Journal of Political Sciences & Public Affairs
Mabika, J Pol Sci Pub Aff 2015, 3:3
DOI: 10.4172/2332-0761.1000174
Research Article
Open Access

# Liquidity Crisis and Service Delivery in Zimbabwe Local Authorities

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## Abstract

The cash shortage in Zimbabwe local authorities has now reached unprecedented levels. With local authorities failing to pay salaries and allowances as expected and creditors are accumulating. This situation has developed because revenue collections are low, traditional sources of revenue have gone dry and Government has also stopped its assistance to local authorities. The liquidity crisis has had a negative effect on service delivery. There is no-more service being offered by local authorities and the single major reason is liquidity.

**Keywords:** Liquidity; Local authority; Service delivery

## Introduction

There is a deterioration of services provided by local authorities. The local authorities are pointing at poor cash flows as the root cause of the problem. Financial shortages have become a common cry in Zimbabwe local authorities. Though some scholars blame other issues like Ahwoi [1] blamed issues such as high rates of corruption, gross abuse of council property, high redundancy and staff turnover for problems experienced by local authorities. However the Zimbabwe Institute [2] associated the diminishing quality of service in Zimbabwe local authorities to the deteriorating macroeconomic situation. This paper tries to link service delivery and the liquidity crisis in Zimbabwe local authorities. Considering the role played by the cash shortages in Zimbabwe local authorities. Local authorities are failing to pay their staff and a number have in the recent past resorted to retrenchments. Some of the retrenched workers have not been paid their severance packages for more than a year now.

## Liquidity

Liquidity as defined by Dutoit [3] is the ability to honour short-term obligations on time by having enough cash available. This point at the ability to convert any current assets local authorities may have into cash at a particular point in time. Current assets available to local authorities include debts from rate payers, returns from investments, loans from short-term borrowing, earnings from income generating projects, user charges, and income from leased properties, rents and rates. Firer [4] is of the opinion that current assets are liquid as they can be transformed into cash within a period of 12 months.

## Sources of cash

Craythorne [5] identified two major sources of revenue for local authorities, as own revenue which include taxes, user fees and various licences and external revenue which comprise transfers from government in the form of grants and revenue sharing. The United Cities and Local Government (UCLG) agrees with Craythorne [5]when they cited the main sources of revenue for Zimbabwe urban councils as: the levying of assessment rates on property , tariffs or fees for service rendered, and loans for capital works from Central Government through the National Housing Fund , General loan fund in respect of other infrastructure like water and sewerage reticulation, roads and storm water drainage, and loans from the open market after obtaining necessary borrowing powers from the Minister.

## Loans

Section 290(1) of the urban Councils Act Chapter 29:15 enable the Zimbabwe local authorities to borrow money. Local authorities can only borrow for capital expenditure with full consultation with residents and the approval of the Minister. These borrowed monies can improve the local authority's liquidity position as well as improve service delivery. Borrowing channels are open but local authorities cannot borrow because they do not have the capacity to repay the loans. Their collections are too low to allow the use of this facility.

## Partnerships

Section 223(1) of the Urban Councils Act Chapter 29:15 allow local authorities to co-operate with the state or any other local authority or person. Local authorities can enter into partnership with private companies like the Zvishavane Town Council partnership with Mimosa, which has enhanced service delivery in Zvishavane. Such ventures help local authorities to bridge cash shortage gaps and enhance service delivery.

## Investments

The Urban Councils Act Chapter 29:15 Section 131(1) advices local authorities to invest if they have any surplus money. Investments can be done in various interest earning instruments with registered financial institutions, treasury bills, locally registered securities issued by the state or Municipality or any statutory body. Coutinho [6] sees income from investments as an important stream to local authorities. This kind of income will enhance service delivery. Local authorities do not have excess cash to invest in-fact they have now used up all investments that may have been they in the past due to the deteriorating macro-economic environment.

## Income generating projects

Local authorities are allowed by law to operate income generating projects of their choice. Coutinho [6] saw failure in Kwekwe Breweries and Dandaro Liquor marketing. None of the two have paid any dividend to Kwekwe Municipality in the last decade. In fact what Coutinho [6] saw was massive abuse of Council property and assets by both workers and councillors. As a result money which was meant to support the local authority in service delivery is used for personal

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**Received** July 01, 2015; **Accepted** September 15, 2015; **Published** September 25, 2015

**Citation:** Mabika H (2015) Liquidity Crisis and Service Delivery in Zimbabwe Local Authorities. J Pol Sci Pub Aff 3: 174. doi:10.4172/2332-0761.1000174

gain. Most income generating projects have folded due to the liquidity crisis and of course, miss-management by the local authorities. Hence corruption in local authorities is a major factor that has led to the liquidity crisis. Local authority managers are also paying themselves hefty salaries of between US $8 000 to 50 000 at a time when service delivery is compromised.

