



UNIVERSITY
OF
LUSAKA

SCHOOL OF POST GRADUATE STUDIES

**Local Government Financing: An Analysis of the Effects of
Equalization Funds on Service Delivery in Selected Local
Authorities in Zambia**

HANSON C.K. CHISHIMBA
PHDGL 18110845

Submitted to the School of Post Graduate Studies in fulfilment of the requirements of
award of the Doctor of Philosophy in Governance and Leadership

2019

Declaration

This thesis titled: An analysis of the effects of equalization funds on service delivery in selected Local Authorities in Zambia, is a presentation of my original research work. Wherever contributions of others are involved, every effort was made to indicate this clearly, with due reference to the literature and acknowledgement of collaborative research and discussion.

Student Name : Chishimba Hanson

Date :

Signature :

Supervisors Recommendation

I Professor Eustarckio Kazonga has read and checked the thesis written by Hanson Chishimba and do hereby confirm that it meets the University of Lusaka set minimum standards. I, therefore, recommend that the document be submitted for verification and examination for the purpose of the award of the Doctor of Philosophy in Governance and Leadership

First Supervisor Name: Professor Eustarckio Kazonga, PhD

Signature:

Date:

Second Supervisor Name: Professor Everisto Nsenduluka, PhD

Signature:

Date :

I on behalf of the University of Lusaka do hereby confirm that I have read and examined the Thesis written by Hanson Chishimba and supervised by Professor Kazonga Eustarckio and Professor Everisto Nsenduluka. I, therefore approve this research work.

Name:

Signature:

Date:

Dedication

This thesis is dedicated to my father, for being a great mentor on how to be a man of character and embrace the spirit of hardworking to achieve what I aspire and to my wife, Angel and my Children, Sarai, Jeremiah, Ashley and Chikumbi for always been a constant source of support and encouragement during the challenges of research life.

Acknowledgement

This thesis becomes a reality with the intellectual, financial and moral support of many individuals. Foremost, I want to offer this endeavor to God Almighty for the strength, peace of mind and divine wisdom he bestowed upon me in order to complete this research.

I express my profound gratitude towards my treasured and supportive Wife, Angel, who is always by my side and helped a lot in making this study a reality and my lovely children, Sarai, Jeremiah, Ashley and Chikumbi who served as my inspiration to pursue this undertaking.

I am highly indebted to Professor Eustarckio Kazonga and Professor Everisto Nsenduluka for their invaluable guidance and constant supervision as well as providing necessary information regarding this research.

Many sincere thanks and appreciations go to my colleagues and people who have willingly helped me out with their abilities.

Table of Content

Declaration.....	i
Dedication.....	ii
Acknowledgement	iii
List of Tables	vii
List of Figures.....	viii
List of Acronyms used in this Study.....	ix
Abstract	x
CHAPTER ONE.....	x
INTRODUCTION	1
1.0 Introduction	1
1.1 Background of Study	2
1.2 Statement of the Problem	7
1.3 Objectives of the Study	9
1.3.1 General Objective	9
1.3.2 Specific Objectives	9
1.4 Research Questions.....	9
1.4.1 General Research Question	9
1.4.2 Specific Questions	9
1.5 Significance of the Study	10
1.6 Scope of the Study	10
1.7 Ethical Consideration.....	10
1.8 Definition of Key Terms	11
1.9 Organisation of the Thesis Report	12
1.10 Chapter Summary	13
CHAPTER TWO	14
LITERATURE REVIEW.....	14
2.0 Introduction	14
2.1 Empirical Studies.....	14
2.1.1 Functions of Local Government	14
2.1.2 Methods of Public Services Provision	19
2.1.3 Revenue and Expenditure Assignments for Local Government	25
2.1.4 Equalisation transfers and Service Provision	33

