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ZIMCODD

Impact
of Public Debt on Service Delivery
in Local Authorities

ECONOMIC
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INITIATIVE (EGI)

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1.0 Executive Summary

The exponential growth of Zimbabwe's public debt has provoked intense debate on the impact it has on macro-economic factors such as economic growth, public sector investment and public expenditure. Whereas much focus has been invested in analysing the impact of the public debt on private sector investment and economic growth measured in Gross Domestic Product (GDP) terms in the country, there is relative paucity of literature and empirical research on how the debt has impacted public services delivery in general and local authorities in particular. Public services play a critical role in advancing human rights, fighting poverty and addressing inequality and hence they are a cross cutting issue of the Sustainable Development Goals (SDGs). This paper seeks to analyse the impact of public debt on service delivery in local authorities with a particular focus on urban councils. Whilst there is a consensus that public debt influences growth, evidenced in a number of countries, Zimbabwe presents a contrasting perspective as the increase in public debt stock has not influenced a corresponding growth in the size of the economy. Whereas the importance of debt is undisputed, borrowing only leads to accelerated economic growth on the provision that the resources are appropriately deployed to amplify the productive capacity of the economy and promote development.

Zimbabwe has 92 local authorities comprising 60 Rural District Councils (RDCs) and 32 Urban Councils. The country makes an interesting case for analysing the relationship between public debt and local government service delivery given the existence of a debt overhang, which has widely been cited as a major drawback to the country's growth prospects. The mounting debt burden arising largely from non-concessionary foreign loans since the 1980s compounded by the prevailing economic challenges have retarded general economic growth with far reaching implications on the capacity of public sector institutions and particularly local authorities to invest in capital projects, infrastructure development and deliver services. The increase in arrearage to international institutions, particularly the World Bank and the International Monetary Fund (IMF) resulted in the suspension of further funding to Zimbabwe. The failure of the central government to service its debts to the World Bank after the co-funded Urban I and Urban II programmes delivered a stillbirth to the successor program, the Local Government Capital Investment Program (LGCIP), thus significantly decelerating local government infrastructure investment potential.

This study reveals that the increase in the public debt has constrained the available fiscal space and hence negatively impacting the investment capacity of local authorities in both onsite and offsite infrastructure. Arising from a debt overhang has been an acute inability of the national government to meet its statutory inter-governmental fiscal obligations and hence a negative balance sheet on statutory grants such as the health grant at local authority level. Statutory funds/ grants are an important vehicle of financing sub-national government service delivery. They have a vital role in shaping the nature and quality of local services through resolving vertical and horizontal fiscal imbalances and promoting equalization. It is a common principle therefore that functional decentralization should automatically be followed by the vertical redistribution of public fiscal resources. Economic disparities explained in terms of variances in sub-national GDP per capita represent the biggest factor behind unequal access to public services across the nation. They translate into variations in tax-raising capacities. Consequentially, this renders it difficult or impossible for some sub-national jurisdictions to deliver adequate service levels and hence a justification for statutory grants. The constrained capacity of the national government to finance statutory grants coupled with a weak local tax base has narrowed the ability of councils to execute grant-aided decentralised functions such as provision of health services. To further exacerbate the situation local authorities retained the obligation to deliver these services as unfunded mandates, lacking the authority to review the fees without central government approval. The limited fiscal space equally strain the national government's capacity to finance the Public Sector Investment Program (PSIP) in local authorities and hence suffocating a low interest source of strategic investment financing among local authorities.

Whereas the suspension of World Bank and IMF funding and the constrained national fiscal capacity are notable challenges, political parties incongruence has also negatively affected intergovernmental fiscal transfers especially to opposition party led councils and hence discounting the capacity of local authorities to deliver services. The advent of the Movement for Democratic Change (MDC) which have been winning elections in most urban councils and retaining control of the local government tier changed the political landscape and significantly reconfigured intergovernmental relations (IGR) in Zimbabwe. The new political dispensation of party incongruence has multifaceted implications on IGR. Firstly, it fuels horizontal and vertical conflict in government. Secondly, it has exacerbated the programmatic differences between tiers of government through complicating the intergovernmental co-ordination of legislative and policy outcomes necessitated by overlapping competencies and spillover effects. This has largely promoted conflictual relations that resemble political party identities with ZANU PF controlled central government issuing directives and reducing inter-governmental transfers to opposition party controlled local authorities. Typical of this grave imbalance, a directive was issued by central government in 2013 towards the national harmonised elections directing all local authorities to cancel all domestic water consumption debts accumulated from January 2009 to July 2013. Added to this has been the dishonouring of statutory inter-governmental transfers such as the health grant with the intention of financially crippling opposition party led councils and weaken them for political competition.

The pursuit of populist public policies by the national government and the increase in political and bureaucratic corruption all compounded the prevailing challenges and hence further weakening the capacity of local authorities to deliver services. Rampant corruption and abuse of borrowed funds have resulted in the ballooning of the debt without a corresponding improvement in the quality of local services. The paper presents classic cases on the misappropriation of borrowed fiscal resources in local authorities. Emerging from this conundrum is a web of intricate corrupt relationships between politicians and bureaucrats to siphon public resources through organised racketeering and other forms of syndicated corruption. A case in point is the Harare city council US$144 million loan from the China Import and Export Bank for the upgrading of the Morton Jeffrey waterworks. This paper therefore presents a social justice argument against public debt in Zimbabwe and seeks to motivate social activism against debt accrual. The Auditor General has produced adverse reports exposing rampant abuse of public resources in general and in particular borrowed funds and statutory grants involving both national government and local authorities. Arguably the political will to deal with corruption remains underwhelming. The paper concludes that the public debt accrual is an inherent economic injustice and an unjustifiable burden on the tax payers which must be properly accounted and subjected to forensic auditing.

1.1 INTRODUCTION

The growth of the public debt has generated intense debate on the correlation between the debt stock and the investment in private and public sectors. This paper analyses the impact of the public debt on local government service delivery in Zimbabwe focusing on urban councils. The paper gives attention to the linkage between the increase in public debt and local government service delivery in Zimbabwe in the context of international perspectives on the relationship between public debt and growth in the public sector. The paper reveals that the combination of a huge public debt stock and the declining national fiscal space has led to the contraction of the public sector in general and local government service delivery in particular. The suspension of international financing has constrained the investment capacity of local authorities on major infrastructure projects. In the same context, the declining fiscal space has largely constrained intergovernmental fiscal transfers and national budgetary allocations to the PSIP. This is exacerbated by the unsustainable interests of borrowing from the domestic financial market making it an unviable option. Rampant abuse of borrowed funds has limited the usefulness of borrowing as a strategy of increasing the capital stock of local authorities. Resultantly service delivery in local authorities has significantly declined as evidenced by erratic water supplies and the increase in water borne diseases and dilapidated public infrastructure such as roads and sewer reticulation systems.

1.2 AN OVERVIEW OF ZIMBABWE'S PUBLIC DEBT

Information about Zimbabwe's debt status remains largely concealed and hence a mystery, though with little disagreement that it is an unsustainable albatross to the development of the nation. Whereas it is international best practice to share public debt data with the tax payers, the Government of Zimbabwe (GoZ) have not been transparently publishing the public debt. In the same vein, local authorities have not been declaring their debt to local citizens. This paper submits that best practice is such that a council should declare its creditors to local tax payers periodically and more prudently during budget consultation meetings. This has largely given traction to the narratives that the debt is partly used to finance either political activities or other non-core functions for which it is not sought for. Zimbabwe has been mired in a debt and economic crisis since the early 1990s leading to macro-economic contraction, debt overhang and massive de-industrialisation. This debt crisis has led to the country being excluded from accessing loan financing from the Bretton Woods institutions, the European Investment Bank and other international financing institutions. Resultantly the nation has faced challenges in financing both public and private investment. The uniqueness of the Zimbabwean case is compounded by the huge debt arrears currently at 76% of the total external debt, violation of constitutional provisions(where, for instance the executive would borrow from international institutions without seeking the approval of Parliament, secrecy and exclusionary decision making by policy makers).The proposed Constitutional amendment bill of section 327 of the Constitution, in part seeks to repeal Parliament's role in approving international agreements, including borrowing from international institutions despite such acts placing fiscal obligations on Zimbabwe. Resolving the country's debt crisis therefore remains central in reforming the broader macroeconomic framework for Zimbabwe.

