding will clearly not be offered for development projects. Second, while the government would expect a Municipal Bank to develop superior expertise in project appraisal, it does not wish to lose its own sovereignty over the choice of projects.

In particular, the government does not wish to encourage the unrestricted prioritization of so-called "revenue-earning" projects, to the exclusion or relegation of non-revenue-earning projects of greater assessed social or economic value, to be supported largely from taxes. This, it fears, could be a temptation of a commercially-oriented Municipal Bank.

The Urban Development Situation

For many cities in Harvardia, including Harvard, there is considerable demand and potential for the development of urban infrastructure. This includes: roads; bridges; drainage; water supply and sewerage; schools; clinics and health centers; police posts; traffic management schemes; parks and open spaces; libraries; and, cultural centers.

In addition, there is demand for housing, as well as for commercial property, including offices, shops and small factories.

The Government has been concerned that the municipal councils of Harvardia, including the City of Harvard, lack the technical and financial capacity, as well as the political will, to develop public infrastructure at the required pace. There is much of land-price speculation, without an accompanying orderly development.

Private-sector developers, on the other hand, have been able to marshal limited parcels of land and to raise much of the required financing for development projects. They have lobbied the municipal councils to grant the necessary planning permission. This has been more or less on the developers' own terms, because the alternative would have been no development.

However, planning permission has normally been contingent upon undertakings, by private developers, to vest public assets from their projects, free of cost, in the municipality. There have often been, moreover, additional promises by developers to provide other public assets, such as small parks or public walkways. From time to time, there have even been financial contributions towards serious public concerns, such as job-training or low-cost housing.

Urban Development Authorities

In an attempt to correct the shortcomings, a few years ago the Government, by legislation, established a number of urban development authorities. These are managed by boards, appointed by the Minister of Local Government. One such authority has been set up for each major urban area, including Harvard. Each is provided with annual allocations of funds by the Ministry of Local Government, to be used for "urban development."

The urban development authorities were given planning and building regulation authority, parallel to that normally associated with municipal governments. They are able to use these to by-pass the authority of the municipal government, for activities within areas which the Ministry of Local Government declare to be "special development areas."

Using their grant funding, urban development authorities construct basic urban infrastructure. This creates sites and plots which are either sold to private developers or retained for further development.

On their own sites and plots, the urban development authorities have built small factories, offices and shops, as well as housing. These have been sold to households and small businesses, largely those of modest means, or rented - at subsidized rents - to those unable to afford to buy.

Purchasers have either paid cash or raised mortgage loans from private sector banks. Those who qualify, by income limits, have been granted special terms on which to purchase small plots or properties by installment payment, directly from the urban development authorities.

The urban development authorities have also constructed buildings for public use, such as schools, clinics and offices. These, together with the basic public infrastructure, such as roads and drainage, have been handed over to the municipal governments - debt free - for operation and maintenance.

Thus, in addition to their grant funding, the urban development authorities clearly generate a limited amount of cash-flow from cash and installment property sales and from rents. However, much of their activity produces public infrastructure, which is handed over, without payment, to local government units. The development authorities are thus always in a negative net cash-flow situation. This requires annual tranches of central government grant funding to continue the operations.

Private Sector Developers

Private developers, either on their own land or on sites purchased from the development authorities, have tended to focus on the upper end of the income spectrum. They have used short-term development financing to install infrastructure on their own sites and to construct superior commercial and residential property. All of the property constructed in this way is eventually sold to private households and businesses, who raise their own long-term mortgages, as necessary, from banks or other financial institutions.

Because of the embryonic nature of the nation's capital markets, there are still very few institutions or funding directed at medium or long-term mortgage financing. Thus, mortgages typically require large down-payments, often as much as 30-40% of the purchase price, with maximum repayment periods of 10-15 years. Financing operations can result from extended family cooperation or private syndicates.

Municipal Government Participation⁶

It might be thought that the municipal governments would be grateful to have handed to them, debt-free, a great deal of public infrastructure. Indeed, it represents, for them, a low-cost way of fulfilling their own public obligations.

Unfortunately, this is not always the case. First, the political will of the municipal governments will often be out of tune with that of the central government. Indeed, it is often perceived that the (non-elected) urban development authorities are being used as agents of the central government to usurp the power and authority of the locally elected municipal councils.

The typical response of the central government is that the municipal councils have not fulfilled their lawful and democratic responsibilities.

Central to the ongoing dissension, however, is the shortage of independent sources of local revenue. Although the local governments have, in principle, independent powers to raise adequate revenues, these are frequently constrained by central government interference or lack of support.

⁶ Some of the issues raised here are analogous to "unfunded federal mandates" (USA) and the problems of property taxation (UK). The latter led to the introduction and demise of the "poll tax."

Most importantly, a principal local revenue source is the property tax, to be levied on market capital values of all residential and commercial property. Although the tax levy is within the power of the municipal governments, valuations are the responsibility of the Ministry of Lands and Surveys. Because of a claimed shortage of valuers, surveyors and related skills, tax valuation and mapping have not been kept up to date.

The municipal councils, however, claim that the central government lacks the political resolve to carry out necessary revaluations. Because they have fallen so badly behind, any immediate revaluation would likely bring about draconian changes in tax burdens.

This might have been mitigated by the municipal governments levying increasingly higher tax rates on the existing values. However, the central government, which must approve annual tax rates by municipal governments, has refused to allow this.

The question of property valuations has been exacerbated by a variety of decisions of the high court, upheld on appeal. These have arisen from challenges by taxpayers against property valuations. Without going into detail, cases have almost always gone against the financial interests of the municipal governments.

Most legal scholars do not blame the courts. They agree that, in law, court decisions are valid. Clearly required are amendments to the law, together with comprehensive revaluation of property. This, the central government has, so far, failed to address.

In addition to property taxes, other fees, charges and taxes for municipal services have also not been allowed to rise to cover increased costs of service delivery. Time and again, the central government has refused to approve requests for these increases, albeit supported by competent and credible financial analysis.

Finally, municipal governments claim not to have been adequately consulted by the urban development authorities. Thus they claim to have had very little participation in the planning, design, sizing and location of public infrastructure, which they will be expected to operate and maintain.

The result has sometimes been, therefore, a refusal, by municipal governments, to accept this responsibility - or at best a sullen acceptance. This has resulted in some public infrastructure continuing to be maintained by the urban development authorities, out of their own direct central government funding.

This is not, however, the responsibility of the development authorities. Thus, they have either to curtail their development activity or seek further central government funding. In the latter case, it is a roundabout way of providing general maintenance grants to local government units. Instead of providing these funds directly to the municipalities (or, more appropriately, permitting them to raise their own funds) there is a "grant-in-kind" through the (forced) services of the urban development authorities.

