Zimbabwe Economic Policy Analysis and Research Unit

ZEPARU

MAIN BOTTLENECKS AT THE LOCAL AUTHORITY LEVEL THAT COULD POSE CHALLENGES FOR GROWTH AND SUSTAINABILITY

by

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Table of figures

List of tables

EXECUTIVE SUMMARY

This study has been motivated by the imminent implementation of devolution in line with the Constitution. Local authorities play a critical role in service delivery, making it critical that they do not serve as a potential stumbling block in the implementation of devolution. The failure to adequately treat sewage, failure to provide clean water to residents, failure to maintain clean environments through refuse collection and disposal as well as failure to maintain decent infrastructure negates the benefits that devolution is expected to bring to the economy. This study is seeks to identify those factors within the control of urban councils that can be addressed to compliment devolution. Addressing these would be key in improving service delivery which helps in the attainment of the growth objectives and the country's Vision 2030.

State of infrastructure

The study establishes that the problems at the local authority level could also have been compounded by lack of complimentary support for infrastructure from central government. The total government allocations for infrastructure projects between 2010 and 2018 as a percentage of total expenditure averaged only 7.6%. As a percentage of GDP, the development budget constituted only about 1.8% on average over the period, falling short of the target of 25% of GDP that is envisaged under the TSP. The declining trend as a ratio to GDP shows that the allocation was low relative to the growing economy, which is expected to create demand for services beyond the capacity to provide them. Between 1990 and 2019, resources for financing local authority programmes through the national budget have rarely exceeded 1% of the total budget. This would imply that local authorities have to be self-financing in order to meet their infrastructure requirements.

As a result, the state of infrastructure in local authorities is now very poor. About US$582.6 million worth of investment is needed to replace and rehabilitate water infrastructure for urban and rural water supply. Non-revenue water is very high at about 43% which means that only 57% of the treated water end up being billed, which is not sufficient to enable the recovery of water related cost build ups. Local authorities also have a poor revenue collection record, as only 44.3% of the charges related to water supply is collected. Only 4.2% of all expenses incurred in water supply are utilised as maintenance related expenses, subjecting the existing infrastructure to accelerated wear and tear.

Wastewater management is also poor, as about 14.2% of the toilets in local authorities are not functional. There is very minimal waste water recycling taking place, as only about 8.1% of wastewater is recycled. Only about 20.5% of the total wastewater infrastructure across all the urban local authorities can be regarded as being of high quality. Wastewater infrastructure maintenance is very low at only about 8% while the sewer charge collection efficiency is only at 30.6%.

Road infrastructure is also characterised by a number of challenges. Only 52% of road in urban councils are sealed, while only 21.2% of the sealed roads are in good condition. Carriage markings are present in only 10% of roads in urban councils, while only 16.9% have controlled intersections. The average national coverage of road network in urban councils can is about 63.1%, implying that more than 36% of settlements do not have road networks.

The state of infrastructure, especially water, wastewater and road, generally reflects that the capacity of local authorities is too low to adequately perform to expectations.

Revenue collection and base

Local authorities also have a poor record with respect to revenue collection in general. The average collection capacity for local authorities is about 52%. Uncollected revenues among the local authorities would cover about 35% of their estimated total infrastructure requirements. The revenue base for local authorities is also not very diversified. There is generally a high dependence on user fees as the main source of revenues, which is affected by willingness to pay as well as capacity to pay. About 40% of the revenues from the local authorities are from user fees. The local authorities also rely heavily on property tax, which constitutes about 29% of total revenue.

Government grants constitute only 11% of the revenue, a reflection of fiscal space constraints on the part of central government. Borrowing, which is only allowed for short term purposes under the Urban Councils Act, constitutes about 2% of the revenues. Income generating projects do not generate significant revenues for local authorities at only 2%. Licence fees, which relate to the general economic activities, contribute about 7% of total revenues. This overreliance on user fees explains the challenges that local authorities mainly face.

Investment opportunities in local authorities

There are investment opportunities which local authorities can exploit in partnerships with private investors. The waste recycling industry for example is a $376.9 billion industry globally and offers opportunities for local authorities and private investors to tap into the global waste industry value chain. Local authorities also used to run profitable breweries which collapsed due to poor management. Together with strategically located beer halls, breweries offer exploitable investment opportunities. Local authorities can also enter into PPP arrangements with private sector to leverage on bus terminuses and make them efficient to enhance revenue generating capacity.

Investment attraction is however limited by a number of binding constraints. The poor infrastructure conditions make local authorities less attractive to private investors. Local authorities are also struggling to establish business cases for private sector investment by identifying bankable projects. Partnerships with local authorities are also affected by the inability of local authorities to quickly adjust tariffs in response to rising costs. The inability of local authorities to enforce payment also makes them less attractive to the private sector.

Recommendations

Non-revenue water

It is recommended that all local authorities have in place a non-revenue water programme with its full components. Local authorities should also start investing in building their capacity and infrastructure to sustain a prepaid meter water system.

Capacity building
An intensive capacity building initiative is needed to adequately prepare the local authorities. Possible areas for capacity building include financial reporting, institutional arrangements and general economic literacy and governance capacity that local authorities need to have in order to be able to perform expected roles under devolution.

Auditing gaps
The continued failure to have audited statements is destroying the confidence and image of the local authorities on the public. There is need for local authorities to ensure that they invest in having the capacity to prepare financial statements to auditable level in-house.

Revenue collection capacity
It is recommended that the local authorities should engage in legal processes to recover what they are owed. The court process should also be complimented by deliberate strategies on the part of local authorities to inculcate a culture of rate and utility payment among the rate payers. This can be enhanced by more transparency and engagement of residents, so that they appreciate how their payments are important for service delivery. Local authorities would also need to demonstrate to citizens that they prioritise service delivery, as there is a general perception among citizens that there is misappropriation of resources towards self-aggrandisement.

Infrastructure enhancement
Given the state of infrastructure in local authorities presented in the report, it would be difficult to expect meaningful development to arise. In addition, there are a lot of leakages and inefficiencies that are also caused by the poor state of infrastructure, for example the high non-revenue water. There is need to prioritise infrastructure repair and maintenance above other expenditure heads. In particular, local authorities should take advantage of the intergovernmental transfer funds under devolution to help close off some infrastructure gaps.

Partnerships with private sector
Local authorities are sitting on opportunities which they can easily exploit in partnership with private investors. There is need for local authorities to create investment plans identifying possible areas for investors. There is need for local authorities to quickly identify low hanging fruits which can be quickly exploited while the binding constraints beyond their control are being addressed.

1. INTRODUCTION

1.1 Study Context

Local authorities are generally at the centre of governance by virtue of being the government structure that is closest to citizens. They can be defined as the administrative bodies which have been officially rendered responsibilities for public service delivery in designated geographical areas, namely cities, towns, municipalities, boards and districts (Zhou and Chilunjika, 2013). Under the Urban Councils Act [*Chapter 29:15*] of Zimbabwe, "local authority" means a municipal council, town council, rural district council or local board. Local authorities in Zimbabwe are generally classified into two; rural district councils and urban councils. Zimbabwe currently has 60 rural and 32 urban councils. Further, council areas are divided into wards, with an elected councillor as the head of the ward. In rural district councils, the policy making space is further shared among the village assemblies, ward assemblies, and a full Council (Chatiza , 2010). The Ministry of Local Government, Public Works and National Housing has the general oversight role over Local Authorities in terms of policy direction and ensuring that financial management and governance issues are adhered to.

This study focuses on urban councils. There are about 32 urban councils in Zimbabwe, which are classified in a hierarchy in terms of size and functions. The lower level is occupied by Local Boards, which number about four, followed by Town Councils (12), municipalities (9) and city councils (7) (Table 1). Municipalities and city councils are under the general guidance of elected Mayors and Town Clerks (or Town Secretaries for smaller towns), who are responsible for the general management.

Table 1: Disaggregated list of Urban Councils in Zimbabwe

Level I: Cities	Level II: Municipalities	Level III: Town Councils	Level IV: Local Boards
Harare; Bulawayo; Gweru; Masvingo; Kadoma; Kwekwe; Mutare	Bindura, Chegutu, Chinhoyi, Chitungwiza, Gwanda, Kariba, Marondera, Redcliff and Victoria Falls.	Chiredzi; Norton; Shurugwi; Zvishavane; Gokwe; Beitbridge; Rusape; Karoi; Chipinge; Mvurwi; Lupane; Redcliff	Ruwa; Chirundu; Epworth; Hwange

Sources: VERITAS[1] and *Service Level Benchmarking Coordination Committee (2019)*

All urban councils can aspire to gain city status; section 14 of the Urban Councils Act allows for local boards to apply to be upgraded into town councils, while town councils can also apply for municipality status and municipalities can apply for city council status. As given in the First Schedule of the Urban Councils Act, the factors that are considered before an application for change of status is granted include population density and size, employment opportunities, value of property, ability to provide services (e.g ambulance, firefighting, parking spaces, law courts, police

[1] http://www.veritaszim.net/node/654 (accessed 07 May 2019)

stations, road, rail, postal, tourism) and influence as a national centre for industry, mining, agriculture and financial purposes.

The main functions of urban councils are outlined in various sections of the Urban Councils Act, while the Second Schedule to the Urban Councils Act provides a general overview of these powers. The following can be regarded as the main prioritised functions of the urban councils (Mutema, 2012) , especially within the objective of spurring growth:

i) Provision of water for domestic, commercial or industrial areas;
ii) Provision of housing and transport facilities;
iii) Construction and maintenance of drains, sewers, roads and bridges;
iv) Cleansing and refuse removal and disposal;
v) Prevention of air, land and water pollution;
vi) Operation of fire brigades and municipal police;
vii) Provision of social services, i.e. education, health, ambulance services; and
viii) Provision of recreational facilities and sports facilities.

Local authorities are important in the implementation of government policies towards growth and development. They provide a secure and stable operating environment under which enterprises can flourish through provision of the prerequisites for economic activity such as physical infrastructure and utilities as well as basic services for social welfare. Local authorities are also the best-placed initiators and drivers of processes that involve citizen engagement in shaping the future and designing inclusive growth strategies (United Cities and Local Governments, 2016). In addition, policies which see expenditure on pro-growth services such as housing, planning, utilities and culture are often done through local authorities as they are instrumental in attracting businesses and investment within their jurisdictions (Travers, 2012). It is therefore important to ensure that local authorities play their roles in shaping up an economic landscape that facilitates growth. This study assesses the current status of local authorities to assess their capacity to perform these envisaged roles.

1.2 Problem statement

As the country starts preparing for devolution, it is important to ensure that the key obstacles which can affect the benefits of devolution are identified. Local authorities in general and urban councils in particular should be able to adequately deliver on their mandate. The current state of affairs among urban councils shows that they are generally failing to deliver on their mandate. This is evident from failure to adequately treat sewage, failure to provide clean water to residents, failure to maintain clean environments through refuse collection and disposal as well as failure to maintain decent infrastructure that facilitate business. The challenges that local authorities face are also unique to other tiers of government, especially where some competences to compliment local authorities' efforts are missing. However, this study is only confined to the local authority level, so as to identify those factors within their control that can be addressed. It is important to identify the key priorities and capacity gaps which need to be addressed for local authorities to improve service delivery which helps in the attainment of the growth objectives and the country's Vision 2030.

1.3 Study objectives

The main objectives of the study can be identified as:

1. To identify key governance issues within local authorities which need to be addressed in order to achieve the devolution objectives;
2. To understand the status of revenue bases for local authorities and whether the bases could anchor development;
3. To identify binding constraints to attracting investment into local authorities;
4. To identify the main bottlenecks at the local authority level that could pose challenges for growth and sustainability; and
5. Suggest different response options to dealing with the identified challenges.

1.4 Study methodology

The study is mainly an exploratory study based on secondary data analysis, especially results from the World Bank Service Level Benchmarking (SLB) surveys[2], which covered all the urban local authorities. However, these were augmented by a review of relevant documents and a review of literature on other aspects of local authorities' operations. In addition, primary data was also used to fill in identified gaps in areas where the SLB surveys did not focus on. Views of 15 out of the 32 urban local authorities who participated in this study were used as case studies in identifying critical issues at local authority level which could affect economic growth and sustainability. The local authorities were engaged using a standard structured questionnaire. The questionnaires were sent to the offices of Town Clerks and Town Secretaries in urban councils. Further identified gaps were closed through key informant interviews with the Secretary General of the Urban Councils Association of Zimbabwe, officials in the Ministry of Local Government, Public Works and National Housing[3] and local authorities[4]. While the results from the SLB surveys cover all the urban councils and is thus nationally representative, it is critical to point out that results from the 15 participating local authorities should not be regarded as representative of all the local authorities but are useful in reflecting some of the issues and challenges faced by local authorities in general.