As aforementioned, the true extent of the country's debt is unknown, with Treasury providing varying figures, with estimations of civil society organisations and other independent think tanks (Salsman, 2018, Muyeche and Chikeya, 2014). In the Hansard of 16 May 2019, the Minister of Finance and Economic Development reported that the domestic debt stood at 9.2 billion while the external debt stock stood at US$ 8.2 billion as at end of March 2019 making a total public debt stock of 17.4 billion. This debt constitutes approximately 90% of the GDP. This is in violation of section 11(2) of the Public Debt Management Act as it exceeds the prescribed borrowing limit of 70% debt to GDP ratio. The debt to revenue ratio was 326% while debt to exports stood at 359% as at 31 December 2018. However, sections of the civil society estimate the total public debt at over US$23 billion. This is because the foreign debt stock only refers to the government and parastatals debt. It excludes private sector foreign debt, which is estimated at over $2.5 billion, interests as well as penalties (Business Times Insight, 2020, ZIMFACT, 2018, Muyeche and Chikeya, 2014). With a highly unsustainable debt burden and arrearage, the country is excluded from accessing offshore financing for capital investment projects. The country's credit rating has also fallen due to high default and country risk profile among other factors. Projects have either been suspended or cancelled due to the accumulation of arrears, and litigations by creditors have increased. Local authorities that depend on both government assistance though inter-governmental fiscal transfers and international financing are equally hard hit.

Section 290 of the Urban Councils Act, provides that urban local authorities can borrow to finance capital projects and not recurrent expenditure. As explained under item 1.5, the total debt of US$555 million for local authorities represented 105% of the total revenues. According to White and Glaser (2000), faced with deteriorating revenue bases and increasingly unfunded mandates in the social sectors, local governments have been forced to increase their debt over time. Presumably the borrowing which must entail consultations with local residents is expected to improve service delivery. Local governments are permitted to borrow for capital works or improvements, acquisition of fixed property, certain kinds of advances, payment of compensation (excluding that for permanent employees), liquidation of previous loans, relief of general distress (caused by a natural disaster, for example), and acquisition of plant. However, abuse of borrowed funds through corruption and misappropriation has been rampant for example where local authorities have borrowed to finance executive interests such as purchase of cars. Admittedly, the vehicles are part of the contracts of council executives but this paper argues that priority should be given to utilities ahead of executive packages.

1.3 INTERNATIONAL PERSPECTIVES ON THE RELATIONSHIP BETWEEN PUBLIC DEBT AND GROWTH OF PUBLIC AND PRIVATE SECTORS

The world has generated various narratives arising from the impact of debt on economies. Global experience shows that debt is a two-edged sword depending on how it is used. Where it is used moderately and prudently the results range from economic growth, social transformation and improvement in welfare. But the opposite holds true where it is used imprudently and in excess, as it often leads to the disaster of economic and socio-political implosion. A myriad of studies have been conducted on the impact of the public debt on varied macro-economic factors such as economic stabilisation, economic growth, public sector investment, public expenditure among others.

Dilrukshini (2002) applied the Johansen co-integration technique and Granger causality test to study the relationship between public expenditure and economic growth in Sri Lanka for the period 1952-2002. The findings revealed that the rise in public expenditure is not directly dependent, and determined by economic growth. Sinha, Arora and Bansal (2011) used panel data regression to study the determinants of public debt for high- and middle-income countries. The results showed that government expenditure, GDP growth rate were significant while current account balance was insignificant. For middle income countries, the findings reveal that the total debt is inversely related to GDP growth with current account showing positive relationship to the total public debt. In contrast, the result for high income group countries showed the total debt as depending on the GDP growth rate while other variables are insignificant.

Sulaiman and Azeez (2012) used econometric techniques of Ordinary Least Square Augmented Dickey Fuller Unit Root test, Error Correlation Method and Johansen co-integration test to analyse the effect of external debt on economic growth for Nigeria and established that external debt has positive contributions to the economy of Nigeria. Eboigbe and Idolor (2013) used the co-integration economic technique on annual time series data for 31 years (1980 –2011) to test the impact of external debt on public sector investment for Nigeria. Their study found a positive relationship between external debt and public investment. This means a positive correlation between an increase in debt stock and an increase in capital expenditure and public investment as the former positively influences the later. In the same context, Siew-Peng and Yan-Ling (2015) used time series data to analyse the influence of public debt on economic growth in Malaysia for the years 1991 to 2013 with GDP per capita as an indicator for economic growth. The results revealed that economic growth as measured by GDP per capita shows a negative association with the public debt leading to the recommendation that Malaysia should use the fiscal monetary policy efficiently to ameliorate the dependence on public debt so as to meet the vision 2020 goal of a developed economy.

1.4 THE STATE OF SERVICE DELIVERY IN ZIMBABWE URBAN LOCAL AUTHORITIES

Urbanisation represents a major demographic transformation in sub-Saharan Africa, with far reaching implications to the region's long-term development trajectory. With the majority of the world population now living in urban areas, the need for urban areas to be inclusive, resilient, sustainable and safe is core to the achievement of the 2030 Agenda and the SDGs. The World Bank's projection is that by 2030 Africa will be an urban continent, with over 50% of its population living in urban areas and cities generating approximately 60% of the continent's GDP. While African cities are potentially viable locales for economic growth and socio-political transformation, there is nonetheless concern that the unavailability of funding for infrastructure investment, weak local revenue generation capacities and exponential growth in population exerts a strain on weak service delivery mechanisms. There is a constrained supply and availability of safe, potable water and sanitation, refuse collection, predictable and affordable electricity, efficient urban public transport and communication systems, safe and durable housing among a host of other challenges (UN-Habitat, 2010).

Local authorities in Zimbabwe play an important role in the delivery of fundamental public services in the context of the aforementioned global development trajectory. However, the political and socio-economic environment presents insurmountable challenges emanating from rapid and chaotic urbanization, the impact and frequency of natural disasters due to climate change, the widening gap between the available fiscal space and municipal spending needs inspired by rapid growth of urban population. This shift in urban demographic structures creates a rapid increase in the demand for services and improved public infrastructure.

A number of studies and commission reports on the state of local government services in Zimbabwe show a universal pattern where there has been no significant expansion of infrastructure, such as water and sewage reticulation systems, health and education infrastructure to cater for the growing population (Chatiza, 2010, Sifile, Madzorera and Chavhunduka, 2015, Muchadenyika, 2017, State of Service Delivery in Zimbabwe Report, 2017). This is inversely against an exponential population growth which invariably strains service delivery leading to sewerage reticulation system failures, causing numerous sewer bursts, untreated effluent flowing into rivers, uncollected heaps of garbage indiscriminately dumped in open spaces resulting in an increase in the fly population, erratic water supply and the surge in water borne diseases such as cholera and typhoid leading to loss of lives (Chegutu Municipal Environmental Management Committee Minutes, 2010). This is exacerbated by the prevailing economic meltdown characterised by galloping inflation, shortages of critical water treatment chemicals and related public service value chain key essentials such as machinery and equipment maintenance, lack of offshore financing to recapitalise and finance infrastructure investment in equipment such as roads equipment.