2.2	Research Gap	72
2.3	Chapter Summary	73
CHAPTER THREE.....		76
THEORETICAL AND CONCEPTUAL FRAMEWORK		76
3.0	Introduction	76
3.1	Theoretical Framework	76
3.1.1	Cost of Service Theory of Taxation.....	76
3.1.2	Benefit Theory.....	77
3.1.3	Efficiency Service Theory.....	80
3.2	Conceptual Framework	81
3.3	Chapter Summary	86
CHAPTER FOUR.....		88
RESEARCH METHODOLOGY.....		88
4.0	Introduction	88
4.1.	Research Design	88
4.2	Study Location.....	89
4.3	Study Population, Sample and Sampling Technique	90
4.4	Research Instruments	93
4.5	Reliability and Validity of Research Instruments.....	94
4.6	Data Collection	95
4.7	Data Analysis.....	95
4.8	Chapter Summary	96
CHAPTER FIVE		97
RESEARCH FINDINGS		97
5.0	Introduction	97
5.1	Local Government Equalization Fund	97
5.2	Council Budgets.....	98
5.3	Utilisation of Local Government Equalisation Fund	98
5.3.1	Expenditure on Personal Emoluments	98
5.3.2	Capital Expenditure	99
5.3.3	Expenditure on Service Provision.....	101
5.4	Trends in Service Provision.....	102
5.5	Fiscal Trends.....	110
5.6	Composition of Revenue	115

5.7	Fiscal Effort	118
5.8	Technical Capacity.....	120
5.9	Administrative Capacity.....	120
5.10	Chapter Summary	121
CHAPTER SIX.....		124
DISSCUSSION OF FINDINGS		124
6.0	Introduction	124
6.1	Expenditure Composition of Equalisation Funds	124
6.2	Methods of Service Delivery	128
6.2.1	Mix of methods of Service Delivery.....	128
6.2.2	Effectiveness of Methods of Service Delivery	130
6.3	Effects of Local Government Equalisation Funds	148
6.3.1	Financial effects.....	148
6.3.2	Horizontal and vertical fiscal imbalance	155
6.3.3	Technical and Administrative Effects.....	158
6.4	Chapter Summary	163
CHAPTER SEVEN.....		166
CONCLUSION, CONTRIBUTION AND RECOMMENDATIONS.....		166
7.0	Introduction	166
7.1	Conclusion.....	166
7.2	Contribution.....	168
7.3	Recommendations.....	169
REFERENCES		171
APPENDICES		179

List of Tables

Table 4. 1 Stratified Sample	91
Table 4. 2 Calculation of Sample Size	92
Table 5. 1 Projected Vs Disbursed Equalization Fund in Nominal Terms (Zmw/million)	97
Table 5. 2 Estimates of Revenue and Expenditure in Nominal Terms(Zmw/million)	98
Table 5. 3 Personal Emolument Expenditure in Nominal Terms (Zmw/millions).....	99
Table 5. 4 Capital Expenditure for 2016 Fiscal Year in Nominal Terms (Zmw/million).....	99
Table 5. 5 Capital Expenditure for 2017 Fiscal Year in Nominal Terms (Zmw/million).....	100
Table 5. 6 Capital Expenditure for 2018 Fiscal Year (Zmw/million).....	100
Table 5. 7 Service Provision Expenditure for 2016 Fiscal Year (Zmw/million).....	101
Table 5. 8 Service Provision Expenditure for 2017 Fiscal Year (Zmw/million).....	102
Table 5. 9 Service Provision Expenditure for 2018 Fiscal Year	102
Table 5. 10 Employed methods of service delivery	110
Table 5. 11 Fiscal Effort, Lusaka City Council	118
Table 5. 12 Fiscal Effort - Chisamba Town Council	119
Table 5. 13 Fiscal Effort, Luangwa Town Council	119
Table 5. 14 Fiscal Effort, Luanshya Municipal Council	119
Table 5. 15 Equipment's for Service Provision.....	120
Table 5. 16 Number of Technical employees.....	121

List of Figures

Figure 3. 1 Diagrammatic presentation of Lindhals Model	79
Figure 3. 2 Diagrammatic presentation of Bowens Model	80
Figure 5. 1 Trends in Service Provision for Lusaka City Council.....	103
Figure 6. 1 Three Thematic areas of effectiveness analysis	131
Figure 6. 2. Reasons for Using LGE	132