1.5 Limitations of the study

While the results from the data used are reflective, they are also subject to some limitations. Both the SLB surveys and the results from the 15 participating local authorities are based on self-reported data. The effectiveness of the data is limited by the fact that it was not independently verified for accuracy. In addition, sections of the report where results are based on only 15 out of a possible 32 list could also fail to convey the actual national picture.

2. CURRENT PERFORMANCE STATUS

Local authorities play a significant role in spurring sustainable economic growth and development. They provide and maintain infrastructure for water and sanitation, housing, waste disposal, road rehabilitation, public lighting and services such as basic health and education, which are all critical in the promotion of economic and social

[2] With the support of the World Bank, a Service Level Benchmarking (SLB) and peer review process was initiated in Zimbabwe in 2012. It had an objective of improving service delivery in water supply, wastewater and solid waste management in all the 32 urban local authorities of Zimbabwe (Service Level Benchmarking Coordination Committee, 2016). However, in 2017, there were two more added focus areas for benchmarking, namely roads & public safety and corporate governance.

[3] Officers and Directors from the Ministry who participated at a workshop organised by UNICEF on 04 July 2019

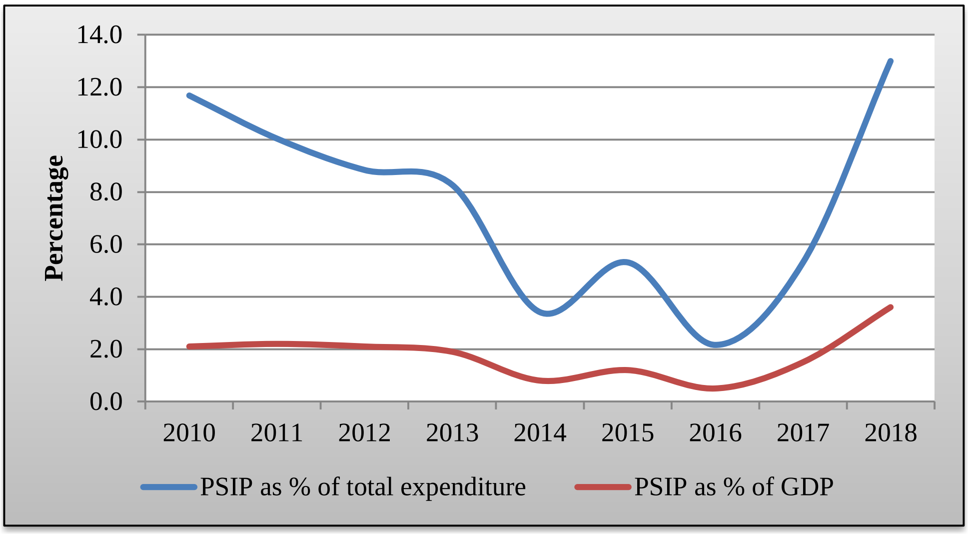
[4] Include Bindura Town C|erk and those in the Finance Department in Chinhoyi and Marondera who were engaged as a follow up to issues emanating from questionnaires.

well-being (Government of Zimbabwe and World Bank, 2017). In order to perform these functions adequately, local authorities also rely on central government to provide complimentary infrastructure in areas that are beyond the jurisdiction of local authorities. This implies that local authorities can only function effectively if the general state of infrastructure at the national level is in a good state. However, most of the key infrastructure in Zimbabwe is now in a deplorable state, mainly as a result of inadequate finance for infrastructure at central government level. In addition, infrastructure at local authority level has also been strained by urbanisation, where cities and towns in Africa are growing at an average rate of 5% per annum, at a time when the local authorities are constrained in meeting this growing demand (Heymans, Eales, & Franceys, 2014)

Central government has been failing to adequately finance infrastructure due to fiscal constraints, as demonstrated by the low developmental budget relative to the recurrent expenditure budget. This has seen the reliance on central government for funding waning. Funding for Public Sector Investment Programme (PSIP) projects which local authorities could be implementing comes through annual budgetary allocations. All the economic blueprints identify key priority projects that need to be funded for the economy to perform. Resources are then allocated each year towards the projects. These cut across all sectors of the economy. The Transitional Stabilisation Programme (TSP) identifies infrastructure projects across all sectors of the economy as being earmarked for financing under the PSIP. Projects that have potential to be economically viable on their own no longer qualify for funding under the PSIP.

The total government allocations for the PSIP projects between 2010 and 2018 as a percentage of total expenditure averaged only 7.6%, having registered a noticeable general declining trend between 2010 until 2016, before registering an increasing trend in 2017 and 2018 (Figure 1). The declining trend generally showed that some areas which fall under recurrent expenditure were being given priority ahead of the development budget, which would be expected to result in dwindling capacity to give services by existing infrastructure. The increase in 2017 and 2018 can be attributed to expenditure containment measures adopted by the new government in line with the TSP. As a percentage of GDP, the development budget constituted only about 1.8% on average over the period, showing a declining trend between 2013 and 2017. This falls short of the target of 25% of GDP that is envisaged under the TSP for 2019 and 2020, which is seen as conducive for economic expansion. The declining trend as a ratio to GDP shows that the allocation was low relative to the growing economy, which is expected to create demand for services beyond the capacity to provide them. Thus, it is expected that all the three tires of government would face challenges, as financing towards infrastructure is critical for service delivery in general.

Figure 1: Government allocation towards infrastructure, 2010-2018



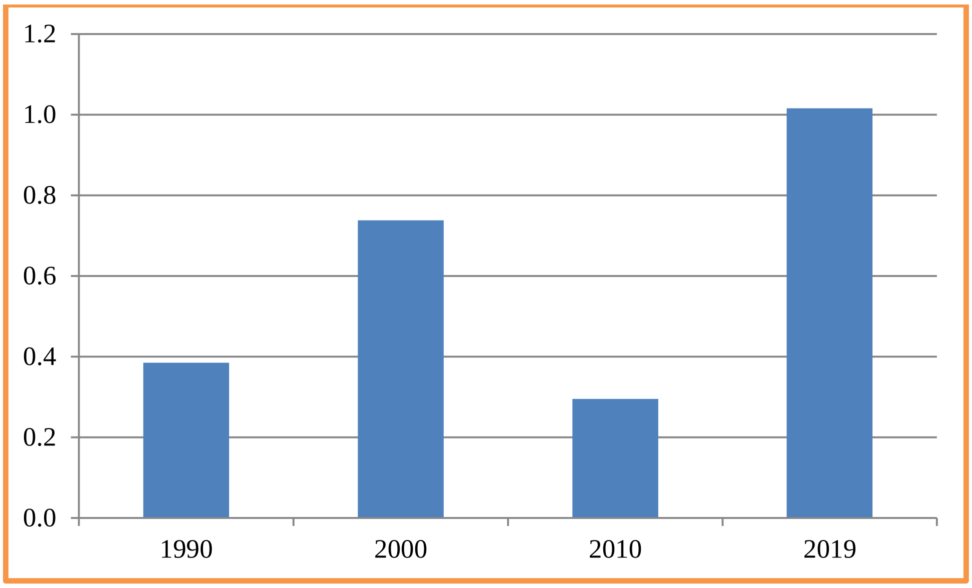
Source: Ministry of Finance and Economic Development, 2019

The limited investment towards the enabling infrastructure naturally created challenges for the local authorities who are supposed to maintain and use the infrastructure for service provision. The infrastructure budget allocation enables services across all the tiers of government to be effective. This limited allocation towards infrastructure therefore would naturally affect delivery of primary, secondary and tertiary services, for which the responsibilities spans across different tires of government. This implies that the challenges arising from limited infrastructure at central government level would naturally not be unique to local authorities. However, the capacity of local authorities, who are the focus of this study, is inadvertently affected.

The statistics show that about 28% of the limited resources earmarked for infrastructure over the period 2010 and 2018 were allocated towards water and sanitation infrastructure, followed by transport (24%), housing (14%), health (9%), energy (8%, education (7%) and ICT (7%) (Ministry of Finance and Economic Development, 2019). Given that these are critical enabling assets for the efficiency of local authorities, they naturally would face challenges in delivering if these budgetary allocations fall relative to total expenditure. Some of the challenges faced by local authorities are therefore beyond their own making.

Using a ten year interval between 1990 and 2019, it can be established that resources for financing local authority programmes through the national budget have rarely exceeded 1% of the total budget (Figure 2). This would imply that local authorities have to be self-financing in order to meet their infrastructure requirements.

Figure 2: Budgetary allocation financing for local authorities as a percentage of total budget



Source: Proposed Budget estimates for the respective years (Blue Book)

The role of intergovernmental fiscal transfers in facilitating local authority development is an area that has been considered of interest among many scholars. This is mainly due to the fact that there are two main schools of thought on the importance of transfers to local authorities. On one hand is the crowding out effect, where intergovernmental fiscal transfer actually reduces the incentives for local authorities to explore other revenue enhancing efforts, which results in low tax collection efficiencies (Masaki, 2018). This school of thought has been tested and found to be empirically sound ((Buettner & Wildasin, 2006); and (Zhuravskaya, 2000)). However, recent studies have also established that there is a 'crowd in' effect of intergovernmental fiscal transfers, where the grants capacitate the local authorities to pursue other revenue heads (Brun & Khdari, 2016); and (Caldeira & Rota-Graziosi, 2014). Masaki (2018) argues that the crowding out effect mainly holds for those countries where sound fiscal institutions are already in place. When it comes to the settings in most African countries, where the administrative and institutional capacity at the local government level to collect is already limited, reducing intergovernmental transfers would only worsen the total revenue available to local authorities. Using quarterly fiscal data on local revenues in Tanzania, Masaki (2018) also establishes that intergovernmental grants actually improve the local authority revenue mobilisation in Tanzania. This study is generally persuaded by the findings from the studies done within the African context, where budgetary allocations towards local authorities would be expected to crowd in rather than to crowd out revenues.

Infrastructure at local authority level that is critical to anchor growth and sustainability include infrastructure for water supply, wastewater, and roads.

2.1 Water supply

Zimbabwe currently has a lot of infrastructure gaps with respect to water and sanitation. In 2019, it was estimated that the investment gap to meet the national targets for water supply was about US$582.6 million, which would be needed to replace and rehabilitate existing water infrastructure for urban and rural water supply

(African Development Bank, 2019) . On the other hand, about US$504.6 million would be needed to expand access to improved sanitation facilities (African Development Bank, 2019). These high estimated values arise mainly because a significant level of investment is required to rehabilitate dilapidated infrastructure at a time when infrastructure financing had been restricted to off-budget sources from nongovernmental organizations and multilaterals. During the third Local Government Investment Conference (LOGIC) held from the 16th to the 18th of October 2018 at the Zimbabwe International Trade Fair, Bulawayo, it was also indicated that local authorities would need about US$304.1 million to finance infrastructure for water supply (Urban Councils Association of Zimbabwe, 2018).

Due to prolonged periods of underfunding, water as well as waste water treatment plants are no longer efficient, with effluent and raw sewerage entering the rivers and dams. In addition, dry spells in the sewerage systems due to lack of continuous water flows also led to frequent blockage of the sewerage systems. In general, most of the water distribution systems in Zimbabwe are in need of repair (African Development Bank, 2019).

The results from the World Bank Service Level Benchmarking (SLB) surveys[5] have reflected many challenges which local authorities face in providing water supply, solid waste disposal, and sewage treatment. These challenges were a result of a number of factors which include the following (Service Level Benchmarking Coordination Committee, 2019):

- limited revenue inflows;
- increased demand for services due to a growing population;
- Low levels of investment in local government infrastructure maintenance;
- Aging infrastructure and equipment;
- The impact of hyperinflation and dollarization which had contributed to the dissolution of some transfer and loan facilities that had traditionally supported investments at the local level;
- Inadequate treatment capacity;
- Inadequate metering;
- Inadequate policies; and
- Vandalism of infrastructure.

There are several reasons that can be attributed to these challenges. This includes failure by residents to pay for the services being rendered, resulting in huge debts with little scope of being recovered. The failure to pay is both due to unwillingness and inability. Unwillingness is mainly due to the fact that local authorities are failing to deliver services; hence ratepayers would also be less motivated to pay for non-existent services. As a result, while ratepayers can still find a way of paying for other services such as communication, electricity and transport, they do not assign much priority to rate payment.