In addition to the above, over 80% of urban employment in Zimbabwe is concentrated in the low-income and unstable informal sector (Njaya, 2016, Muchadenyika, 2017). The implication of this is that urban residents in Zimbabwe do not constitute a viable tax base to finance the provision of public services making domestic financial institutions and international financing options as viable propositions for long term capital to fund infrastructure investment. Resultantly, the urban agglomerations have become what Simone (2006) terms 'pirate cities', where urban dwellers rely on pirate operators, such as mobile water vendors or illegal electricity connections, in the absence of genuine state engagement. This is against an average urban population growth of over 5% in Zimbabwe. The World Bank (2012), Central Statistics Office (2012) and Sifile et.al (2015) in separate studies show that the City of Harare, for instance, has experienced phenomenal population growth from 310 360 in 1961, 658 400 in 1982, 1 896 134 in 2002, to approximately three million in 2010. Over 80% of the city dwellers are in the informal sector operating largely as illegal hawkers and other unlicensed activities. This places a strain on services e.g the Harare sewer system was designed for 1.5 million people and is now catering for more than 3 million. In Chegutu Municipality, as an alternative case study, the cholera outbreak in 2008 and 2009 resulted in 700 cholera cases and 248 lives were lost. In 2012, 280 cases of typhoid were recorded, while in 2013, 60 cases of typhoid and one case of cholera were recorded (Chegutu Hospital Health Information Office, 2009). In overall the 2008 cholera outbreak resulted in 4000 deaths and was largely attributed to poor water and sanitary facilities and weak waste management systems.

Urban councils derive the bulk of their revenues from property tax, receipts from trading accounts, tariffs or fees for services rendered, registration and licensing of motor vehicles, education, health and road grants. The Harare city council also mobilises its revenue from public-private partner-ships (PPPs). However, these sources have been relatively under-performing and hence making borrowing an alternative source of financing for capital investments. Regrettably, evidence is abound on the mutilation of borrowed funds through corruption. The heavy indebtedness of the country on the one hand and local authorities on the other hand has thus placed an unjustifiable obligation on the tax payers.

1.5 THE LINK BETWEEN PUBLIC DEBT, DETERIORATING FISCAL SPACE AND LOCAL AUTHORITY SERVICES.

The isolation of Zimbabwe from international credit has limited the borrowing options of the country (compared to other countries in the low-income category). This scenario has presented a complex challenge to the country in terms of accessing funding at low cost subject to a prudent degree of risk. International reserves have dwindled and the country is in debt distress. The debt service challenges have significantly downgraded the country's credit rating, limiting access to international capital markets and concessional financing. The Bretton Woods institutions have suspended further lending to Zimbabwe as a result of failure to service arrears since 2000. The financing requirement of the country remained extensive in reflection of the need for an ambitious plan to finance capital expenditure (Government of Zimbabwe 2013: 25). The exclusion of Zimbabwe to borrow from concessional sources has driven the government to seek financing from non-concessional sources which includes borrowing on the domestic market, in most cases through issuing Treasury Bills at high interest rates. However, the issuing of Treasury Bills has stirred a lot of controversy with the national government being heavily indebted to certain private companies such as Sakunda Holdings in deals that reflects of state capture. The 2018 AG Report showed that government could not avail the contacts between Sakunda Holdings and the former on the financing of command agriculture despite deals running into billions of RTGS dollars. This reliance on non-concessional sources and domestic markets further exacerbates the country's debt overhang considering as well that much of domestic borrowing has been meant to finance current expenditures and not capital projects (IMF 2012).

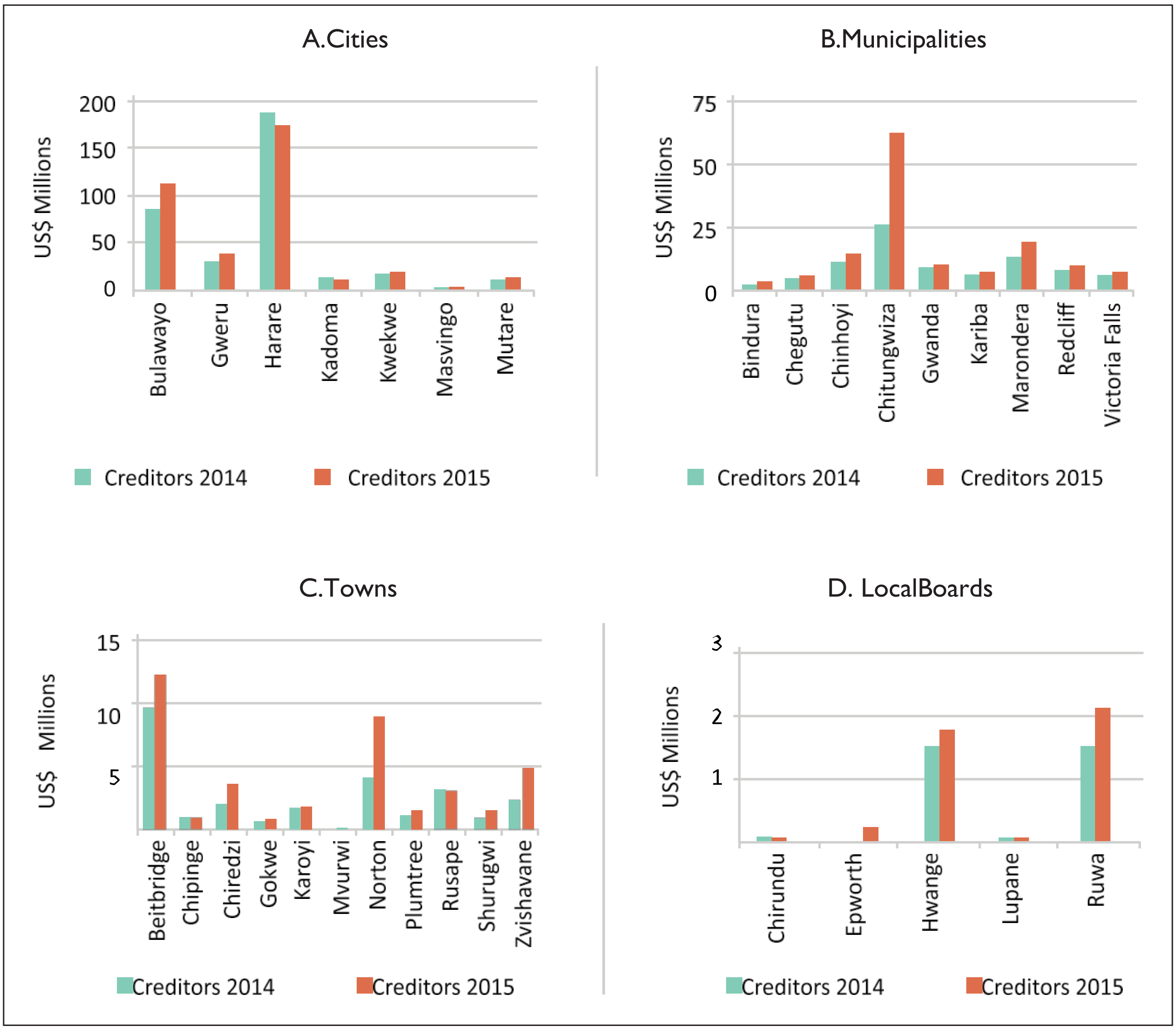
The aforementioned development has made the economy highly uncompetitive, with negative implications on the export base, which provides liquidity for servicing the external public debt. In the same context the domestic tax revenue has shrunk with the contraction of the economy further constraining the available resources. Whereas, the resulting budget cuts and promotion of privatisation strategies, along with public-private partnerships (PPPs) have not delivered the desired results, where they achieved marginal successes, these models ultimately endanger the capacity of public services to advance human rights and achieve the Sustainable Development Goals (SDGs), including women's rights and gender equality.

