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MEETING THE FUNDING GAP IN URBAN LOCAL AUTHORITIES IN ZIMBABWE-A CASE STUDY OF GWERU CITY COUNCIL

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ABSTRACT

The decentralization of local authorities in Zimbabwe has resulted in local authorities being thrown to the deep end in terms of meeting societal needs. The ever increasing population coupled with the financial crisis both on the global stage and at local level makes it difficult for Zimbabwean local authorities to continue relying on traditional sources of finance for service delivery, sustainability and social development. The aim of the study was to explore alternative financing options and to gain an insight into administrative and legal systems that negate Gweru City Council’s revenue mobilization strategies. The data was collected using document review and follow up interviews with the Treasury personnel. It was noted that the legal and administrative systems were major impediments in the quest for local authority to boost its revenue base. This calls for the expansion of existing revenue sources and development of a policy framework which encourages Public-Private Partnerships.

KEYWORDS: Decentralisation, Mobilisation, Legal Systems, Administrative System, Public-Private Partnerships

INTRODUCTION

Gweru is the capital city for the Midlands province and the City council is expected to play a leading role in socio and economic development. Thus they should have robust finance systems which enhance the council’s capacity to offer adequate social amenities to residences. This study seeks to explore alternative sources of finance that local authorities in Zimbabwe can exploit so as to expand their finance base. This is against a background of long years of political bickering and economic despondency in Zimbabwe with the height of the crisis being evidenced during the year 2008. Local authorities in Zimbabwe were not
spared of this crisis and a lot of financial resources are required in order to revitalize councils’ operations.

Urbanisation and urban growth are major areas of concern for many developing countries particularly in Sub-Saharan Africa. According to Tosternsen, Tvedten and Vaa (2001) more than 50% of Africa’s poor are expected to live in towns and 50% of Africa’s poor are expected live in urban slums by 2025. The increased rural to urban migration presents enormous challenges to administrative systems and structures in developing countries. Major cities are centres of attraction as they have higher spheres of influence. According to the Zimbabwe investment review 2002 census report, the natural increase or urban population growth trends showed an increase of 24%, 30% and 36% in 1982, 1992 and 2002 respectively.

The result for this is a need for expanded infrastructure investments that include lighting, parks maintenance as well as water, sanitation, solid waste management, housing, education and healthcare as well as other basic social amenities. These responsibilities can only be fulfilled if local authorities are financially sound. According to McCluskey et al (2003) the growth of Africa’s towns and cities has outpaced local authorities’ capacity for service delivery in terms of management, infrastructure and financing.

Numerous challenges confront modern day local authorities in their quest to improve service provision. These challenges include; maintenance and replacement of existing infrastructure to cope with increased demands of residence. These challenges are further complicated by the fact that most of this infrastructure was constructed during the 19th century and colonial era for limited population capacity (Beall, 2000). According to Devas (2003) shanty settlements are evidence of failure to cope with increased demands of residents in most urban centres in Africa. These areas lack basic services such as housing, clean water, electricity, sanitation and refuse collection.

Given the myriad of challenges currently bedevilling the local authorities in Zimbabwe, it is evident that traditional sources of finance can no longer cope with increased demand for financial resources.

This paper addresses the following questions:

- What are the current funding options?
- What is the status of administrative and legal systems and what is their effect on Local governments’ ability to mobilize revenue?
- What other financing alternatives can be utilised?
Research objectives
From the research questions the following are the research objective;

- to assess whether current funding sources are adequate for local authorities?
- to assess the impact of administrative and legal systems on resource mobilization.
- to assess the adequacy of the current set up both legislation and administrative systems on meeting the funding gap.

Literature survey

Overview of local authorities in Zimbabwe
Local authorities in Zimbabwe are classified into two that is; urban local councils and rural local councils. Urban councils are administered in terms of the Urban Councils Act, (Chapter 29:15) whilst Rural local authorities are governed in terms of the Rural District Council Act,(Chapter 29:13).Urban councils are further classified according to hierarchy of status, structure and capabilities.