[5] With the support of the World Bank, a Service Level Benchmarking (SLB) and peer review process was initiated in Zimbabwe in 2012. It had an objective of improving service delivery in water supply, wastewater and solid waste management in all the 32 urban local authorities of Zimbabwe (Service Level Benchmarking Coordination Committee, 2016). However, in 2017, there were two more added focus areas for benchmarking, namely roads & public safety and corporate governance.

Inability to pay is mainly due to job losses and general economic hardships. In addition, there is also insufficient human and financial capacity to deliver on the part of urban councils due to weak oversight, inadequate supervision and support, political conflicts between councils and the line Minister as well as between councillors and managers, resulting in a dysfunctional system characterised by suspensions, dismissals and disciplinary procedures (Sifile, Madzorera, & Chavunduka, 2015). Local authorities have also failed to be self-sustaining in terms of revenue collection, which has seen them continuing to rely on government transfers, grants, loans and other revenue sources which are not reliable.

Some of the challenges faced by local authorities are also resident in other institutions which have to play a complementary role. For example, the responsibility of water reticulation in urban councils is a complimentary responsibility between the urban councils and the Zimbabwe National Water Authority (ZINWA). ZINWA performs the water treatment and reticulation services only in small towns and growth points that lack the capacity to do so. However there are still some towns (e.g Gwanda) where ZINWA treats the water and sell it in bulk to the local authority for reticulation. In big cities, ZINWA only provides raw water through management of dams while local authorities are responsible for treating as well as reticulation of the water[6]. The unavailability of adequate supplies of water from ZINWA due to low levels of water in dams and limited number of dams directly affect the capacity of the local authorities to supply adequate water.

However, due to these various challenges, all local authorities are characterised by operational challenges with respect to water service (Table 2). Although the average property level coverage with direct water supply among all the urban local authorities is at 81%, continuity of water supply is on average 12.1 hours per day. What is also worrying is that non-revenue water is very high at about 43%. Non-revenue water can be defined as water that has been produced but is lost before it has been consumed or utilised due leakages or theft and metering inaccuracies[7]. Since only 57% of the water end up being billed, revenue from water delivered is generally not sufficient to enable the recovery of water related cost build ups, especially given the low rate of water charges collection. Addressing non-revenue water is therefore important.

Failure to control non-revenue water can be a result of about five different reasons (Baghirathan & Parker, 2017) which include:

- Failure to understand the problem (magnitude, sources, costs);
- Lack of capacity (insufficient trained staff);
- Inadequate funding to replace infrastructure (e.g. pipes, meters);
- Lack of management commitment; and
- Weak enabling environment and performance incentives

Results from the engagements with local authorities as well as what can be deduced from the SLB Survey results, indicate that inadequate funding to replace infrastructure would be the primary reason. However, lack of capacity due to the macroeconomic challenges induced brain drain which saw engineers leaving could explain why non-revenue water continues to be a problem.

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[6] Interview with Bindura Town Clerk

[7] https://blogs.worldbank.org/water/what-non-revenue-water-how-can-we-reduce-it-better-water-service

Only 44.3% of the charges related to water supply was being collected (Table 2), which also reflects an accumulation of debt by water users. Most local authority point out to the fact that they are being incapacitated by the huge debts which residents, business as well as national state institutions (including government Ministries and departments) owe local authorities for delivered water. While local authorities are still pursuing legal methods to recover debt with business entities, they are reluctant to do the same for residents. Interviews with local authorities reveal that the attitude towards paying by users was affected by the Government's 2013 directive, where all local authorities were ordered to write off part of the residents' debt as a way of cushioning residents from the debt obligations. This allegation by local authorities generally makes sense, as the directive created moral hazard behaviour, where residents that were up to date began to develop a cold attitude, believing that a similar directive can be issued in future. The moral hazard behaviour could have been countered if the directive had only focused on debts that had accumulated from the pre-multicurrency era and had been 'dollarised' after January 2009', or only the part of debt that had become uncollectable despite Council attempts at using discounts, incentives and debt collectors.

Maintenance of infrastructure was too low to increase asset lifespan at only 4.2%. This meant that only 4.2% of all expenses incurred in water supply were utilised as maintenance related expenses.

Table 2: Performance measure averages for local authorities for water service

	2012 Score	2017 Score	Benchmark
Property level coverage of direct water supply	77.8%	81%	100%
Extent of metering of water connections[8]	86.1%	89.3%	100%
Extent of non-revenue water	37.8%	43%	25%
Continuity of water supply	12.1 hrs.	12.1 hrs.	24 hrs.
Efficiency in collection of water supply related charges	51.5%	44.3%	75%
Maintenance coverage ratio	3.8%	4.2%	20%

Source: Service Level Benchmarking Coordination Committee (2019)

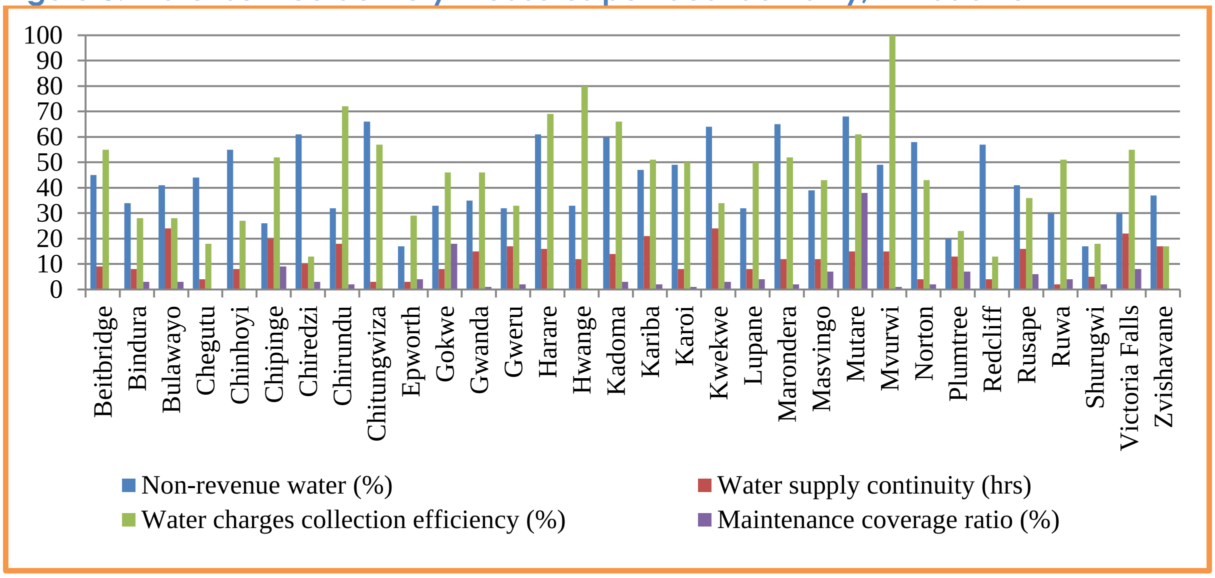
A comparison with 2012 scores shows that there have not been many improvements over the past five years. Some improvements can be noted with respect to water connections to properties, as property level coverage with direct water supply increased by 3.2 percentage points in 2017. The number of water connections that are metered also improved by 3.2 percentage points, while a small improvement is also apparent with respect to maintenance of water supply infrastructure. However,

[8] This is an average for 30 local authorities excluding Mvurwi and Gwanda whose data had errors

there are areas where the performance for local authorities had actually worsened in 2017 compared to 2012. For example, the extent of non-revenue water worsened to 43% from 37.8% while the efficiency in water charges collection worsened from just above half to 44.3%. This generally shows that unless measures are introduced, the water problems would be bound to worsen, which would not be conducive to supporting the envisaged economic growth trajectory.

In terms of performance by local authority, it can be established that there is more water that is lost than what remains to be billed in a number of local authorities (Figure 2). Mutare leads in terms of losses with about 68% of the water being lost followed by Chitungwiza (66%), Marondera (65%), Kwekwe (64%), Harare and Chiredzi (61%). The benchmark used is 25%, which implies that only Epworth (17%), Shurugwi (17%), Plumtree (20%) and to some extent Chipinge (26%) can be regarded as trying their best to avoid water losses. Given that water is important as a growth driver, the limitations in water management also serve as a threat towards economic growth and development in Zimbabwe. This also implies that enhancing the capacity for water provision and management for local authorities should be a priority for them to be able to live up to expectations in delivering their mandate as per devolution objectives.

Figure 3: Water service delivery measures per local authority, Zimbabwe



Source: Service Level Benchmarking Coordination Committee (2019)

What is also worrying is the low level at which water infrastructure is being maintained. Maintenance is important to enhance the lifespan of the water infrastructure. Very little maintenance is taking place, with Mutare, whose maintenance coverage ratio is about 38% being the highest, followed by Gokwe at 18%. None of the urban councils has a maintenance coverage ratio of even 10%. This does not augur well with the expectations placed on local authorities in enhancing growth and sustainability under devolution.

Given the vicious cycle where the water supply challenges are a result of poor infrastructure which is not being maintained due to a poor water revenue collection capacity and non-payment by residents, there is need for a wholesome solution in addressing this problem. Measures include both demand side management as well as supply side management. On the demand side management, there is need to enhance accountability so that treated water is accounted for, especially through billing accuracy and inculcating a culture of payment for water usage. This can be done by a well-managed prepaid water system.

Although the use of prepaid water systems is still receiving divided opinions from technical as well as humanitarian grounds, a well-managed system can be mutually beneficial to both households and the utility providers. For customers, this enables them to directly manage their accounts and save them from the risks of inaccurate and high bills, debt and disconnection and reliance on intermediaries[9]. For the providers, prepaid water systems ensure that they are saved from transaction costs in connecting and disconnecting customers, get assured of water revenue commensurate with usage, as well as an assurance that efficient water management cultures among users are practiced.

However, using a case study of eight different African cities (Kampala, Lusaka, Maputo, Maseru, Mogale City, Nakuru, Nairobi, and Windhoek), Heymans, Eales and Franceys (2014) establish that prepaid water meters can only work if the local authorities are adequately capacitated in several aspects. The integration of revenue management systems, data systems and advanced information technology would need to be in place, while communication and accountability to customers would need to improve. In particular, prepaid water systems would require adequate functional and accessible purchase points and options to ensure that consumers are not unnecessarily disadvantaged. In addition, the system requires close monitoring with a rapid response capability when problems develop; with a strong customer focus to ensure customers' service needs are prioritised (Heymans, Eales, & Franceys, 2014).

This therefore implies that only local authorities that have sound water management systems would see the benefits from prepaid water systems. This would also imply that most of the local authorities in Zimbabwe might not enjoy success if they embark on prepaid water system when their present water supply capacity is in its current form. Local authorities should thus start investing in these qualities which facilitate prepaid water systems as a roadmap towards prepaid water meter system adoption. This also includes the embracing of sound ICT systems and a proper database of properties and their owners. As the current situation stands out, prepaid water system adoption at a time when financial capacities are still weak (the technology required is relatively expensive), financial management are poor and record management services are weak, will only disadvantage consumers who would have paid for the service but continue to go without water. A situation where the system is embraced but consumers fail to get water even when they are fully paid up due to the various technical glitches would be equivalent to local authorities having 'borrowed' from the consumers at no interest. This generally is the main counter-argument against prepaid water systems within the developing country context, which also apply to Zimbabwe.

On the supply side, adequate infrastructure for water supply actually now goes beyond the capacity of the local authorities. This would require carefully managed partnerships, including investment attraction from the private sector for the services.

[9] https://blogs.worldbank.org/water/lessons-field-prepaid-water-urban-africa accessed 27 September 2019

However, investment attraction into the local authorities in general is also dependent on a number of factors, discussed in section 4 of this report.

2.2 Wastewater Management

The Urban Councils Act and the Regional Town and Country Planning Act [Chapter 29.6] provide that all households should have an acceptable sanitation system before they can be issued with an occupation certificate to effectively manage wastewater (Chirisa, Bandauko, Matamanda, & Mandisvika, 2017). However, due to challenges of maintaining wastewater infrastructure as well as informal settlements, it is now common for water that is churned from households and industries to re-enter the water courses before being adequately treated. In 2018, it was estimated that about US$92.2 million worth of investment would be needed to address challenges in wastewater management (Urban Councils Association of Zimbabwe, 2018). In addition to maintenance issues, the expanding population, which exceeds the installed capacity of the wastewater infrastructure, can also be attributed to the resultant challenges in wastewater management. For example, in 2016, it was reported that the wastewater treatment system that was existing in Harare had been originally designed for only 250,000 people, which was only about a tenth of the actual city's population (Chirisa, Bandauko, Matamanda, & Mandisvika, 2017). As a result, the system was failing to cope with about 60 million litres of sewage that was being generated daily, resulting in large volumes of inadequately treated wastewater being discharged to rivers. In Masvingo, it is estimated that the current water supply infrastructure was designed for about 50,000 people, when the population now exceeds 100,000 people[10].