Global trends show that there has been a contraction of the public sector and a decline in public services due to the impact of debt overhang on available fiscal spaces. The IMF (2012) revealed that between 2014-18 expenditure on public services dropped by over18% in the Caribbean and Latin America and 15% in Sub-Saharan Africa and this has directly impacted on services such as education and health. In 21 low- and middle-income countries, Zimbabwe included, government education expenditure as a percentage of GDP decreased between 2015 and 2017, while debt service as a percentage of GDP was increasing.

In Zimbabwe the shrinking fiscal space has generally resulted in the national government failing to honour its statutory obligations with local authorities and sustain the PSIP as shall be explained later. This was compounded by the termination of World Bank support on Urban II and the proposed LGCIP. Borrowing from the domestic financial market to finance capital projects have equally proved to be very costly for local authorities and generally most capital projects have either been suspended or cancelled. As the borrowing options and sources become limited for both national government and local authorities, every available opportunity is aimed to be utilized. A survey by the World Bank (2012) shows that both national and local government lacks clear annual borrowing plans. Even though the authorities are well aware of the terms and conditions of the available loans, no assessment on the most beneficial or cost-effective terms is conducted.

The World Bank (2017) revealed that most local authorities have accumulated heavy debts in attempting to bridge the financial gap. The total debt for all councils as at December 2015 was estimated at US$555 million, which represented 105 percent of the total revenue collected by local authorities. This represents an average increase of the debt of all local authorities by about 21.2 percent between 2014 and 2015. Figure 1 below shows the debts owed by urban councils in 2014 and 2015. All local authorities increased their debt between 2014 and 2015, except Chirundu, Chipinge, Harare, and Rusape.

Fig 1. The Debt position of urbanlocal authorities (in US$ Millions)

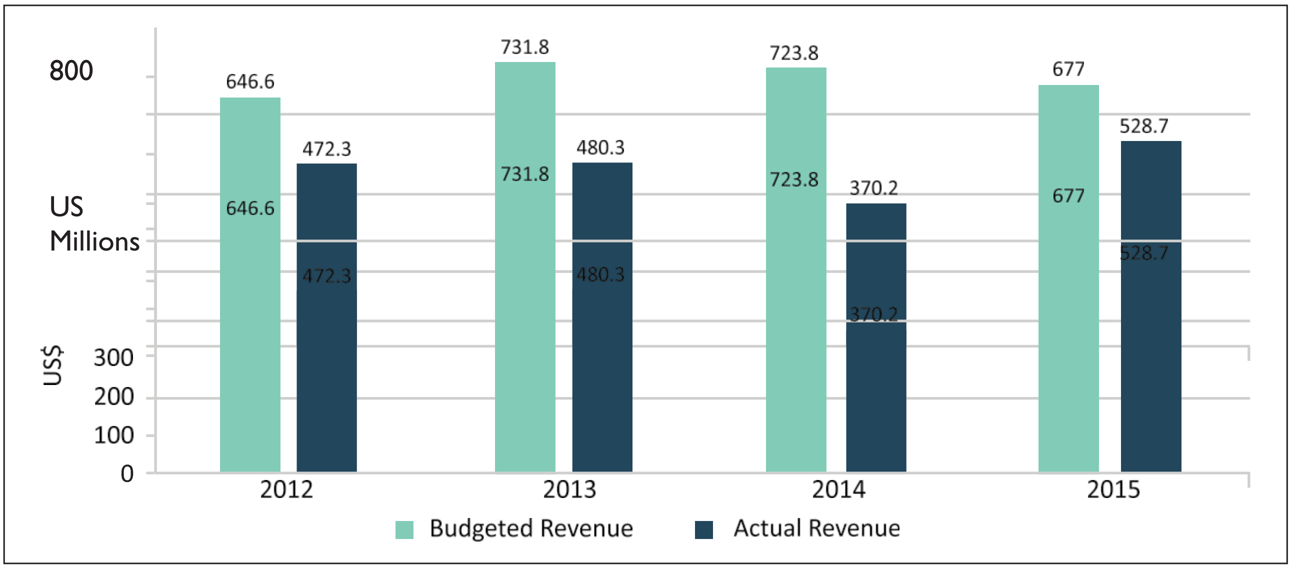


Source: World Bank (2017)

In the light of a constrained fiscal space at the national level, statutory grants such as the health grant, Road Fund and other investment transfer programs such as PSIP funded by the central government contributed marginally to local authorities financing. This is notwithstanding the practice where the ZANUPF led central government has deliberately undernourished fiscal transfers to local councils in order to compress the capacity of the MDC led councils. Resultantly, local authorities have largely relied on local revenue sources. The contribution of central government grants to overall funding of local authorities in 2014 was 2 percent. Although, this has marginally increased due to the availing of the 'devolution grant', the high inflation has rendered the grant very weak to finance capital projects. In the same context, RDCs have received a larger chunk than urban councils. Whereas the justification proffered by the national government is that RDCs are relatively poor despite holding large populations, it appears the reason is more to do with appeasing the rural population which is the stronghold of ZANUPF. In 2018, government allocated a RTGS$ 310 million to 92 local authorities disbursed in tranches. As shall be explained later, in urban local authorities, central government used to support a larger share of capital finance through the PSIP and other grant programs, but this source of revenue has fallen in recent years due to fiscal constraints. In the context of the dwindling fiscal resources and declining grants, both in terms of total grant allocation and inflation adjustments on value, local authorities are struggling to provide services. Consequently, capital development funds and even donor funds are often diverted to fund recurrent expenditures, illegally though (Office of the Auditor General of Zimbabwe, 2019, Zhou, 2012).

A further complication to the performance of local authorities arising from public debt has been the contraction of budgeted revenues leading to fiscal deficits. Figure 2 below show that councils collected 73% of budgeted revenues in 2012, falling to 52 and 51% in 2013 and 2014, respectively, rising to 78% by 2015. The gap between budgeted and actual revenues appears to be driven by ratepayer's non-compliance and lack of proper revenue forecasting techniques in some local authorities. Instances where revenues increased are in some cases attributed to discounts on payments that were offered by councils. In 2016, 2017 and 2018 Harare City Council offered such discounts where a ratepayer got a 50% discount upon settling the total debt. This practice was applied in a number of urban councils though criticised by residents whose accounts were up to date as an incentive for non-compliance. At the same time budgeting in local authorities is conducted assuming a 100% compliance with local fees and tariffs, partly to satisfy the Ministry's requirement to submit a budget with no deficit. Experience however shows that compliance is much lower.