Funding options for local authorities in developing countries

Revenue sources
A sound finance base for local governments is instrumental for successful fiscal decentralization (Oluwu et al., 2003).Local governments play a pivotal role in economic development through their immense contribution to the national agenda. As pointed out in Akudugu and Oppong –Peprah (2013), revenue mobilization is critical task for local governments the world over. Local governments just like any other entities are in need of finances to meet their daily obligations. In support of this view is Juul (2006) who points out that local authorities should continuously mobilize resources to ensure adequate funding of their operations. The revenue sources for local authorities are classified as internally generated and externally generated.

Internal revenue sources
Own revenue sources include among other things property taxes, business licenses and user fees. Property tax is a significant revenue source for most local authorities in developing countries .It contributes about 40% of revenue of sub-national governments of these countries (Bird & Slack, 2002).However, property tax account for between 10-30% in most African countries like Tanzania and around 20% in South Africa (Fjeidstad et al .2005).Property tax is administered by local and central government. Southern African states rely on local administration of taxes (Brosio, 2000: 22).This is determined in terms of the value of property, size and location with the central business district being the most expensive areas.
In the case of business taxes, they are generally levied in one or two ways either as a fixed amount which usually varies with size, type or location of business or as a percentage of turnover or profits (Devas et al., 2001). Another source of internal revenue sources is in the form of user fees. It is generally argued that rate payers need the best in terms of service delivery. User fees are cost recovery system which matches the amount received to the amount consumed. The use of user fees by local authorities in most African countries improves efficiency and entrenches a sense responsibility on the part of the public. Bahl and Smoke (2003) points out that user fees are an essential component of local authorities’ finances in Africa.

It should be highlighted that user fees can be a burden on the part of the poorer segments of society (McDonald and Pape, 2002). To alleviate this problem most local authorities in Africa have a sliding scale for user fees. In South Africa most residence prefer prepaid water and electricity since it economizes on water and electricity consumption and to control expenses. This avoids excessive bills and cutting of supplies. Most African states have a special charge for trading services just like the user charges for other residents there is an element of cost recovery and a surcharge. This surcharge is the mark up component. This is charged to more affluent levels of society. These charges are more prominent in countries like South Africa and Namibia (Fjestad et al., 2005). Experiences from South Africa and Namibia show that there are a number of constraints on user charges and other means of cost recovery. These are; ability to pay; collection and billing methods; the quality of services provided and resistance to pay.

Slemrod (2003) suggests that trust is a key component of local authorities’ development. Various stakeholders should be able to trust each other for continued success of local authorities. In Zimbabwe various bodies have been formed in various local authorities like in the case of Harare, there is Combined Harare Residence Association (CHRA). This association is a watch dog of council operations on behalf of its members. In most instances the problem of non payment can be tackled from various angles which include improvement of service delivery, better administration, transparency, payment schemes and community involvement.

As a way of augmenting existing revenue structures, local authorities are also allowed to engage in income generating projects. Zhou and Chilunjika (2013) cites that in accordance with the Zimbabwe Urban Councils Act [Chapter 29:15] section 80 clearly mandates Urban Local authorities to engage in income generating projects. A Local authority is allowed to
engage in agricultural, industrial, commercial activities to boost their revenue base (Feltoe, 2002)

**Transfers and borrowings**

Ahamd (1997) stresses that most governments the world over assign more expenditure functions to local authorities than can be financed from their own resources. This results in a mismatch in functions and finances. The following ways of closing the fiscal imbalances of local governments are often adopted. Central government may introduce a revenue sharing scheme from taxes collected within the local authorities’ area of jurisdiction (Mclure 1999). This has the effect of increasing local authorities revenue bases. In Africa the main form of intergovernmental transfers is in the form of conditional and unconditional grants from central government. Moreover in some countries local authorities are given the right to borrow to finance investment in local capital infrastructure (Bahl and Smoke, 2003).

Government grants can be classified into three namely, specific, general and capital grant. Specific grant is meant for specific objectives, the use of this grant should be in line with the purpose of the grant. There is strict compliance with the requirements of the central government. General grants are not specific they can be used as per the discretion of the local authorities whilst capital grants are earmarked for capital projects. Government Treasury regulations strictly prohibits the switching of purpose of funds earmarked for capital projects.