This is also confirmed by Service Level Benchmarking Coordination Committee (2019), which established that about 14.2% of the toilets were not functional in the local authorities. This was an improvement compared to 2012, given that in 2012 about 18.7% of toilets in urban councils were not functional. The sewerage network coverage was 75.3% in 2017, having improved from 68.9% in 2012. The improvements in sewer infrastructure can be attributed to the activities of development partners, especially under the Zimbabwe Multi-Donor Trust Fund (ZimFund)[11].

In situations where some local authorities have managed to establish up to date sewer treatment infrastructure, these continue to operate at excess sewer treatment capacity. This underutilised excess capacity can be attributed low water supply and the collapse of the sewer reticulation infrastructure, which leaves low volumes of sewage reaching the treatment plants. Given the high costs of acquiring the facilities, excess underutilised capacity does not offer return on investment. Thus, sewer treatment facilities' efficiency is at times hampered by other challenges beyond wastewater management.

Despite limited water supplies, there is very minimal waste water recycling taking place. Only about 8.1% of wastewater is recycled, slightly below the benchmark value of 10%. This was, however, a marked improvement compared to a value of only 2.9% in 2012.

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[10] Interview results with Masvingo City Council

[11] See section 3 on Overseas Development Assistance (ODA)

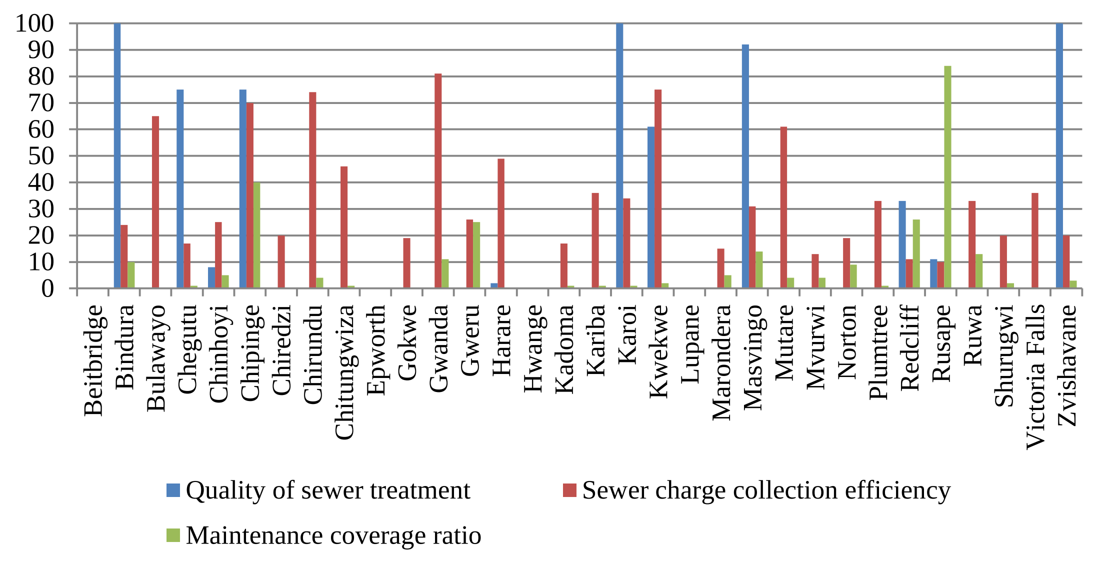
On average, only about 20.5% of the total wastewater infrastructure across all the urban local authorities can be regarded as being of high quality. Although this is well below the benchmark of 100%, there is a significant improvement compared to a level of only 4.3% in 2012. Only about 8% of the wastewater infrastructure is being maintained, which is almost half the benchmark value. However, there is an improvement compared to the 2012 level of only 2.7%. The sewer charge collection efficiency can be estimated at an average of 30.6% across all the local authorities. This implies that about 79 cents out of every dollar that is supposed to be collected to sustain wastewater infrastructure is being borrowed by users at no cost, leaving local authorities with unsustainably low budgets for wastewater management. To make matters worse, the sewer charge collection efficiency has declined compared to 2012, as it was about 42.4%. This means that over a five year period, local authorities have lost about 11.8 percentage points in terms of their collection efficiency, which also does not augur well with the economic growth enhancing objectives of government.

Interviews reveal that the poor collection efficiency is due to lack of competent revenue accountants due to limited capacity building on revenue collection. This is also exacerbated by flawed recruitment criteria, where experience and expertise in collection is not prioritised. There is need for capacity building for revenue collection and management in local authorities to be prioritised, as this is affecting response to infrastructure challenges.

In terms of individual local authority performance, only three urban councils; Bindura, Karoi and Zvishavane have sewer treatment plants whose quality meet the international benchmark of 100% (Figure 3). Masvingo (92%) is fairly close to the benchmark while Chegutu (75%), Chipinge (75%) and Kwekwe (61%) at least exceed the midpoint of the benchmark. The rest of the local authorities all struggle with respect to the quality of their sewer treatment facilities.

Despite the implication on revenue positions, many local authorities are also characterised by poor efficiency in collecting sewer charges. Only Gwanda (81%) and Kwekwe (75%) meet the international benchmark of 75% which is considered necessary for viability. Other urban councils that are fairly close to the benchmark include Chirundu (74%), Chipinge (70%) and Bulawayo (65%) are relatively closer to the international benchmark compared to the rest. The situation is also worsened by poor maintenance record of wastewater infrastructure. Only Rusape (84%), Chipinge (40%), Redcliff (26%) and Gweru (25%) exceed the benchmark of 15% in terms of maintenance coverage ratio. The poor performance of the local authorities also has some implications in facilitating national economic growth.

Figure 4: Sewer treatment performance across local authorities, Zimbabwe



2.3 Road and public safety

The Zimbabwe road network is about 88, 318km, out of which about 8,240km or about 9% of the total national roadwork[12], is under the management of urban councils. Urban councils are part of the four 'road authorities'[13] which access funding from the Zimbabwe National Roads Authority (ZINARA). ZINARA manages the Road Fund Account through which it allocates funding to deserving authorities to construct, maintain and rehabilitate road networks falling within their jurisdiction in line with a road program that would have been approved by ZINARA.

The current state of roads across most urban councils in Zimbabwe is however very poor. Only 52% of road in urban councils are sealed[14], while only 21.2% of the sealed roads are in good condition. Only 10% of roads in urban councils have carriage markings, while only 16.9% have controlled intersections (Service Level Benchmarking Coordination Committee, 2019). In addition, there is still need to ensure that all urban settlements have access to raods. The average national coverage of road network in urban councils can be estimated at about 63.1%, implying that more than 36% of settlements do not have road networks (Service Level Benchmarking Coordination Committee, 2019). This generally shows that there are two worrying developments with respect to road infrastructure. First, the road infrastructure in local authorities is poor, which does not augur well with an economy trying to achieve sustained economic growth. Second, the coverage of the road network still needs to be enhanced to ensure that all potential areas that need to be streamlined into the growth-enhancement policy matrix are accessible.

In terms of distribution across the 32 local authorities, it can be established that only Beitbridge and Kwekwe have a road network coverage of 100%, which meets the benchmarks (Figure 4). This means that all the areas falling under their jurisdiction are covered by roads. However, Chinhoyi (97%), Norton (96%), Chirundu (93%), Kadoma

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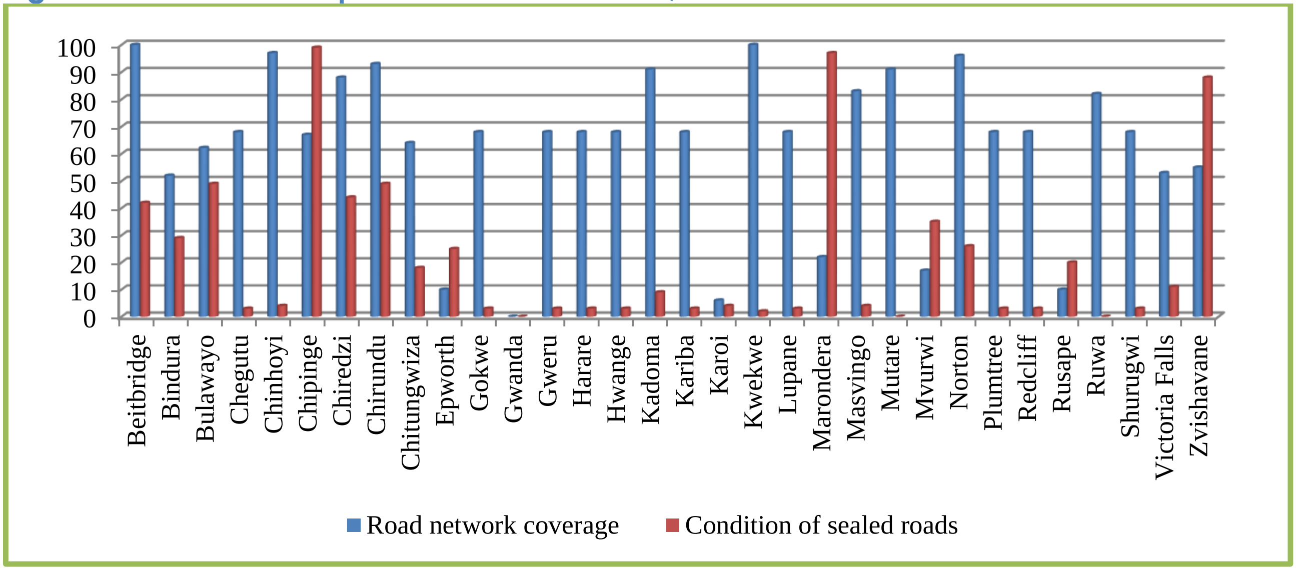
[12] ZINARA at its website https://www.zinara.co.zw/includes/who-we-fund.php accessed 17 May 2019

[13] These are Department of Roads, District Development Fund (DDF), Rural District Council and Urban Councils (UCs)

[14] Sealed roads are constructed road surfaces which are made with permanent material such as tar, bitumen, or concrete

(91%) and Mutare (91%) also have wide road networks which almost cover their entire jurisdictions. However, some local authorities still have a long way to go as far as ensuring that their areas are covered by an adequate road network is concerned. These include Gwanda, Karoi, Rusape, Epworth and Marondera. It will be difficult to harness growth and development in those areas that are not covered by a road network.

Figure 5: Road network performance measures, Zimbabwe



In addition, only three local authorities, Chipinge, Marondera and Zvishavane have a significant proportion of their sealed road network that is still in good condition at 99%, 97% and 88% of the total sealed roads respectively. The rest of the local authorities have road networks that are characterised by poor conditions, which do not facilitate growth and development. In particular, the situation is so bad in Gwanda, Mutare and Ruwa where none of the sealed roads are still in good condition. However, about 17 urban local authorities have a road network where less than 5% of it is in good condition. These are also factors to militate against recovery and growth.

The implication from this discussion is that the capacity of local authorities would need to be enhanced if they are to perform a meaningful role in sustaining the envisaged growth trajectory towards Vision 2030.

3. REVENUE BASES FOR LOCAL AUTHORITIES

Given the expected roles for local authorities under devolution, it is also critical to ensure that they are able to leverage on their revenue bases rather than relying only on the Intergovernmental Fiscal Transfer. There are a number of possible revenue sources for local authorities, but these can be classified into about seven categories as follows:

Property Tax

In Zimbabwe, property tax is levied under section 272 of the Urban Councils Act. Generally, property tax is levied based on the value of the property owned by both households and businesses, which includes land, residential constructions and industrial constructions (Zhou & Chilunjika, 2013). The property tax is charged by the local authorities under whose jurisdiction the property falls, with adjustments being made in consultation with the rate payers with the approval of the Minister.