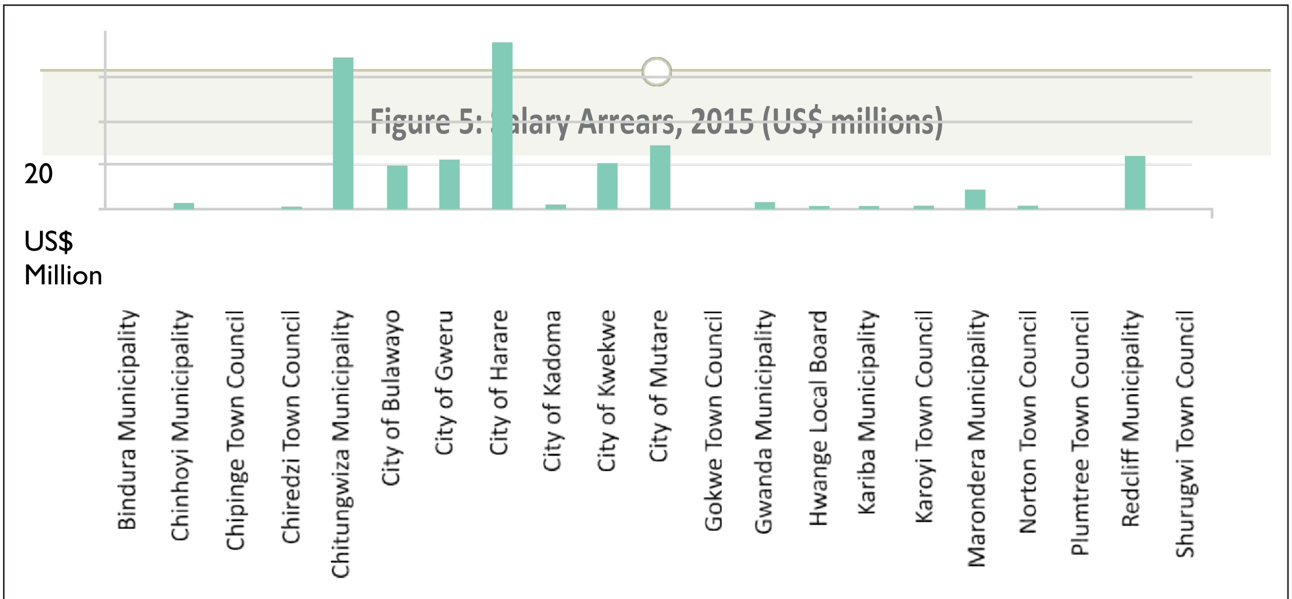
Figure 2: Actual versus Budgeted Revenue (US$ Millions)



Source: Ministry of Local Government

The combined impact of debt, contraction of the fiscal space at both national and local government level and low revenue collection by local authorities has resulted in salary arrears in most urban councils. Most local authorities are struggling to manage salaries expenditure leading to brain drain and loss of key technical and administrative staff. As a strategy of managing high employment costs, rising to over 40% of total budgets in 2015, the Ministry of Local Government set a criterion to maintain a 30:70 ratio of employment to non-employment costs, with a view to reduce fiscal risks when revenues are lower than budgeted, and increase resources for maintenance and repairs. Most professionals and technical personnel left councils joining other sectors or moved to other countries, the so-called 'greener pastures'. This has left a void in the technical and administrative efficiency of councils. Figure 3 below shows salary arrears of councils.

Figure 3 below shows salaries arrears of councils.



Source: Ministry of Local Government

1.6 IMPACT OF THE NATIONAL DEBT ON PUBLIC SECTOR INVESTMENT PROGRAM (PSIP)

The Public Sector Investment Programme was a conditional grant for urban local authorities to support the development of urban infrastructure. PSIP was the major funding window in local authorities for capital expenditures (CAPEX). Each local authority was expected to come up with a CAPEX budget submitted to the Minister of Finance for funding. The grant targeted capital-intensive projects such as water, sewer works, roads and equipment for urban councils. These were capital intensive projects which the private financiers were reluctant to fund because the balance sheets of most urban local governments made them credit unworthy.

The loans under PSIP have declined drastically with the shrinking of the national fiscal space. From the year 2000, the Ministry of Local Government Public Works and National Housing sought $520 million for various capital works in urban councils. Only $242 million was allocated from the Ministry of Finance. In 2001, the MLGPWNH sought $819248 million in terms of loans for various capital projects for all local authorities but was allocated $270 million which was further reduced by Treasury before the lapse of the same year. Pertinent to note is that it is loans acquired under the PSIP that supported capital projects and thus accounting for the major infrastructure in both urban and rural local authorities and ensured the acquisition of heavy plant and equipment for the maintenance of roads. Most roads are thus in a poor state of despair, and unfortunately, most local authorities no longer have plant and equipment to maintain the same. However, local authorities have struggled to repay PSIP loans. Whereas the reasons for the failure to pay back the loans are varied, one of the reasons that has gained traction is that while productivity of infrastructure is high, the return on public investment is very low for the simple reason that a good deal of public investment spending does not increase the stock of productive capital.

Figure 4. Declining PSIP allocations to selected local authorities

Local Authority	Allocation (nominal) 1997/1998 Z$	1980 Rebase	Allocation 1999 Z$	1980 Rebase	Allocation 2000 Z$	1980 Rebase
Bindura Municipality	16 025 00	733 390	9 759 00	281 790	3 600 000	66 695
Bulawayo City Council	67 255 000	3 077 000	21 229 000	612 985	9 009 000	166 904
Gweru City Council	22 900 000	1 048 000	22 809 000	658 607	000	000
Harare City Council	67 016 000	3 067 13	23870 000	689 243	5 220 000	96 708
Rusape Town Council	12 039 000	550 969	12 125 000	350 108	1 600 000	29 642
Shurugwi Town Council	8 835 000	404 337	8 765 000	253 088	1 600 000	29 642
Victoria Falls Municipality	23 500 000	1 075 487	36 600 000	1 056 820	11 546 000	213 906

Source: Presentation by the MLGPWNH, August 12, 2004

During the year 2000 the allocated PSIP grant was reduced following Treasury instructions. This resulted in local authorities getting less than had been allocated to them initially. Subsequently, this led to the non-continuation of projects under construction. The problem was worsened by increasing costs, inflation and devaluation. Further, Cyclone Eline damaged most infrastructure in both urban and rural local authorities. To date local authorities have not been able to repair the damage incurred

Figure 4 (a) PSIP allocations to local authorities in nominal terms

Year	95/96 '000	96/97 '000	97/98 '000	1999 '000	2000 '000	2001 '000	2002 '000	2003 '000	2004 '000 000
Loans	75 550	26 908	67 250	36 000	482 070	270 000	824 500	936 901	27 852

Figure 4 (b) ....and in real terms, taking inflationary tendencies into account

Year	95/96 '000	96/97 '000	97/98 '000	1999 '000	2000 '000	2001 '000	2002 '000	2003 '000	2004 '000 000
Loans	5 414	1 622	3 077	1 039	8 931	2 908	3 809	930 792.01	27 670

Source: Presentation by the MLGPWNH, August 12, 2004

1.7 DECLINING INTER-GOVERNMENTAL FISCAL TRANSFERS (STATUTORY GRANTS) AND LOCAL GOVERNMENT SERVICE DELIVERY

Inter-governmental fiscal transfers are part of the broader lexicon of fiscal decentralisation and vertical and horizontal fiscal equalisation and they are a feature of local government policy financing throughout the world. Central government support to local authorities through grants is justifiable as a measure of correcting vertical fiscal imbalances arising from a misalignment between assigned tasks and income sources for urban councils. The term unfunded mandate is therefore common in explaining a scenario where central government decentralises functions without decentralising the requisite fiscal resources to support the functions. Fiscal transfers are also important in correcting horizontal fiscal disparities in income per-capita among urban councils. There has been a marked decline in statutory grants owing to a number of factors which include the constrained national fiscal legroom and a political approach that is largely inspired by political incongruence involving parties in the different levels of government. Such incongruence has resulted in the national government either discontinuing strategic financing of sub-national governments' e.g. PSIP or reducing the size of the grant. This has been meant to suffocate the performance of opposition led councils and weaken their political competitiveness (Muchadenyika, 2017). The paper looks at the Road Fund and the Health grant.