**Methods / Approach**

A single case study approach was adopted. In this case focus was on Gweru City council and the purposive sampling technique was used and respondents were drawn from the Treasury department. Interviews and document review were used to get both primary and secondary data. A review of the Council’s final accounts for the three years ended 31 December 2009, 2010 and 2011. The choice of this period was mainly influenced by the economic and political sanity that was obtaining after the formation of the inclusive government in 2009 in Zimbabwe.
Results & Discussion

Sources of income for local authorities

Table 1: Gweru City council’s revenue sources

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Property taxes</td>
<td>15</td>
<td>12</td>
<td>22</td>
</tr>
<tr>
<td>Business taxes</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Trading activities</td>
<td>16</td>
<td>18</td>
<td>22</td>
</tr>
<tr>
<td>Borrowings</td>
<td>10</td>
<td>19</td>
<td>8</td>
</tr>
<tr>
<td>Government grants</td>
<td>15</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>Donations</td>
<td>35</td>
<td>30</td>
<td>25</td>
</tr>
<tr>
<td>Other</td>
<td>9</td>
<td>11</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Derived from Gweru City Council’s final accounts: 2009-2011

As shown in table 1, Gweru City Council is heavily dependent on external sources of finances to bolster their operations. External sources constitute over 50% of the total revenue. Property taxes are expected to be a significant revenue contributor but there are many obstacles that local authorities face, these include valuation flaws, political interference and conflict of interest by valuers (Zhou & Chilunjika, 2013). Local authorities do not charge commercially viable rates owing to the reasons indicated above. As for business taxes, the Zimbabwean tax collection is centralized. It is the sole mandate of Zimbabwe Revenue Authority to collect taxes on behalf of treasury. The interviewees indicated that the only form of taxes available to local authorities were in the form of property tax within their areas of jurisdiction.

Trading activities are mainly anchored on liquor selling especially through the Go-beer brand. Owing to a myriad of challenges such as financial distress, Gweru City Council has leased out most of its liquor premises and the sale of cattle from its farms. Although there is a board of directors which oversees the operations of this entity, there seem to be no incentives for the employee to improve performance.

In terms of donations, these are mainly earmarked for water and sanitation. Donations constitute about 35%, 30% and 25% for the year 2009, 2010 and 2011 respectively of the total revenue. This is a significant contribution and it can be drawn that the local authority is heavily dependent on donations which in certain instances may be very unreliable. The classification of some income as other may be problematic when it comes to transparency.
issues and financial reporting. In this case other income refers to fines and parking fees. As indicated in the above table for the three years the income sources were not stable. This volatility makes planning by the City Council difficult.

Revenue collection

Given in figure 1 below is the revenue collection pattern for Gweru City Council for the years ended 31 December 2009, 2010 and 2011.

![Revenue Collection Chart](image)

Source: Derived from Gweru City Council’s final accounts: 2009-2011

As evidenced in figure 2 above, in 2009, 68% of the internal revenue was collected and 32% of the revenue remained outstanding. In 2010, 77% of the internal revenue was collected and 23% was owing and in 2011, 85% was collected and the remaining 15% was due and not yet collected. In an interview with the finance director, he attributed the high default rate in 2009 of 32% to abnormal billing just after the formation of the inclusive government in Zimbabwe. In 2010 the default rate decreased by 10% from a high of 23% in 2009 to 23% in 2010. This was mainly attributable to massive discounts offered to residents. Such discounts also yielded a favorable result in 2011 as defaulters constituted about 15% at the end.

The collection of internal revenue is normally dependent on trust between residents and the local authority. The researcher also discovered that some parts of Gweru like the high density of Mkoba 14 and some parts of Mkoba 19 and Old Senga had gone for years without water. Such a failure to provide basic services does not encourage residents to pay their dues.

The respondents further noted that constant interference from the minister of Urban and rural development posed a great threat to the local authority’s endeavour to collect revenue. This was further supported by the proclamation in July 2013 by the Minister of Urban and rural development that all amounts owed by residents had been scrapped.

“In terms of Section 133 of the Rural District Councils Act Chapter 29:13 as read with section 303 of the Urban Councils Act chapter 29:15 of Councils are directed to write off
debts in respect of rentals, unit tax, development levy, refuse charges and water and sewer fees as at June 30, 2013. Similarly amounts owed by residents in respect of rates since February 2009 stand prescribed in terms of section 15 of the prescription Act."