User Charges
User charges are set by the local authorities on residents for the various services which are provided by the local authority in line with section 219 of the Urban Councils Act. These are charges per unit of output consumed or utilised by residents, and these include service fees such as vehicle registration fees, parking fees and marriage licence fees. These also includes user fees on refuse collection, water, electricity (where applicable), health and education as well as revenues from rentals from local authority properties (Zhou & Chilunjika, 2013).

License Fees
Licence fees refer to charges imposed by the local authorities to enable owners of property and businesses to conduct a service. While some of the licences are charged under section 219 of the Urban Councils Act, the legal provision for imposing them also extend to the Liquor Act [*Chapter 14:14*], the Traditional Beer Act [*Chapter 14:26*] and the Shop Licences Act [*Chapter 14:19*]. For citizens to operate motor vehicles, general dealer shops, beer halls and bottle stores they need to obtain a licence from the local authority under whose jurisdiction the service will be performed. These fees generally are intended to be utilised to meet the costs of monitoring the services being performed. In addition, while councils might derive some revenues from the services, there are other complimentary institutions which play a role. For example, the responsibility to issue a liquor licence rests with the Liquor Licensing Board.

Income Generating Projects
Section 221 of the Urban Councils Act allows local authorities to engage in income generating projects, subject to approval by the Minister as well as any terms and conditions which the Minister might impose. Local authorities are allowed to engage in commercial activities, including in industrial and agriculture related activities whose purpose is to raise additional revenue for the local authority. This implies that local authorities can leverage on any opportunities in terms of resource endowment which can be profitably exploited, either in partnership with other private investors or in their own capacities.

Intergovernmental Transfers
Local authorities rely heavily on capital transfers from the central government to finance infrastructure projects. In Zimbabwe this is done through the National Budget under the PSIP as well as other grant projects. The PSIP is a Fund that was created by government to be the main avenue for financing all infrastructure projects in Zimbabwe. The PSIP window provides for funding infrastructure to enable the provision of the majority of key services such as basic roads, water, communication and wastewater management. In addition, other grant programmes to local authorities from the government facilitate the provision of health, education, and agriculture support services done through local authorities. While some of these projects were implemented by dedicated government agencies such as ZINWA and ZINARA,

a significant portion of the projects were implemented by local authorities. Following the adoption of the Constitution in 2013, intergovernmental transfers will now be done as part of the process of devolution. Under Section 301 of the Constitution, Intergovernmental Fiscal Transfers would be made from central to provincial and local tiers of Government as part of a constitutional obligation to ensure that local authorities also receive their share of national revenues. The Constitution also stipulates the minimum amount that can be transferred to local government institutions; Section 301 (3) provides for not less than 5% of the national revenues raised in any financial year to be allocated to the provinces and local authorities.

Borrowing
Local authorities can also borrow in order to enhance their revenue capacity. Under section 291 of the Urban Councils Act, borrowing is mainly provided for within the short term through bank overdrafts and short term loans. However, such borrowing should only be for temporary financial accommodation with the money to be borrowed not allowed to exceed the aggregate of the income of the local authority in the preceding year. In addition, borrowing is not allowed to be for financing capital expenditure unless a borrowing power for the particular transaction has been obtained.

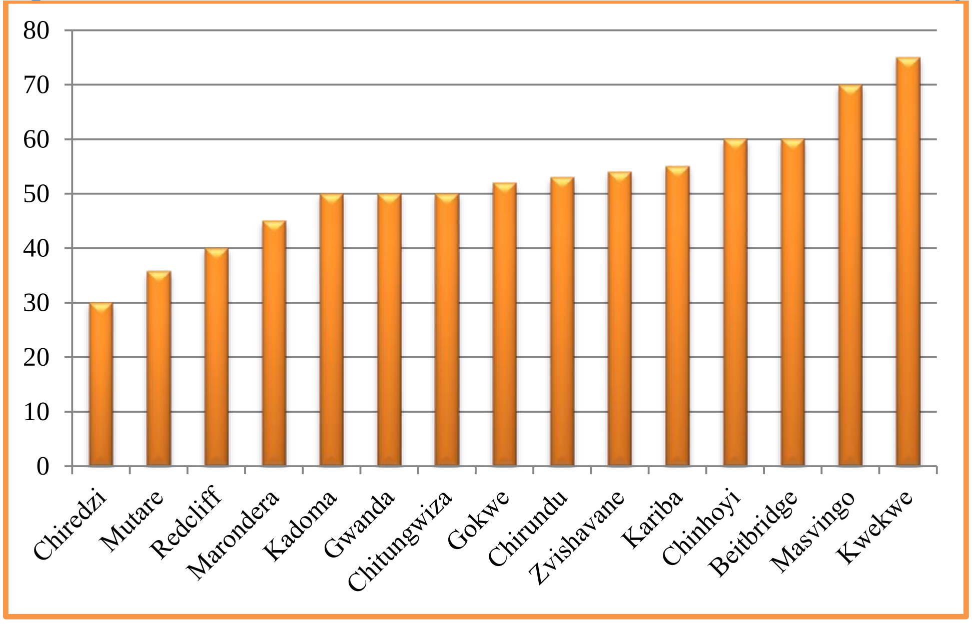
Overseas Development Assistance (ODA)
ODA can be defined as government aid, which can be either in the form of a grant or a soft loan that promotes and targets economic development and welfare of developing countries[15]. Local authorities in Zimbabwe have benefited from ODA financing, but this has mainly been concentrated on humanitarian work in response to natural disasters, especially disease outbreaks such as cholera and typhoid. Thus, the area of water and sanitation would tend to dominate in terms of ODA support to local authorities. This includes the Zimbabwe Multi-Donor Trust Fund (ZimFund), established in 2010 and managed by the African Development Bank. ZimFund was focusing on infrastructure investment in water and sanitation as well as energy. Projects under ZimFund were funded to a total of about US$145 million (African Development Bank, 2018), with the 'Urgent Water Supply and Sanitation Rehabilitation Project (UWSSRP)' benefiting six municipalities (Harare, Chitungwiza, Mutare, Chegutu, Kwekwe and Masvingo) while Phase II was to focus on four municipalities (Chitungwiza, Harare, Ruwa and Redcliff).

These seven possible revenue sources can thus be described as the main revenue sources for local authorities. The revenue bases are mainly dependent on the financial stability of the rate payers in each local authority area as well as viability of the businesses operating in the areas. In addition, relations with development partners as well as the structure of the local authority balance sheets also determine the ability to attract ODA and borrowings respectively. The ability to institute measures to collect revenues is also important in determining viability of the local authorities. Thus, factors within the control of local authorities as well as those beyond local authorities are at play as far as the ability to collect revenue is concerned.

[15] OECD (2018), 'What is ODA?', an online article at website http://www.oecd.org/dac/stats/What-is-ODA.pdf

Although not representative of all local authorities, the results from 15 local authorities can be indicative about how revenue streams vary among the local authorities. Generally all of the 15 local authorities have a low revenue collection capacity (Figure 5). Revenue collection capacity in this case simply refers to the ability of the local authority to collect what it is owed. Section 44 of the Public Finance Management Act requires accounting authorities for public entities to take effective steps to collect all revenue due to the public entity concerned. This implies that all local authorities that fail to collect 100% of billed revenue, probably with a variance of +/- 5% would have failed to meet the set benchmark. Out of the 15 local authorities, Kwekwe and Masvingo generally stand out, as they are able to collect about 75% and 70% respectively of what they are owed by the residents. While the rest of the local authorities except Chiredzi, Redcliff and Marondera are at least above 50%, the findings generally help explain why local authorities continue to face challenges in financing service delivery. For example, the average collection capacity for all the 15 local authorities is about 52%. This means that for every dollar that local authorities earn in revenue, about 48 cents is indirectly borrowed by residents and businesses for their own use, without any payment plans for the loans. Indeed the average debt accumulation per annum among the 15 local authorities is about $14.1 million, which would go a long way in financing infrastructure projects if it had been collected.

Figure 6: Zimbabwe local authorities' current revenue collection capacity (%)

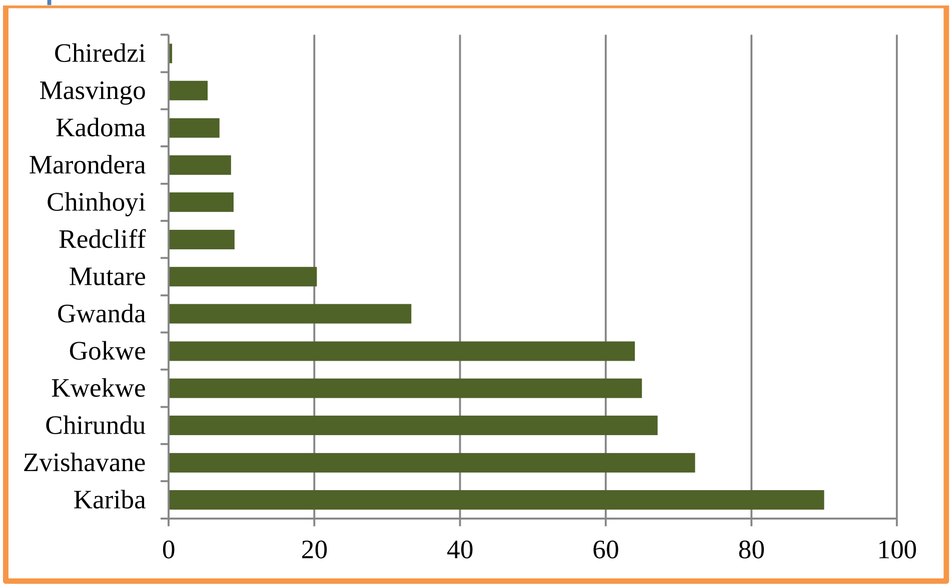


Source: Interview results

Local authorities were asked to give an estimate of the total financial resources that they would require to perform the services that they consider optimal in relation to their mandate. This estimate from local authorities can be used to calculate the gap between current collection and ideal. The results from the 15 local authorities show that the uncollected revenues among the 15 local authorities would cover about 35% of their estimated total requirements. The imminent assured intergovernmental transfers would have enabled local authorities to improve service delivery more if it had come at a time when they were able to collect what is owed to them. If this collection handicap continues, the impact of the intergovernmental transfer would continue to be minimal. This implies that revenue collection strategies are indeed important. More importantly, the billing systems used should be able to capture the realities of each property to avoid discouraging payment. For example, including charges for services which they will never be able to provide, such as putting a sewerage charge on a property that is using a septic tank, or a water charge to a property which is not connected to any local authority water supply, would see residents not paying, even if refuse or other services are also rightly part of the bill.

While the average among the 15 local authorities is about 35%, a look across local authorities individually generally shows that the amount owed will not be able to meet the needs for service delivery in Masvingo, Kadoma, Marondera, Chinhoyi and Redcliff (Figure 6). However, some local authorities such as Kariba, Zvishavane and Chirundu will be able to finance their requirements to a material degree by simply collecting what residents and businesses currently owe them. This therefore implies that local authorities should invest in revenue collection strategies as a matter of urgency.

Figure 7: Amount owed to local authority as a percentage of total infrastructure requirements



Source: Interview results

However, interviews with local authorities show that revenue collection is not easy. There are a number of reasons as to why ratepayers are not paying their rates. This includes unwillingness to pay, inability to pay as well as a general perception that local authorities provide free services for which payment should not be a priority by residents. The 2013 Ministerial directive where local authorities were ordered to write off residents' debt is attributed for the latter, as residents expect a similar directive to be issued in future. Thus, local authorities would prefer to embark on an intensive debt collection exercise when the need to pay is also appreciated.

In addition, ratepayers might not pay as a sign of protest against poor service delivery. Where access to water is very low, sewer services are in poor state and refuse is not being collected, it is difficult for residents to appreciate the need to pay their rates. Thus, while local authorities can engage in a debt collection exercise, the residents might continue to accumulate new debts even if they pay their existing debts through a court process. The 'Fiscal Psychology Theory' demonstrates that taxpayer's perception of the government is an important factor in influencing their decision to pay. The taxpayer loses motivation for paying taxes if there is no perceived advantage or benefits of tax payments (Damayanti, Sutrisno, Subekti, & Baridwan, 2015). There is therefore need for local authorities to commit themselves to ensuring that service delivery improves as residents begin to pay outstanding debt.