1.7.1 Health grant

At independence, central government committed itself to support local authorities with a health grant to improve the capacity of councils to deliver health services. However, the health grant allocation began to decline with the worsening macro-economic conditions caused mainly by the exclusion of Zimbabwe from accessing loan financing from international institutions and the flight of donors following the implementation of the land reform programme. The decline is especially evident in the PSIP. The table below shows health grant disbursements for Gweru City Council for the period 1994-2016.

Health grant disbursements for Gweru City Council from 1994-2016

HEALTH GRANT DISBURSEMENTS (1994-2016)

YEAR	AMOUNT(ZW$)
1994	721,971.00
1995	855,460.00
1995	266,900.00
1996	400,486.00
1997	809,789.00
1998	978,640.00
2000	5,266,540.00
2001	7,148,315.00
2002	140,309,075.00
2003	155,879,600.00
2004	170,786,950.00
2005	165,887,960.00
2006	289,760,980.00
2007	0.00
2008	0.00
2009	0.00
2010	0.00
2011	0.00
2012	0.00
2013	0.00
2014	0.00
2015	0.00
2016	0.00

Whereas the central government is no longer or partially honouring the statutory obligation on the health grant, it continues to restrict local authorities from reviewing health fees in council clinics without approval.The failure of central government to meet its health grant obligations to local authorities has seriously crippled the health delivery capacity of councils which explains the dilapidated health infrastructure and poor quality of services.An analysis of Gweru City Council's 2018 budget shows that council's eight clinics and one hospital (Isolation Hospital) were running at a loss, with employee costs gobbling RTGS$880 053 and an expenditure of over $900 000 at the health centres. The total incurred expenditure for the eight months (January to August 2018) was $909 388 against received income of $44 012, which is 4,83% of expenditure. The health account thus makes a huge deficit and this has implications to the provision of other services as resources are diverted from other sources to fund the deficit.

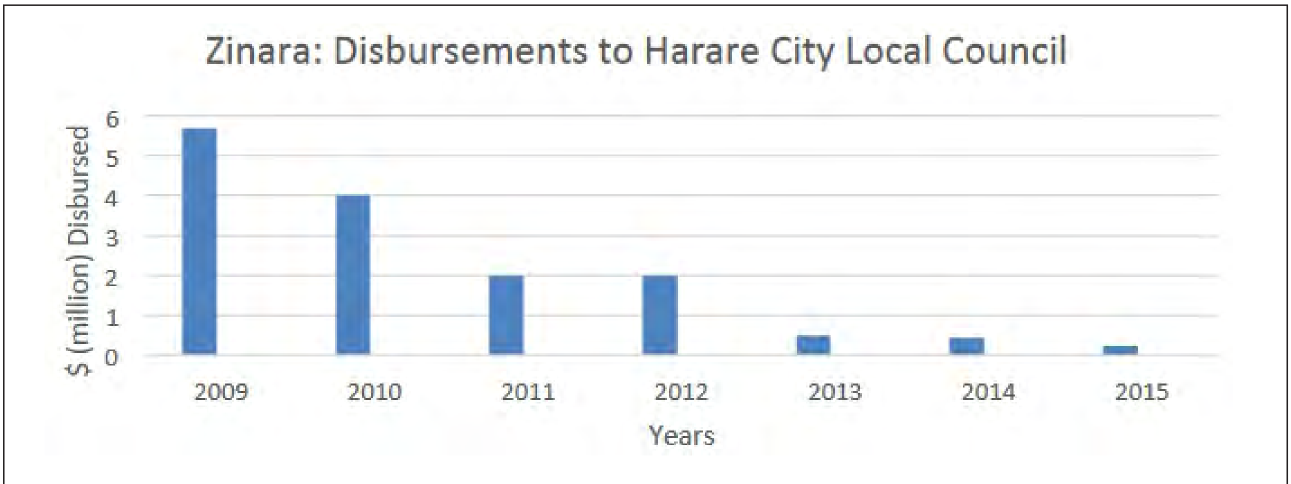
1.7.2 Road Fund

The Road Fund that is administered by the Zimbabwe National Road Administration (ZINARA), is established under the Roads Act (Chapter 13:18) of 2001 with the objective to provide a stable, adequate, secure and sustainable source of funding for road maintenance work in Zimbabwe. The Road Sector Reform process slowed after Zimbabwe went into a non-accrual status with the World Bank in October 2000 and the Government proceeded with the establishment of the Road Fund and ZINARA. The Road Fund is generated from road user fees including fuel levies, fees paid for exemption from axle load limits, heavy vehicle surcharges, all fees charged under the Vehicle Licensing Act, and international transit fees, Appropriations from Parliament and Grants). Specifically, the main purpose/s of the Road Fund is to finance approved road maintenance, road establishment works and other related activities. For the above purpose/s of road fund, ZINARA works with road authorities such as Urban Councils (UCs), Rural District Councils (RDCs) as key lower tiers of government mandated with road maintenance as stipulated by the governing statutes i.e. the Urban councils Act (Chapter 29.15) and the Rural District Councils Act (Chapter 29.13)

Zimbabwe has a road network of 85 000 km. The country's road infrastructure has deteriorated over the years, with characteristic visible structural failures and huge fatalities along most trunk roads. The World Bank (2006) estimates that about 24% of the total road network is still in good condition, with over 70% dilapidated and in a very poor condition.

A World Bank mission revealed that there has been a gradual deterioration of funding for road development services from early 1990s. For instance, of the required US$160 million total road maintenance funding in 2005, only US$10 million, a proportion of 6% of the requirement, was provided. In 2009, of the estimated US13 million funding requirements for road maintenance only US$2,25 million was availed, amounting to less than 6% of the total required amount. In 2011, the road rehabilitation requirements were estimated at about $1.3 billion, compared to a budget allocation of $8 million, a mere 0.6% of the total need. Consequently, the quality of the road network has continued to deteriorate. Progressively higher funding is required to restore it but this is difficult in the absence of off-shore financing. This is further hampered by the abuse and misappropriation of the Road Fund.

However, there have been a number of controversies and pitfalls regarding the administration of the Road Fund and related financing of road infrastructure development. The first relates to the declining Public Sector Investment Program (PSIP) which comprised a greater financing from central government. The appointment of ZIMRA by government to collect toll fees for ZINARA (from 2008-2013) retaining 10% to cover administration caused a lot of administrative glitches. Neither was there a memorandum of understanding nor was ZIMRA appointed by ZINARA. As such, ZIMRA was not answerable to ZINARA, thereby generating avoidable transaction costs. ZINARA accused ZIMRA of lacking transparency, corruption and delaying disbursement of collected revenue. Arrest of ZIMRA revenue collection personnel over revenue pilferage in October 2008 gave traction to the allegations. Revenue leakages are also exacerbated by the number of vehicles that are exempted. The Auditor General has also revealed wide evidence of abuse of the Road Fund through corruption, pilferage and improper accounting procedures in violation of Public Finance Management Act. Figure 5 below show disbursements of the Road Fund to Harare city council.



In relation to the RF, the AG has unearthed several cases of abuse of the fund. The 2018 AG Report for 2018 unearthed evidence of unauthorised allowances that were paid to board members whenever they attended workshops and other non-board committee meetings. The Auditor-General's report also showed that ZINARA board members had their tax liabilities paid by the organisation without approval from the minister, while their mobile phone allowances amounting to $137 417 were not taxed. The 2016 AG audit report also noted that salaries, allowances and other expenses at the organisation were at 11 percent of revenues above the 2,5 percent prescribed ratio in the Roads Act. A contractor engaged for road surfacing works at One Commando Barracks and Police General Headquarters was paid $748 116,9 without supporting documents, while $1,7 million was paid to the Airport Road contractor and the Department of Roads under similar circumstances. In the 2013 AG Report, it was noted that ZINARA was failing to account for USD 6 million from the Road Fund.