An analysis of the above proclamation indicates that local authorities do not have independence in the way they operate. Such a stance negatively affects the ability of the local authority to raise revenue for sustainable development.

**Expenditure pattern**

As an attempt to infer on the expenditure pattern for Gweru City Council for the three years up to 31 December 2011, the following pattern was established.

![Expenditure pattern for Gweru City council](image)

Figure 2: Expenditure pattern for Gweru City council

Fig 1 shows that for the year 2009, 42% and 58% was used for capital and revenue expenditure respectively. In 2010, 40% and 60% were allocated to capital and revenue expenditure respectively. As for the year 2011, capital expenditure accounted for 38% and revenue expenditure gobbled 62% of the total revenue. More income is spent on revenue expenditure than capital expenditure. Much of the revenue expenditure is as a result of payroll expenses with the top management taking a significant portion. The capital expenditure in all those instances were for purchasing motor vehicles for top management and other service departments.

**The budgeting process**

Most respondents highlighted that budgeting was a key element of the local authority's accounting system. According to Lucey (2003) a budget is defined as a quantitative plan which include planned revenues and how the revenue is to be expended. The budget ensures that there is organizational focus. It aids coordination and proffer control. As per the enabling Act, the Urban Councils Act (Chapter 29:15) Local authorities are supposed to make wider consultation before coming up with a budget which is also subject to ministerial approval. In
this case the minister of Local government is responsible for authorizing the budget. One problematic point which was noted concerns the late approval of these budgets with some budgets being approved late in the year. This scenario is retrogressive as the local authority may find it difficult to control expenses. Commitment registers are also difficult to maintain thereby promoting financial indiscipline.

The available legal framework promotes upward accountability. This may negatively affect the relationship between the local authority and the various stakeholders who include the residents. Participative governance is vital in societal development as all concerned parties are bound to act responsibly.

Most local authorities the world over are run along political affiliations this has a tendency of politicking when it comes to local government support from central government. This scenario can be a major setback when it comes to developmental issues (Commonwealth report on local government forum in 2005). To ensure goal congruency most local authorities in Africa are allowed to prepare their budgets in line with the national budget. In countries like Swaziland and Zambia local authorities budgets are often not approved on time. This has a tendency of negatively impacting on medium to long term planning, priority setting and effective financial management.

The urban councils Act Chapter 29:15 lays out the procedures to be followed in execution of council responsibilities. Whenever a council intents to borrow funds from any source wider consultations are made first, with council members and then rate payers. The Urban Councils Act Chapter 29:15 provides that the intention to borrow should be clearly spelt out in two issues of local newspapers. There should also be a time lag of at least three weeks between the date of flighting the notice in local newspapers and the submission of proposal to the minister responsible for local government rural and urban development. This process allows for checks and balances in terms of local authorities’ financial administration. The approval though not necessarily a guarantee in the case of funds sought from the money market is a process where the ministry satisfies itself that the local authority in question is creditworthy and will meet its loan repayments.

The minister of local government rural and urban development may partially accept or wholly accept the proposal and grant the authority to borrow the amounts applied subject to stated conditions. The urban councils Act 29:15 section 290 gives local authorities the mandate to borrow to cater for the following; construction of permanent works or undertakings; acquisition or construction of permanent immovable property; making
authorized advances; repayment of loan; liquidation of municipal monies owing and acquisition of property, plant and equipment.

Funds borrowed with the use of borrowing powers should be used for capital expenditure. It is illegal for funds borrowed under this section to be used for purposes other than the intended and the specified use. Current legislation allows the Minister responsible for local government to carry various disciplinary measures if the Minister finds that the monies borrowed have not been used for the intended purpose.

On the contrary, South Africa has a more liberal policy on management of local authorities, according to the South Africa Municipal management Act (2000) all local authorities have equal borrowing powers. The Act further provide that municipal entities can borrow the extent of such borrowing remains the decision of the Municipality itself. All liabilities are underwritten by the municipality and this is reflected in the municipality’s books.