Local authorities are empowered by the country's laws to engage in legal processes to recover what is owed to them. Many local authorities still believe that the 2013 government directive came at a huge cost to them, as there was still some opportunity to recover some of the debt which government ordered to have it written off. This left local authorities in a worse off position in terms of finance capacity. Moreover, the historical debt was mainly US$ denominated and could have enhanced the local authorities' capacity to procure many consumables. However, following the currency reforms in February 2019, the debt was converted into local currency at an exchange rate of 1:1, which effectively reduced what residents owed to local authorities. Thus, if the capacity to collect had been enhanced earlier, the local authorities would have been able to effectively collect more than what they can collect at the moment. In addition, given that local authorities had already done their budget in US$, they could have benefited if they had been allowed to tie revenues to movements in the exchange rates. Thus, the impact of the currency reform measures instituted in 2019 was mainly negative from the point of view of local authorities, hence measures from the fiscal authorities to bail them out are justifiable in this respect.

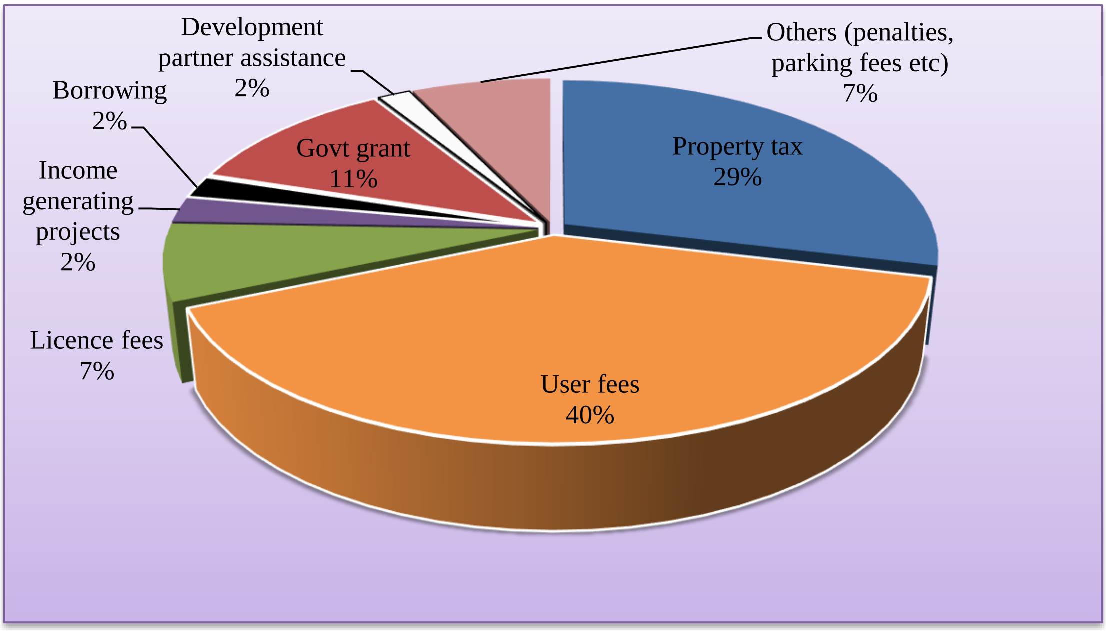
Local authorities are still making attempts at engaging debt collectors to recover what is owed to them. However, there was serious resistance from the residents, amid indications that there are no regulations governing the operations of debt collectors, as this route is not provided for in the Urban Councils Act. Interviews with local authorities generally reveal that the political will to undertake litigation exercises is lacking among the local authorities as well as government, as they could easily lose popularity. While there are some residents who are defaulting but have the capacity to do so, there are also some residents who are incapacitated due to the prevailing economic environment. Thus, government also considers subjecting them to litigation as not in line with the government's welfare enhancing objectives.

Given the precarious state of infrastructure at the moment, there is need for local authorities to prioritise the legal route, especially given that the recoveries would go a long way in enhancing service delivery. Government can institute other measures of protecting the vulnerable that are not able to meet their dues, but as per rules of natural justice, residents should pay for service delivery to ensure that they have continued access to the services. Thus, central government should be sensitive to the plight of local authorities and allow them to recover what they are owed from those that have the means to pay but are currently not willing to pay. Interviews also revealed that political polarisation is also one of the reasons for residents' unwillingness to pay for services. Generally, those who do not support the political party in control of the local authority would have a negative attitude towards the local authority, to such an extent that they would regard withholding payment as a form of punishment. Only legal processes to recover debts would see such unwilling residents paying up.

The general implication is that the revenue base and capacity for local authorities are currently lower than potential. It is important to ensure that the current revenue base is exploited in full while alternative revenue sources are also being sought after.

However, the extent to which the local authorities can diversify their revenue bases is important in determining revenue sustainability. A look at 14 local authorities[16] generally shows that there is a high dependence on user fees as the main source of revenues given that on average, about 40% of the revenues from the local authorities are from user fees (Figure 7). The local authorities were asked to identify their main revenue sources and give an estimate of the percentage that each revenue source contributes towards total revenues. The average across the local authorities was then used as the basis in this analysis. The local authorities also rely heavily on property tax (29%), which implies that about 69% of local authority revenues depend on residents and businesses' willingness to pay. Thus, unless the relationship between local authorities and the residents improve, local authorities will continue to suffer in terms of financing capacities.

Figure 8: Average contribution of revenue sources to local authorities' total budget



Source: Results from the questionnaires

Interviews reveal that there are a number of challenges with respect to boosting property tax revenues. Given that the number of properties continues to grow, property tax is a sustainable source of revenue. The most glaring is the failure by local authorities to have an up to date property valuation roll. In addition, the tariff or rental determination models are outdated, resulting in most local authority properties rentals being well below the levels comparable to the market value of the properties. These challenges need to be addressed to boost the revenue generation capacity of local authorities.

As expected, government grants constituted only 11% of the revenue sources (Figure 8). This mainly reflected fiscal space constraints on the part of central government, calling for local authorities to rely on other revenue sources. However, in line with the devolution constitutional provision, government grants are expected to increase going forward, calling for local authorities to prioritise complying with the requirements for accessing the intergovernmental fiscal transfer facility under devolution. As already indicated, there is a potential for government grants and transfers to crowd

[16] There was no data for Beitbridge

out other revenue sources, especially if the resources are considered significant enough. There is need for local authorities to ensure that transfers from central government are used to crowd in other revenue sources, for example by funding some challenges which hamper revenue collection. Examples include updating property registers, investing in tariff determination model knowledge as well as putting in place infrastructure which motivates residents to pay their dues.

The results also show that despite being allowed by the Act to engage in income generating projects, local authorities do not generate significant revenues from such projects (only 2%). Income generating activities can serve as a sustainable source of revenue, given that these activities would be self-sustaining and be able to adapt to macroeconomic challenges. For example, prices can be adjusted upwards depending on the general inflationary trajectory. This demonstrates where efforts should be extended more, especially given the investment opportunities in local authorities. These opportunities are discussed in see section 4 of this report. There is need to ensure that more efforts are extended towards identifying possible income generating projects to sustain some local authority operations. This might call for a dedicated business unit under local authorities, whose focus is simply to identify possible income generating projects to embark on. Resources from income generating projects would go a long way in augmenting the limited resources that local authorities currently have.

Based on the interview results, borrowing only constitutes about 2% of the revenues for the 15 local authorities (Figure 8). Although local authorities have taken out loans to fund various projects in the past leveraging on collections from rates and utility charges, borrowing has been affected by a number of constraints over the years. First, the ability of local authorities to raise loans in the international market is constrained by the high country risk, which results in a high country risk premium being given on the loans. Secondly, country isolation makes it difficult to gain access to international finance. Third, in line with the Urban Councils Act, borrowing is now restricted to short term when local authorities would generally want to borrow to finance capital projects, whose return in long term. Thus, short term borrowing becomes difficult as the projects financed by the borrowed resources would not be able to finance the loan repayment. Fourth, local authorities have huge debts and their balance sheets are currently not attractive enough to attract loans. An improvement in the balance sheets is necessary to unlock loans. Key in improving the balance sheet is viability, which calls for methods of enhancing residents and businesses' willingness to pay for services rendered by local authorities.

There is scope to increase license fees, especially if strategies to attract investment in local authorities are explored. Currently, the revenues from license fees are low at 7% of total revenues (Figure 8), generally reflecting the low economic activity due to the general macroeconomic environment. Given that the general economic growth is envisaged at -6.5% for 2019[17], there are limited expectations in expanding license fees, unless local authorities increase their efforts to attract more investment into their areas.

There is also not much support coming from development partners. Support from development partners has mainly been concentrated on capacity enhancement in the area of water and sanitation, including support for infrastructure. In 2019 for

[17] As reported in the Budget Strategy Paper prepared by the Ministry of Finance and Economic Development in preparation for the 2020 National Budget

example, the Ministry of Finance and Economic Development acknowledged that Harare and Redcliff local authorities are expected to benefit from US$4 million under the Zim-Fund Phase 2 project for outstanding pumping water and sewerage systems. In addition, Bulawayo local authority is also scheduled to benefit from a disbursement from the African Development Bank amounting to US$10 million for rehabilitation of outfall sewers, waste water treatment plants, Cowdry Park community sewerage network, as well as improving public toilets (Ministry of Finance and Economic Development, 2018). However, since development partner assistance is not regular and only comes occasionally, it constitutes only about 2% of total revenue sources for the 15 local authorities (Figure 8). In addition, local authorities have also failed to leverage on donor support for some projects, mainly due to the fact that development partners at times tend to bring everything with little knowledge diffusion to the local authorities to enable maintenance and repairs of the infrastructure. It is important to ensure that there is a strong capacity building element in infrastructure projects financed through development partner support.

A comparison with other countries in the region shows that the dependence on user fees is also the case with South Africa. In South Africa, revenue sources for the different municipalities are highly dependent on user fees[18]. These constitute about 48.3% (electricity (30.2%), refuse (3.1%), sewer (4.2%), and water (10.8%)) of the total revenue. However, unlike Zimbabwe, government grants and subsidies are significant as these come second at 23.5% of total revenue. Property tax contributes about 19%, well below Zimbabwe which relies about 30% on property taxes[19].

In Malawi, property tax is the main revenue source for City Councils, accounting for between 40 and 50% of total revenues while only about 20% of their total revenues are from government transfer (World Bank, 2017). This generally shows that dependence on property tax as a revenue source can be sustainable if the collection efficiency is high. Property tax also constitutes significant source of revenue in Kenya, especially Nairobi local authority, which relies about 27% of revenue from property taxes (Mutua & Wamalwa, 2017). However, it is mainly license fees which constitute about 30% of total revenue that is the primary revenue source for Nairobi. Unlike Zimbabwe, income generating activities constitute about 11% of total revenues in Nairobi, which also underlines the need for innovation on the part of Zimbabwe local authorities to reduce reliance on user fees (Mutua & Wamalwa, 2017).

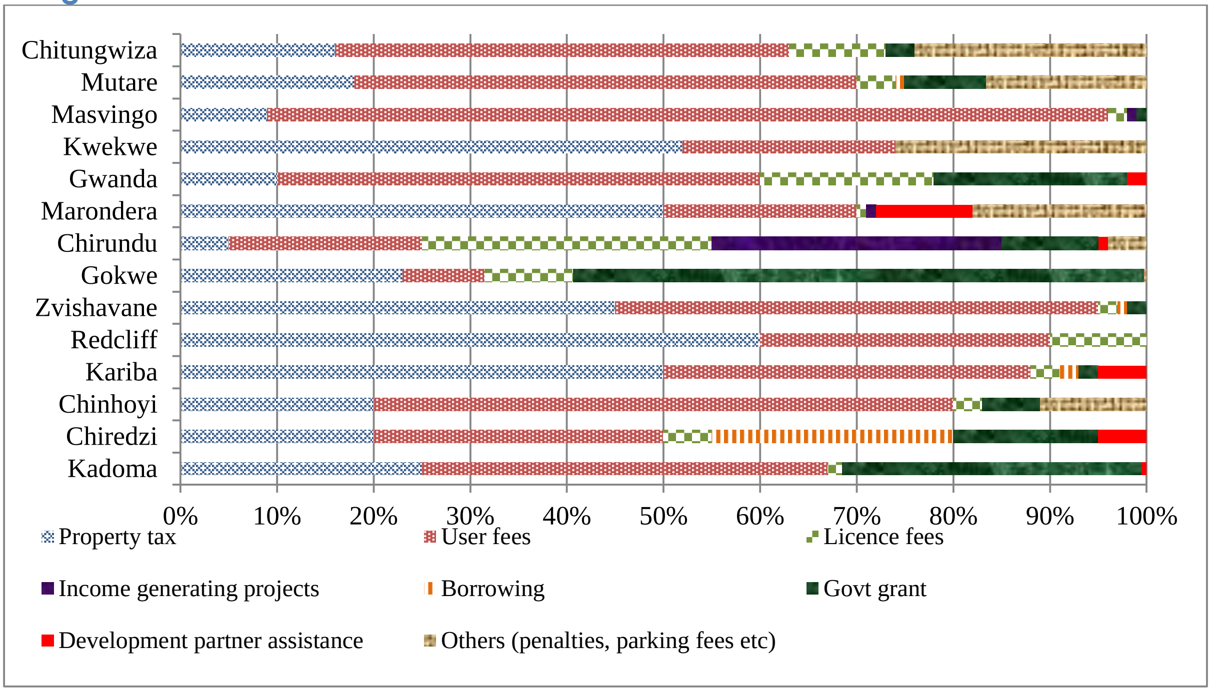
In general, it is necessary for local authorities to have a diversified revenue base, to cushion themselves against economic shocks. However, a look at the distribution of revenue sources across the 14 local authorities (Figure 9) reflects that some local authorities are very vulnerable to shocks, given overreliance on one revenue source. Masvingo, for example is mainly dependent on user fees, where about 87% of revenue comes from, at a time when residents are not fully honouring their obligations. User fees also form the bulk of revenue source for Chinhoyi (60%), Mutare (52%), Gwanda (50%) and Zvishavane (50%). Gokwe is the only local authority where government grants, which account for about 59% of its revenue, are the main source of revenue. Property taxes constitute the bulk of revenues in Redcliff (60%), Kwekwe (52%), Marondera (50%) and Kariba (50%). Only Chirundu has some significant resources from income generating projects (30%) while Chiredzi is the only local authority which