1.8 URBAN I AND URBAN II AND COLLAPSE OF CO-FUNDED LOCAL GOVERNMENT CAPITAL INVESTMENT PROGRAM (LGCIP)

Decentralisation in Zimbabwe has a fairly long history but its successes have been limited due to funding constraints. Local revenue sources through tax revenues have been weak to sustain the infrastructure needs of councils. However, significant efforts were made through Urban I and Urban II programs co-financed by the Government of Zimbabwe (GoZ) and the World Bank. The Urban I project, co-funded by the World Bank was implemented between 1984 and 1989. The program covered four urban councils which are Harare, Masvingo, Mutare and Marondera. The program focused on the provision of serviced residential stands for low cost housing and a total of 18185 stands were delivered against a target of 11349. The Urban I program was succeeded by Urban II program co-funded by the World Bank and the Nordic Development Fund. The project covered 21 urban councils and the timeline was 1992 to 1999 (World Bank, 2002). It covered both off site and onsite services with the prime focus on sewer and water, housing infrastructure, urban services and institutional development. Urban II focused on improving urban services and strengthening city governance and a host of other urban capital infrastructure investments. Kamete (2001) submits that the World Bank's Urban I and Urban II projects were aimed not only at endowing urban Zimbabwe with adequate, working infrastructure but also building the capacity of urban local governments in urban development and management.

The Urban II project (which focused on improving urban services and strengthening city governance) was successful in the provision of critical equipment such as bulldozers, excavators and refuse trucks that resulted in the increase in infrastructural stock and enhanced maintenance of the same. Many houses were constructed, roads surfaced, water works upgraded and sewerage systems modernised. Installation of office equipment such as computers and relevant software strengthened the financial management systems of councils through timely production of bills and accounts. However, the financial crises from 2000 made it difficult for the GoZ to provide counterpart funding, especially with inflation eroding the US dollar value of the Zimbabwe dollar funding. Building societies that were expected to finance more than half of the project costs through mortgage lending financed only 11% by completion, thus undermining the project's housing finance objective. At closing, the World Bank funded 47% of the total costs, up from the 17% share foreseen at appraisal (World Bank, 2002). The World Bank (2002) further submits that the project's ambitious attempt to maximize private sector housing finance could not realise the targeted potential, as it was grounded in a cursory and unrealistic appraisal of Zimbabwe's building societies. A credit rating of councils was conducted to determine their credit worthiness which then could be used to qualify for loans from financial institutions beyond the government loans. However, the results of the credit rating were never used although sufficient justification for failure to use the results are yet to be explored.

Urban II contributed to the improvement of the quality of services in urban councils. In Victoria Falls for example, a water treatment plant constructed under the programme quadrupled supplies to the town and in full operation today. In the same municipality, Urban II's residential sites and services brought significant improvements to the expanded low-income Chinotimba neighbourhood. In Bulawayo's low-income Pumula suburb, a health clinic and primary school supported by Urban II were successfully operating. The Bulawayo city council bought maintenance equipment through urban II whereas Masvingo City Council's Rujeko low income housing was successfully completed (World Bank, 2002).

The successor programme to Urban II was the Local Government Capital Investment Programme (LGCIP) which was to commence in 2000 until 2002 at a cost of USD 85 million. The programme was to be funded by the World Bank, GoZ and bilateral assistance. However, the arrearage of the GoZ to the World Bank coupled with the withdrawal of external support since 2000 consigned the programme to a pyrrhic victory. Ever since the exit of the World Bank and multilateral institutions in funding capital projects in local authorities, development of public infrastructure has been very minimal and insignificant in some cases

1.9 IMPACT OF INTERNATIONAL AND DOMESTIC DEBT OF STATE-OWNED ENTERPRISES ON LOCAL AUTHORITIES

Para-statals and State-Owned Enterprises (SOEs) have contributed significantly towards the public debt and invariably affecting local authorities' service delivery. Most (SOEs) are saddled in debt hence operate at a loss. They also require public subsidies to remain solvent and some have accumulated significant tax arrears. The sector is thus a net drain on public finances. Due to their heavy indebtedness SOEs have created contingent liabilities that become a source of fiscal risk. A 2017 survey by the World Bank indicated that besides the challenge of weak corporate governance frameworks as a key constraint, SOEs heavily depend on depressed revenues (reflecting the state of the economy), debt and other sources of financing including government transfers to fund basic operations. This has left SOEs with limited funding to finance capital projects such as rehabilitation and upgrading of infrastructure in capital intensive sectors such as utilities and network. Some of the tariff structures are kept very low and hence preventing full cost-recovery. Compensation from treasury is required for non-commercial services and this has not been forth coming. The fact that many SOEs in Zimbabwe are established and operated with both commercial and non-commercial objectives compounds this problem. However, most SOEs have struggled to meet their statutory obligations and pay for services rendered by local authorities. The central government has retained control over the pricing and tariff regimes of SOEs and local authorities' services as part of a broad populist agenda. For instance, local authorities' budgets are approved by the MLGPWNH before implementation. The MLGPWNH effected significant cuts on councils' budgets for 2020 despite rising annual inflation currently at over 500%, the increasing cost of the local government services production value chains, high foreign currency exchange rates and other factors.For example, the 2020 Gweru city council budget of 3,6 billion was reduced to 1.8 billion which is a 50% downward variation. Box 1: Impact of ZISCO steel debt on Kwekwe City Council and Redcliff Municipality.

1.10 THE CHALLENGES OF USING THE DOMESTIC FINANCIAL SYSTEMS TO FINANCE CAPITAL PROJECTS AND SERVICE DELIVERY IN LOCAL AUTHORITIES

Box 1: Impact of ZISCO steel debt on Kwekwe City Council and Redcliff Municipality

ZISCO Steel's debt, for instance, stood at US$494 million as at December 2018, with US$211,9 million of that being external loans owed to KFW (Germany), Sinosure (China) and Sumitumo (Japan) who are owed US$6 million. According to the schedule of the ZISCO Debt Assumption Bill, Ziscosteel owes US$211 912 400 in external loans, $6 095 620 to external suppliers, $57 696 085 in domestic loans and $219 113 219 to domestic suppliers, utilities and statutory obligations (Zimbabwe Iron and Steel Company Debt Assumption, 2018).As at December 2018, ZISCO Steel directly owed Kwekwe City Council RTGS$16 470 627 and Redcliff Municipality RTGS$11,099,138 in various taxes on services rendered to the councils. In addition, the company stopped operations in 2008, making redundant over 5 000 employees. The capacity of the former employees who are resident in the two local authorities to pay for council services was curtailed and hence the two councils have high debtors' books because of non-payment for services.

As Zimbabwe has been excluded from international financing through the Bretton Woods Institutions and other international financing institutions, government has turned to domestic financial institutions to finance capital projects both for national government and local authorities. Resultantly, domestic debt, which was previously negligible, has sharply increased to more than 25% of the GDP, along a seemingly unsustainable trajectory.

However, borrowing from the domestic debt market has been ineffective in smoothing the path of fiscal adjustment and avoiding private sector crowding out. It does not provide additional resources from abroad. Additionally, the interest rates from domestic financing markets are higher relative to external borrowing, further deteriorating the prospects for private investment.