Municipal lenders are also given the mandate to craft their own ways of ensuring their security needs for example tariff covention. Existing bond holders are not unfairly prejudiced by a deepening municipalities’ right to enter into new security covenant. In South Africa borrowing is authorized by municipal councils at the recommendation of the Chief executive officer without the need for national and provincial approval. Short term borrowing may be approved by council resolution or by general resolution that the CEO may borrow up to specified limits. Municipalities are also given the mandate to determine their debt levels.

**Utilization of private equity**

Enhanced service delivery requires all concerted effort from various stakeholders of the economy. The running of municipal facilities should not only be left to the local authorities. The public sector is now being used as the facilitator for the private lead economic and development processes. According to Keyter (2008) private sector lead development is considered to be the most effective when it comes to service delivery. The private sector is even considered to be more dynamic, resistant, creative and vibrant than the public sector.

The private sector is profit oriented. This implies that the poor will not be able to get goods and services at affordable prices.

As a way of addressing these challenges it is vital to form a strategic alliance between the public sector and the private sector. Thus the formation of Public–Private Partnership (PPPs) is essential for attainment of sustainable development. The United Nations economic commission for Europe (2000) further argues that municipalities and national budgets are often not adequate to finance directly necessary and desired facilities.
The inclusion of PPPs in economic arrangement is no a unique set up as other developed countries like the USA have found PPPs a useful tool of meeting the funding gap. Andrew (2009) highlights that PPPs to promote urban regeneration became increasingly more popular in the 1970s. This was mainly influenced by inadequacy of resources from central government, local authorities had to resort to localized revenue option. This placed heavy burden on residence hence the rationale for crafting innovative strategies of meeting the funding gap (Sagalyn, 2007).

In other contexts PPPs can be explained conceptually as the collaboration between public and private organizations in public service delivery (Base et al 2002) Plummer (2002) describe PPPS as some form of partnership endeavour involving the public sector and the private sector. This however does not exclude other vital players as the civil society. In Ngowi (2006) PPPS are said to include other players like government, Non Governmental Organisations (NGOs) and Community Based Organisations (CBOs) Plummer (2004) indicates that there are various organizational frameworks that can be considered for PPP arrangement such as direct contractual model utility model joint venture model and community contracting model. Gweru City Council has entered into various partnerships with private players in areas of education, health, land development etc. One respondent noted that in certain instances there is no transparency in such deals. Corruption is considered to be very prevalent by top management and there is often lack of trust between the parties concerned.

CONCLUSION

It is evident from the analysis that Gweru City Council is in dire need of expanding its existing revenue base. In this regard a robust revenue mobilization should be put in place. The current expenditure pattern is more inclined towards revenue expenditure at the expense of capital expenditure. The entity is failing to effectively manage debtors owing to persistent meddling in council affairs from the Minister of Urban and rural development. Again the bureaucratic structure in the budgeting process makes it difficult to mobilize revenue as some budgets are approved late. Although the local authority has some Public –Private-Partnership arrangements, potential partners are finding it difficult to engage local authority owing to political uncertainty.
Recommendations

Gweru City Council finds itself embroiled in a deep financial quagmire; if the City Council is to retain viability the following recommendations may be critical. The local authority should develop the right mix of revenue sources and try as much as possible to widen the existing sources. The Council is supposed to ensure that their property register is up to date and that commercially viable rates are charged. Council employees are supposed to declare their conflict in the valuation process. Since the City Council has beer hall facilities there is need to have a robust business framework which is premised on clear business ethics. This can be in the form of performance based contracts to top executive in these trading units. There is also need for the Council to develop a sound revenue collection system. Service delivery should be a major priority so as to ward off resistance from residents which may increase the default rate. The City Council should put in place a cost reduction mechanisms which will ensure that there is control over expenditure so that more expenditure is for capital expenditure so as to add value to residents’ money. This can be in the form of using a commitment register and giving section heads incentives for containing costs.

The budgeting process should be all inclusive with wider consultations being made so that residents can claim ownership of the budget. Timely preparation of budgets is essential in the revenue mobilization exercise. The legislative framework should be amended so as to give the Local authority financial independence. Total autonomy is essential in the execution of council operations. Develop a policy framework which safe guards the interests of private players so as to ensure co-operation in socio-economic development.

References