[18] Stats SA, an update to municipal spending and revenue (June 2018) at website http://www.statssa.gov.za/?p=11600, accessed 24 July 2019

[19] Ibid

has managed to get significant resources from borrowing (25%). Chirundu, Chiredzi, Marondera and also Gwanda and to some extent, Kariba and Mutare, can be regarded as examples of local authorities with relatively diversified revenue bases. They are thus not too susceptible to shocks compared to other local authorities.

Figure 9: Contribution of different revenue sources towards local authorities' total budget



Source: Interview results

4. ATTRACTING INVESTMENT INTO LOCAL AUTHORITIES

Although local authorities are struggling to attract private sector investment, there are some opportunities which private investors could exploit in local authorities. Local authorities indicated that there is a lot of scope for private investors to partner local authorities in the waste recycling industry. All local authorities currently collect waste, which is not adequately recycled. However, recycling companies can take advantage of the waste and partner local authorities in waste recycling. The waste recycling industry globally is estimated to grow to $376.9 billion in 2019, growing from $354.7 billion in 2018 in revenue[20]. The industry is thus growing rapidly, giving opportunities for local authorities and private investors to tap into the global waste industry value chain. It is therefore important for private investors in the recycling industry to start exploring opportunities among all the local authorities to determine the business case of such an initiative. Local authorities have already identified the converting of waste to energy as an investment opportunity worth pursuing with different private sector players (Urban Councils Association of Zimbabwe, 2018).

In addition, a number of local authorities, which include Harare, Gweru, Mutare and Bulawayo, used to run profitable breweries. However, due to mismanagement and governance challenges, all the breweries ended up being loss making enterprises.

[20] Global Waste Recycling and Circular Economy Market Outlook, 2019 at website https://www.researchandmarkets.com/reports/4790940/global-waste-recycling-and-circular-economy accessed 18 July 2019

The breweries offer an opportunity for local authorities to partner private investors in ensuring that they become run strictly on a commercial basis to assist in revenue boosting. In addition, almost all local authorities used to own and operate beer halls which were strategically located in most of the high density areas for easy access by the residents. However, most local authorities failed to profitably run the beer halls. Some have now leased the beer halls to private sector players, although the challenge in some local authorities, especially for Masvingo, is the high default rates by the tenants occupying the beer halls, who are not up to date in terms of lease payments. Opportunities therefore exist for private investors to exploit the existence of breweries together with strategically located beer halls to enhance revenue generation.

Some local authorities, which include Gwanda, underscore that they also have good opportunities for cattle ranching, which could offer lucrative opportunities for private sector investment. This includes established feedlots as well as abattoirs to tap into for the cattle ranching business. Warehousing opportunities exists in Beitbridge and Masvingo, where there are a lot of goods which move across the border in high volumes. All local authorities also have scope to attract investment into residential areas, with Redcliff for example still having a lot of untapped land for residential purposes. Tourism opportunities also exist, especially in Kariba and Victoria Falls where there is still more room for lodges and water sporting activities.

The local authorities are also failing to optimally generate revenue from the various bus terminuses that the local authorities have. This ushers in opportunities to attract private sector investment, especially PPP frameworks to ensure that there is efficiency in operations and revenue collections which enhance revenue generating capacity for the local authorities. The Harare Roadport Bus Station, for example, is a self-financing profitable scheme worth exploring for other local authorities. The station is owned and operated by Roadport (Private) Limited, a privately owned company established in 1995. Among the key stakeholders in the project include ZIMRE Property Investments, Old Mutual Zimbabwe, Harare City Council, and Zimbabwe Electricity Supply Authority (ZESA).

Despite the constraints, it is also important to realise that local authorities have been engaging in innovative methods of partnering with the private sector in infrastructure projects. A good example is Ruwa Town council which has been able to use innovative mechanisms to attract Damafalls, a private developer, into a partnership involving the construction of Damafalls Water Augmentation Plant in 2012 and ZIMRE Company in 2008 for the construction of Zimre Properties Water and Sewer Treatment Plant. Chiredzi Town Council was also able to partner with Hippo Valley Estates to rehabilitate the water treatment plant and construct 700m of the Chigarapasi pumping water mainway, before connecting the main to the rehabilitation pump (ZEPARU, 2016)[21]. In addition, different urban councils in Zimbabwe are attracting private developers to develop land for residential stands which ideally would have been done by the local authorities themselves. Thus, attracting the private sector to assist with funding for infrastructure financing is already underway in the local authorities and only need to be enhanced. However, it is important to appreciate

[21] This information came out from stakeholder interviews conducted by ZEPARU in 2016 during a study entitled 'Status and Performance of Public-Private Partnerships in Select Eastern and Southern African Countries' which was prepared for the Macroeconomic and Financial Management Institute for Eastern and Southern Africa (MEFMI). The information was not published in the study.

that as an agro-based economy, the continued parcelling of arable land for housing purposes has to be well managed as there is a risk of compromising food security in future.

However, despite these opportunities, local authorities face challenges in attracting investment. First, the poor infrastructure conditions make local authorities less attractive. The provision of critical services such as roads, water, sewer and other business enablers become compromised by the poor state of infrastructure. The provision of these services should thus be prioritised if investment attraction is to be promoted. Second, interviews with local authorities established that there is a feeling among investors that council properties are generally undervalued, hence partnerships with local authorities could see their assets being ascribed a low value by the market. It is incumbent upon local authorities to show that there is value in partnerships with local authorities. Third, local authorities are struggling to establish business cases for private sector investment by identifying bankable projects. The lack of capacity in demonstrating project bankability affects investment attraction. Investment attraction can only succeed if the projects are deemed viable and a return from such investment is realisable. Capacity building in project management and bankability needs to be a priority. Fourth, partnerships with local authorities would be affected by the inability of local authorities to quickly adjust tariffs in response to rising costs, which private investors would find compromising profitability. Local authority tariff adjustment mainly takes place through a budget review process that has to involve residents, while the Minister would need to approve any tariff adjustment. This process is cumbersome and affects returns, especially where the private sector would have partnered local authorities. Thus, investment attraction into service delivery needs to be complimented by a reform of the tariff approval policy. Fifth, the inability of local authorities to enforce payment, which has resulted in a ballooning debt, promotes scepticism on investors about partnerships with local authorities. Investment attraction can therefore not be looked at outside the general revenue collection capacity enhancements for local authorities.

Given these challenges, local authorities have been mainly successful where they used non-financial strategies, for example offering land or reducing rates until the private partners have recovered their investments. Their capacity to raise funding to complement private investors is compromised by a number of factors. These include the inability of local authorities to raise loans in the international and domestic market, which is difficult due to the high country risk, failure to get government guarantees, less appealing balance sheets and a general poor macroeconomic environment which compromises viability (ZEPARU, 2019)[22]. There is a need to ensure that these binding constraints are addressed to enable the investment opportunities that currently exist to be easily exploitable.

5. GOVERNANCE ISSUES WITHIN LOCAL AUTHORITIES

Although general economic challenges as well as a dwindling revenue base can be attributed to poor economic performances by local authorities, there are a number of governance problems which also play a contributory role. Governance generally relates to the manner and nature of the public policy decisions matrix. It can be defined as the outcome of the interactions, relationships and networks of the different

[22] See ZEPARU (2019), 'Opportunities for Blending Public and Private Sector Resources towards Infrastructure Funding in Zimbabwe: Policy Options', prepared for the Infrastructure Development Bank of Zimbabwe (not yet published).

sectors (government, public sector, private sector and civil society), especially how decision making, negotiation, and power relations determine who gets what, when and how (UNDP Oslo Governance Centre, 2009). Broadly, governance assessment relates to the understanding of how elected and appointed politicians and their senior staff conduct themselves in policy making; in the deliberation processes; in the exercise of political judgment; in decision making; and the understanding of oversight and scrutiny that other institutions also exercise in this whole process (da Cruz & Marques, 2016).

There are different indicators that can be used to assess governance[23]. However, it is the Urban Governance Index (UGI), produced by UN-Habitat which has already been adopted as a measure of urban governance through the collaborative efforts of the Commonwealth Local Government Forum (CLGF) and UCAZ[24]. The UGI is an advocacy and capacity-building tool used to assist cities and countries in monitoring the quality of urban governance[25]. The UGI is imbedded within the local government peer review toolkit produced by CLGF and UCAZ in 2008 as a guide for local government peer reviews in general (Commonwealth Local Government Forum and the Urban Council Association of Zimbabwe, 2008).

The UGI generally assesses governance from four pillars: Effectiveness, Equity, Participation, and Accountability (da Cruz & Marques, 2016). Under the UGI, effectiveness, among others, depends on local government revenue per capita, local government revenue transfers from central government, the ratio of mandated to actual tax collection, predictability of transfers from central government in local government budget, existence of published performance delivery standards, and frequency of consumer satisfaction surveys by the local authorities to measure consumers' satisfaction with the local authority's services.

As already captured in the report, revenue collection capacities for all local authorities are generally very low; hence the revenue per capita is low. However, the audit reports reveal that despite revenue collection being central to the operations of the local authorities, local authorities also adopt a lackadaisical approach to revenue generation. This includes the use of outdated valuation rolls resulting in inappropriate rates being charged to residents. Examples include Kadoma City Council and Karoi Town Council whose rolls were last updated in 2003 and 2001 respectively. Obligations to the National Social Security Authority (NSSA), to the Zimbabwe Revenue Authority (for income tax for works and VAT), and to medical aid and pension institutions are not remitted in time, resulting in ballooning debts. Non-council related expenditure, such as repairs of personal vehicles for management as well as charges related to councillors' private stands also find their way into councils' charged expenditure (Office of the Auditor-General, 2018). This generally demonstrates that the current attitude among some local authorities is not in tandem with the critical role that local authorities are expected to play in the economy.

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[23] For example, there are different governance indicators used by the Local Governance Barometer (LGB), Good Governance for Local Development, Urban Governance Index and Indicators of Local Democratic Governance.

[24] See story at website http://mirror.unhabitat.org/content.asp?typeid=19&catid=25&cid=2167 accessed 17 September 2019

[25] Ibid

With limited funding and a low tax collection efficiency of less than 50%, it would be difficult for local authorities to achieve any set performance standards. This could explain why most local authorities do not have published performance standards which the public can use to assess governance. In 2013, when the economic recovery that had been registered under the inclusive government reached its peak, only 25% of the local authorities in Zimbabwe had published performance delivery standards (Pachawo, 2013). Thus, generally based on the effectiveness pillar, governance is a challenge for local authorities in Zimbabwe. Measures to enhance governance effectiveness generally hinge on addressing the general performance indicators already flagged out in the report.

Equity measures of governance generally relate to acknowledged citizens' rights to access basic services. This also includes the presence of a pricing policy for services which takes into account the needs of the poor households, that is lower rates for them compared to rates applied to business/industrial consumption. However, equity measures of governance do not appear to have a huge bearing on the context of this study. The same is also true for the 'participation' pillar, which is mainly focused on the elective processes for mayors, councils and voter turnouts.