1.11 INVASION OF LOCAL AUTHORITIES' SOURCES OF REVENUE BY THE NATIONAL GOVERNMENT

As already explained the debt trap has strangled the macro-economy and, in the process, limiting the fiscal options of the national government. This has led to the dwindling of the revenue sources of government leading to annual budget deficits. In order to bridge the budget deficits, central government has invaded some of the sources of revenue for local authorities such as vehicle licencing fees. Resultantly, local authorities have lost a major source of revenue from the issuance of vehicle licenses. Since 2009, local authorities lost the responsibility for issuing vehicle licenses which was centralised, withdrawing a strategic revenue source which had been the major source of financing road maintenance projects. Central government retained the collection and distribution of vehicle license fees, through Zimbabwe National Road Administration (ZINARA), a parastatal under the Ministry of Transport and Infrastructure Development. ZINARA disburses the funds on a quarterly basis, after the council prepares a programme of work and submits it to ZINARA for funding. The key factors that are considered by ZINARA as the basis for determining the grant to be disbursed to a local authority include the class of roads in an area, road condition, traffic levels and whether funding is needed for routine or periodic maintenance.

However, ZINARA funding for local authorities’ road maintenance work is reportedly lower than it had been prior to the transfer of this function to ZINARA, funding appears to go predominantly to larger urban areas, and is generally considered to be inadequate. The criteria used by ZINARA in disbursing the grants has also been criticised for lack of a clear scientific basis and hence can be manipulated and is biased. Councils have also previously complained that national government have influenced ZINARA to allocate the grant along political lines and hence disadvantaging opposition party led councils.

1.12 MISAPPROPRIATION OF BORROWED FUNDS AND STATUTORY GRANTS IN LOCAL AUTHORITIES

Disciplined access to borrowing is an appropriate vehicle of financing local authorities' capital investment programs. The use of credit for sustainable financing of capital development projects is justifiable considering the bulkiness of the projects and the compressed liquidity of local authorities; and because the repayment of credit over time represents a fairer distribution of infrastructure costs among the different cohorts of users during the useful life of the infrastructure. However, local governments' access to borrowing is risky as local officials are easily tempted to overspend and shift the repayment of debts to future governments and taxpayers. Consequently, there is a need to strike a balance between access to borrowing by local authorities and institutional mechanisms that preserve fiscal discipline.
The 2018 AG's Report shows that local authorities were borrowing for recurrent expenditures yet that had a negative bearing on public service delivery, as funds borrowed were not used for projects that generated resources for repayment of the loans and overdrafts. For example, Harare City Council borrowed US$32.5 million from CABS to fund salaries and terminal benefits of employees without ministerial approval provided for in the Urban Councils Act (Chapter 29:15).Gweru City Council and Mutare City Council were also implicated in borrowing funds for recurrent expenditures amounting to US$775 000 and US$5.4 million respectively.

Box 2: The us$144 China Import Export Bank loan to Harare City Council

Harare, like other urban parts of Zimbabwe, has experienced acute water shortages for decades due to dilapidated infrastructure and severe shortages of water treatment chemicals against a rapidly rising population. To address the water supply problems in the capital, the Zimbabwean Government signed a US$144 million contract for a loan from the China Export-Import (Exim) Bank in 2011 backed by a government guarantee. The loan agreement was targeted at the upgrading of waterworks and sewers so as to improve reticulation and boost water supplies to Harare. The loan facility was meant to rehabilitate, replace, install and commission equipment at Morton Jaffray and Prince Edward water treatment plants as well as the Crow borough and Firle sewer works.

A total of $44 million would be spent on rehabilitating Morton Jaffray, $17 million on the Crow borough and Firle sewage plants, while $4,5 million was designated for information technology (IT) and automated billing. Pump stations at Warren Control, Alexandra Park and Letombo were meant to cost $16 million, while $7 million would have been used for water treatment chemicals. Part of the loan was for the construction of a laboratory and purchase as well as installation of pressure valves, pre-paid meters covering 500 000 households and necessary working materials. The deal, which council ratified in 2013 and was supposed to be through within 36 months, was envisaged to increase water pumping capacity at Morton Jaffray to 614 mega litres (ML) a day from a paltry 400 ML.

However corruption has largely hampered the project as part of the funds disbursed were channelled towards purchasing 25 luxury cars for top management, which was contrary to what the funds were meant for. The vehicles acquired include Range Rover Discovery cars. Public media reports alleged that USD37 million was gobbled on administrative costs and allocated a paltry USD55 million for water treatment at Morton Jaffray water works. A commission appointed by the the Minister of Local Government, Ignatius Chombo composed of Alfred Tome, Ozias Bvute and town clerk Michael Mahachi was allegedly compromised because of inherent business interests. To date council is struggling to service the debt despite the scandals and hence presenting a classic case of debt injustice to residents of the city.

1.13 RECOMMENDATIONS

1.13.1 Central government

- A forensic audit of the public debt is required as a fundamental step towards a just and positive resolution of the debt crises and enhancing public confidence on the legitimacy of the debt.
- The national government should not guarantee a local authority's debt unless if approved by the Parliament
- All local authorities' debt must be registered with the Ministry of Finance who shall control and monitor compliance
- The national government should monitor local authorities debt to ensure that it does not exceed a prescribed percentage of local authorities' revenues in any year
- The national government should genuinely broaden the scope of devolution of power to enhance the competitiveness of local governments to leverage local resources for infrastructure investment.
- Strengthening public finance management systems through reforming the Public Finance Management Act and aligning it with the Constitution is important in order to avoid financial leakages. This will enhance prudent use of resources by local authorities to achieve value for money.
- The national government should focus not only at stabilising the public debt but equally at reducing it to sufficiently low and sustainable levels that do not hinder growth.
- The national government must rise to its obligations under international law, and adopt a proactive approach to entrenching gender equality and human rights in the public policy making value chain, including through the integration of gender sensitive human rights impact assessments into policy planning and debt management.
- Central government should adopt comprehensive approaches to the assessment debt sustainability, that juxtaposes human rights, with gender, social, environmental and development considerations, is critical in strengthening debt crisis prevention and buffering populations from the impacts of over-indebtedness
- Central government should review the process of issuing borrowing powers to local authorities in line with recommendations on item 1.12.

1.13.2 Local authorities

- Borrowing should strictly be channelled towards capital and productive projects and not recurrent expenditure. Borrowing proceeds can be used only for capital investment purposes, or put differently: no borrowing or credit proceeds can be used to finance current expenditures
- Local authorities should strike a balance between debt and revenues
- Expenditures on debt service (interest and repayment of principal) should not exceed a prescribed percentage of local authorities' revenues in any year
- Local authorities should explore the feasibility of municipal bonds as an alternative model of financing capital investment.
- Remodelling of Public Private Partnership or exploration of innovative ways of engaging the private sector in municipal service provision.
- Infrastructure projects should be carefully planned, engineered and properly costed for successful debt financing. This requires investment in project development services spanning market demand analysis to engineering design.
- Local authorities should explore and publish explicit financial strategies of how they seek to deliver sustainable levels of service in the context of debt. The strategies must form part of a local authority's strategic planning.

Conclusion

This paper analyses the impact of public debt on local authorities' service delivery. Zimbabwe is heavily borrowed considering the debt to GDP ratio. The purposes for which the debt was contracted is contested. There is a significant political factor in the ballooning of the public debt and high levels of corruption. This then renders the public debt in Zimbabwe a violation of fundamental rights and a classic case of debt and tax injustice. Despite the varying positions on the size of the debt, there is consensus that the debt has negatively impacted on capital investment in the public sector in general and local authorities in particular. Local authorities' economies have significantly contracted and continue to shrink with the suspension of the country from accessing concessional financing. Capital development projects have either been suspended, or are progressing slowly or have been cancelled. Borrowing from the domestic financial market is very expensive and considering the financial capacities of local authorities, repayment would be a challenging factor. There is therefore a need for innovative modelling in financing capital development projects and service delivery such as PPPs and issuing of municipal bonds.

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