### Government grants

Central Government grants to councils used to come in two types block grants and tied grants. Block grants were unconditional in that central government would not specify the use of the money with council only accounting for the use. These grants were an important source of finance for implementing projects Tied grants are these moneys that would come with strings attached. They had to be spent on specific services indicated by central government or its agencies. Such money was common and important for financing services like education, health, roads and administration. Today such monies are limited and focusing on roads and health only pointing at a tight liquidity situation in local authorities. Zimbabwe Institute [2] wrote that with a reduction in Government grants and dwindling own resources local authorities are struggling to provide services to their constituencies. The Government is finding the going heavy because of the economic sanctions imposed on it by the west as a result government is not remitting even the constitutional provision of not less than 5% to local authorities and provincial councils. Section 301(3) of The Constitution of Zimbabwe Amendment (no 20) Act 2013 gives not less than 5% of national revenues raised in any financial year to provinces and local authorities. This money is yet to be disbursed from treasury. It will definitely make a marked improvement to the local authorities' liquidity position once it comes.

### User charges

Rondinelli et al. [7] asserts that cost recovery user charges have the potential of enhancing resource allocation by reducing wasteful usage since users pay from their own resources. But local authorities have a weakness in their capacity to collect. Hence the liquidity crisis and poor service delivery as a result.

Internal sources are important but not sufficient for the operations of the local authorities. This leads to poor liquidity in local authorities. As a result of this poor liquidity status poor service delivery is realised. What it points at is a correlating relationship between cash availability and service delivery. The UN HABITAT [8] saw insufficient funds together with weak administrative and technical capacity as major drivers of ineffective service delivery in Zimbabwe UNCHS [9] said local authorities are less cost effective when using the little resources that they have. They chase big, expensive firms to give contracts leaving behind small affordable firms during tender process. Leading to unfinished projects as the companies abandon the work due to non-payment.

### Effects of cash shortages

Local authorities are operating without enough technical staff in both Engineering and Health Departments. Qualified and experienced staff left due to non-payment of their monthly salaries as local authorities are failing to pay their staff. Computers are limited and local authorities continue to use manual systems in all departments. Local authorities cannot afford to purchase computer hardware and software for their operations. This is compromising service delivery at a time when e- government is the in-thing in business. Local authorities continue to use the brown folder at the expense of service delivery. Sithole et al. [10] wrote that Mutare City Council is crafting Budgets and Strategic plans with an ambition to end poor service delivery. However they are operating with a critical shortage of heavy machinery such as motorised graders and water treatment plans. There is continues breakdown of the few machines that are available. The machines are also underserviced due to shortage of funds. The machines spend a long time on the job without any service not even a minor oil change. Hence they finally give-in leading to unavailability of service. Some of the machines are poor quality as they were purchased with the idea of serving money for the local authority. Compromising on quality and hence the breakdown easily. Chakaipa [11] identified the liquidity in local authorities as a problem but linked it to loss of revenue on water provision due to inability to repair water meters and the use of estimates instead of the actual water consumption by the citizens. This again points at poor service delivery due to unavailability of cash [12]. Further problems being cursed by the liquidity crises include: failing to treat water, failing to maintain roads failing to pay debts thus service delivery is compromised and relations with private funders have gone bad leading also to loss of public confidence. This worsens the liquidity crisis leading to further depreciation in service delivery.

### Solutions to the liquidity crisis

**The Macro-economic situation**: Zimbabwe has relied under sanctions for more than a decade now. These sanctions have created a lot of problems for companies both public and private [13]. It would be good for Zimbabwe to introduce better economic management systems to cushion the institutions from the effects of the sanctions. A better economic environment will help institutions to maintain better liquidity positions as well as improve service delivery [14].

### Management

Transparent and innovative management is another solution that can improve liquidity in local authorities. The crop of current managers that is paying itself hefty salaries that range between US $8 000 and $50 000 cannot help the liquidity crisis [15]. The current managers are also corrupt to the point that they do not have the plight of local authorities at heart. Hence a change in management for the better can improve service delivery in local authorities.

### Citizen engagement

Citizen engagement is also important if local authorities are to improve liquidity and enhance service delivery. The residents need to be informed so that they make relevant decisions especially towards payments to local authorities [16]. Once the conflictual situation in place today is removed liquidity can improve as residents will own up their obligations and pay local authorities in time.

## Conclusion

The purpose of this paper was to expose the role of liquidity shortages in service delivery. The local authorities have several sources of revenue but some are currently not yielding and others are doing so poorly, due to a number of reasons [17-19]. As a result of the liquidity crisis service delivery is compromised or non-existing in Zimbabwe local authorities. The water is partially treated, roads have potholes, refuse is not collected, and clinics have no drugs. To improve the liquidity position the economy needs to improve first, management in local authorities needs to be propped-up, remove corrupt leadership and citizen engagement must be fostered in local authorities.

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