However, it is the accountability pillar where a number of issues crop out with respect to urban governance in Zimbabwe. Accountability under the UGI includes processes governing contracts, tenders, budgets and accounts; control of local authorities by higher levels of government; facility for citizen complaints; the existence of a local agency to investigate and report cases of corruption; and independent audits.

The first governance challenge arises from the accounts and audit perspective, where financial governance is a challenge. Local authorities are expected to follow the guidelines provided by the International Public Sector Accounting Standards or International Financial Reporting Standards in reporting their financial performance for accountability, consistency and comparability of financial statements (Office of the Auditor-General, 2018). They are also required to follow the Council Fund Accounting in line with the Urban Councils Act and the Public Finance Management Act [Chapter 22:19]. However, as at 31 May 2018, two local authorities had still not submitted their 2013 financial statement audits to the Auditor-General. In addition, seven local authorities had financial statement audits outstanding for 2014. To make matters worse, there were 32 local authorities[26] who had not yet prepared their financial statements for the period 2014-2016 as at May 31 2018 (Office of the Auditor-General, 2018).

Interviews with local authorities confirm that the Auditor-General's report is a true reflection of what is happening on the ground. The failure to submit audited accounts has generally been attributed to two main challenges. The first challenge is with respect to vacant posts within the finance and accounts departments of the local authorities. Some local authorities have unfilled posts, resulting in failure to adequately prepare the financial statements in a format presentable for audit purposes. The second challenge relates to the capacity to adequately prepare the financial statements to auditable levels. This lack of capacity was attributed to inexperience, as local authorities replaced the experienced staff that left for greener pastures with young and inexperienced graduates with not audit experience. Capacity building

[26] Including rural district councils

and ensuring that recruitment and promotion are mainly a quest to close capacity gaps will help ensure that only those capable are recruited.

It is in this regard that there are efforts currently underway under the auspices of the Urban Councils Association of Zimbabwe (UCAZ) to ensure that those local authorities that lack the capacity are assisted with the requisite manpower to ensure that their books are up to date. An assessment exercise has been undertaken, where each local authority has been assessed to identify the current technical gaps. The target is to ensure that by the end of 2019, all those local authorities with capacity challenges in preparing financial statements would have been assisted by their peers to second experienced staff to assist[27]. The efforts of the local authorities to have a peer process to assist each other are highly commendable, and it is expected that there will be capacity diffusion to enable those that are behind to catch up. However, a more sustainable approach is for UCAZ to engage in an extensive capacity building exercise with local authorities to ensure that current staff are trained on finance and auditing rather than simply learning from their peers.

The Public Finance Management Act (PFMA) also requires that the budget together with tariffs should be inspected and endorsed by residents before being forwarded to the Minister for formal approval. However, in some instances the Minister ends up assuming a role of setting pro-poor tariffs that compromise cost recovery, mainly due to the failure by local authorities to provide a tariff justification from a proper cost build up analysis (Government of Zimbabwe and World Bank, 2017).

The inability to provide audited financial statements can act as a hurdle for resource mobilisation. For example, all road authorities should demonstrate fiscal accountability to be able to access funding from ZINARA. Among the five conditions which urban councils have to meet in order to access funding from ZINARA, there are two which are related to governance issues. The accounting system in use should conform to the standard of the Urban Councils accounting system advocated by the Ministry of Local Government which is prescribed in the Urban Councils Accounting Handbook. In addition, the financial accounts of the urban council should be up to date, having been audited in line with the provisions of the Urban Councils Act[28].

Accountability issues under governance also arise from the issue of control of local authorities by higher levels of government. The lack of harmony or the failure of the local authorities and the Minister to speak from one point of view can be regarded as a governance issue in that it ends up compromising service delivery. For example, local authorities indicated that there are occasions when community groups have in some instances agreed to increased rates to allow for investment projects to gain momentum only for the Ministry to disapprove. In 2019, Harare City Council indicated that their budget proposals were rejected by the Minister, despite the fact that they had complied with the consultation procedures. Local authorities end up failing to deliver on the promises they had made to residents while soliciting for their support for rates increments, causing further inflation of tension with the residents.

[27] Interview with Bindura Town Clerk
[28] ZINARA at its website https://www.zinara.co.zw/includes/who-we-fund.php accessed 17 May 2019

Governance is also affected by the lack of clear operational guidelines that demarcate between mandates of the different institutions with a role to play in service delivery. For example, some local authorities appreciate that while devolution will empower them to participate in economic governance, there will be need to ensure that there are clear roles and responsibilities of the District Administrators and how they would relate with local authorities. This would need to be clearly spelt out to avoid duplication and unnecessary turf wars as devolution implementation commences.

The procurement process for local authorities is governed by the Procurement Regulatory Authority of Zimbabwe (PRAZ) regulations. However, there are challenges in procurement, which prevent local authorities from timeously procuring critical services. While the procurement process as regulated by PRAZ is intended to remove loopholes which can be used for corruption, service delivery is being affected in this inflationary environment as the process is not fast enough. The challenges with respect to PRAZ are two pronged. First, the procurement process, especially with respect to acquisition of assets, is too long with respect to timeframes such that the prices of the assets to be purchased could have increased while the process is on-going. Secondly, local authorities have observed that manufacturers at most times do not participate in the tender process, leaving local authorities to deal with only middlemen and third parties. For example, local authorities can flight a tender for cement, only for Lafarge, PPC and Sino-Zim to shun the tendering process, at a time when the local authorities could easily have saved a lot of costs by buying directly from the manufacturers. There might be need for flexibilities and special cases where local authorities can negotiate directly with manufacturers who would not have participated in the tender process as a cost cutting measure.

Local authorities also indicate that some governance issues identified by the Auditor General and other stakeholders only arise due to limited capacity on the part of the local authorities. For example, local authorities have been struggling to tap into the PSIP budget mainly as a result of capacity challenges, especially in preparing project proposals in the format that is required. The Ministry of Finance is currently undertaking capacity building exercises to address this capacity challenge. Local authorities would also be expected to perform roles and responsibilities under devolution which extend beyond their traditional mandate. However, this might require some additional capacity which is currently lacking among the local authorities. The local authorities thus indicated that they would need a lot of capacity building, especially on economic governance and literacy to ensure that they are well prepared to play their role while also being able to understand and explain the expected roles of those under their jurisdictions.

6. CONCLUSION AND RECOMMENDATIONS

The study has generally revealed that there are a lot of bottlenecks that would prevent local authorities from supporting economic growth and development, as envisaged under the TSP within the context of devolution. Among these challenges are the following, for which proposing possible solutions would be central in enhancing the capacity of local authorities to facilitate growth and sustainability:

- Poor water management and provision systems. Non-revenue water is very high at a time when the water generation capacity is also limited by infrastructure challenges. There is need to enhance water accountability as well as inculcating a culture of paying for water delivery.

- Poor infrastructure. The infrastructure, which includes roads, sewer and water are in poor shape and would need to be enhanced to enable service provision. The current state is already failing to cope with the existing demand, and this is expected to worsen as the economy starts expanding as envisaged under the TSP. Thus, revenue mobilisation for infrastructure should take precedence and be prioritised over other uses.
- Poor revenue collection capacity. The infrastructure demand is happening at a time when the financial position of the local authorities is not ideal to support growth sustainability. Local authorities are failing to collect revenues from residents and businesses, which would have enhanced their financial position and allowed them to respond better to demand for services from the residents. This makes revenue enhancing strategies also paramount for local authorities.
- Governance challenges. While there is scope to attract private sector investment, the local authorities are also characterised by governance challenges, which need to be addressed to attract investment into the local authorities. Key to address are the issues which are constantly raised by the Auditor-General's report.

Due to these challenges, the following measures could go a long way in preparing local authorities for a supporting role in TSP implementation as well as positioning them at a level that supports economic growth and sustainability:

Non-revenue water

As explained, non-revenue water is mainly an issue arising from poor maintenance and limited funding for water infrastructure provision and repair. Thus, prioritising funding as well as water revenue collection methods becomes critical. However, it is important for all local authorities to have in place a non-revenue water programme in place. Baghirathan and Parker (2017) recommend that such a programme should have the following components:

- Capacity building and institutional strengthening, including having in place leak detection teams;
- Procurement of non-revenue water equipment and stocks of leak repair material;
- Field audits to identify priority areas or zones for carrying out an initial intensive programme of leakage management;
- Continuous monitoring and water balance analysis
- Incorporating non-revenue water management within the utility operational strategy, including among the key performance indicators.

In addition, local authorities should also start investing in the necessary capacity and infrastructure needed to sustain a prepaid meter water system to ensure that water consumption is related to payment capacities.

Capacity building

There are a lot of obligations being placed on local authorities under devolution which go beyond their traditional roles. This implies that an intensive capacity building initiative is needed to adequately prepare the local authorities. Possible areas for capacity building include financial reporting, institutional arrangements and general economic literacy and governance capacity that local authorities need to have in order to be able to perform expected roles under devolution. In addition, capacity building should be extended to project management, proposal development and project implementation reporting, as this limited capacity is affecting their ability to attract investment as well as to absorb and implement PSIP projects. Economic governance capacity is urgent given that the TSP calls for Provincial Councils and Local Authorities to develop Provincial and Local Authority economic development plans which they would need to implement. The plans are expected to be underpinned by resource endowments in the Provinces but should be able to localise the TSP into the respective province. Thus, capacity building about the TSP and how local authorities are expected to mainstream it into their development plans in important.

Auditing gaps

Local authorities continue to have an audit backlog. Given the manner in which the general public attach the importance to the Auditor General's report, the continued failure to have audited statements is destroying the confidence and image of the local authorities on the public. While the current efforts by the UCAZ to clear the backlog are welcome, there is need for local authorities to ensure that they invest in ensuring that going forward they have the capacity in-house.

Revenue collection capacity

The financial position of the local authorities has mainly been compromised by their inability to enforce payments for rates and utilities. While the legal framework empowering local authorities to claim arrears exists, litigation methods have not yet been pursued in earnest. The importance of the User-Pay-Principle has already been underlined by the Ministry of Finance and Economic Development as one of the most important avenues through which provision of water becomes sustainable (Ministry of Finance and Economic Development, 2018). It is important that the local authorities and the rate payers engage in a payment plan now through the court process before the debts go beyond the capacity to pay. The court process should also be complimented by deliberate strategies on the part of local authorities to inculcate a culture of rate and utility payment among the rate payers. This can be enhanced by more transparency and engagement of residents, so that they appreciate how their payments are important for service delivery. Local authorities would also need to demonstrate to citizens that they prioritise service delivery, as there is a general perception among citizens that there is misappropriation of resources towards self-aggrandisement. It is of paramount importance that local authorities become more open and transparent with how they use collected revenues, to help address the concern among ratepayers that resource usage is tilted towards salaries and administration costs at the expense of service delivery.

In general, user charges are based on cost recovery basis. However, this is a challenge when it comes to billing of rateable water and sewer services. The low collection capacity implies challenges when recovering the cost of water production. This requires a prudent tariff determination model coupled with measures to tie availability of services to payment, such as prepaid meters.

Infrastructure enhancement

Given the state of infrastructure in local authorities presented in the report, it would be difficult to expect meaningful development to arise. In addition, there are a lot of leakages and inefficiencies that are also caused by the poor state of infrastructure, for example the high non-revenue water. There is need to prioritise infrastructure repair and maintenance above other expenditure heads. In particular, local authorities should take advantage of the intergovernmental transfer funds under devolution to help close off some infrastructure gaps. In addition, local authorities should strive to enhance revenue collection as a way to increase funding for infrastructure.

Partnerships with private sector
Local authorities are sitting on opportunities which they can easily exploit in partnership with private investors. There is need for local authorities to create investment plans identifying possible areas for investors. Most of the commercial activities that local authorities were engaging in collapsed due to mismanagement but there is still demand for the services. There is need for local authorities to quickly identify low hanging fruits which can be quickly exploited while the binding constraints beyond their control are being addressed.

PRAZ and local authority harmony
Interviews with local authorities generally reflect that relations between PRAZ and local authorities are not very good. There is need for constant engagement to ensure that the PRAZ guidelines are well understood by the local authorities and well mainstreamed within their procurement processes. It is also important that Government reviews the PRAZ guidelines with a view to maintain a balance between closing off corruption loopholes as well as removing inflexibilities which end up adding on to costs for local authorities.

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