List of Acronyms used in this Study

CGC	Commonwealth Grants Commission
CHT	Canada Health Transfer
CST	Canada Social Transfer
ECA	Economic Commission for Africa
ETFF	Equalisation and Territorial Formula Financing
FC	Fiscal Capacity
FE	Fiscal Effort
GDP	Gross Domestic Product
HFI	Horizontal Fiscal Imbalance
IRA	Internal Revenue Allocation
IT	Income Tax
LA	Local Authority
LATCs	Local Authority Trading Companies
LCC	Lusaka City Council
LGA	Local Government Association
LGEF	Local Government Equalisation Fund
MLG	Ministry of Local Government
MMD	Movement for Multi-Party Democracy
MP	Member of Parliament
OECD	Organisation for Economic Corporation and Development
PPP	Public-Private Partnership
RALG	Rwandese Association of Local Government
RTS	Representative Tax System
SPSS	Statistical Package for Social Sciences
VAT	Value Added Tax
VFI	Vertical Fiscal Imbalance

Abstract

Study Title: Local Government Financing: An Analysis of the Effects of Equalisation Funds on Service Delivery in Selected Local Authorities in Zambia

Introduction: The Government of the Republic of Zambia established the Local Government Equalisation Fund to which, each year Parliament appropriates not less than five percent of the total amount projected as income tax for the Republic for that financial year. The purpose of the fund is to provide a source of financing for service delivery. The aim of this study was to analyse the effects of equalisation Funds on service delivery in selected Local Authorities in Zambia. To operationalise it, the study determined the financial, technical and administrative effects of equalisation funds and the extent to which Local Authorities utilise these funds.

Methods: Concurrent mixed methods approach was used. Within the mixed methods, explanatory sequential design was used, this involved two phases; an initial quantitative data collection phase, followed by a qualitative data collection phase, in which the qualitative phase built directly on the results from the quantitative phase. The population comprised registered property owners and Council officials in Lusaka City Council; Luanshya Municipal Council, Chisamba and Luangwa Town Councils of Zambia. The samples were drawn using stratified sampling and sample sizes were determined by the Cochran formula. Data was collected using questionnaires and analysed through descriptive and multiple regression analysis using the Statistical Package for Social Sciences (SPSS) version 25. Qualitative data was analysed using a narrative approach.

Results: Local Authorities do not adhere to the prescribed guidelines on the utilisation of equalisation funds. They have been spending a large proportion of equalisation funds on personal emoluments and Councilors allowances leaving little or nothing for capital improvements. Further, the study established that Local Authorities do not have adequate technical, administrative and financial capacity to provide public services to the growing population within their boundaries. Consequently, they have been rendered functionally inadequate. The study revealed that, most Local Authorities have employed various methods of service delivery among them is the use of local government enterprise, contracting out, franchise, self-help groups and in-house provision. The employed methods of service delivery have proved to be very effective in the case of Town Councils owing to the small population in these areas, while in City and Municipal Councils, effectiveness of these methods is still below residents' service expectation.

Conclusion: Local Authorities do not have adequate technical, administrative and financial capacity to provide public services to the growing population within their jurisdictions and do not adhere to the prescribed guidelines on the utilisation of equalisation funds. Further, the study has concluded that, with the introduction of equalisation funds, estimates of revenue and expenditure for Local Authorities have been rising steadily, while their fiscal effort has been declining. Essentially, the link between local revenue and local expenditure is broken. To redress this, the study recommends a redesigning of the fiscal architecture and the strengthening compliance to financial management regulations by Local Authorities

Keywords: Equalisation funds, Local government, Fiscal capacity, Revenue base, Service Delivery.

CHAPTER ONE INTRODUCTION

1.0 Introduction

In Zambia, the law and mandate relating to Local Authorities is contained in the Republican Constitution (Amendment) Act No. 2 of 2016, with the meticulous law on Local Government elaborated in the Local Government Act No. 2 of 2019. The Zambian constitution as amended in 2016 holds that, a Local Authority shall administer the District, oversee programmes and projects, make by-laws and perform other prescribed functions in the District. Assuredly, the amended Constitution provides for the establishment of a sound, reliable and predictable financial base. This has been done to enhance capacity of Local Authorities to initiate, plan, manage and execute policies in respect of matters that affect the people and promote social, spatial, financial and economic planning, at the district level.

Under the Local Government Act, section 16 has listed Seventy Nine (79) functions of Local Authorities whose details are given in the first schedule of the Act. These functions have been divided into Ten (10) broad categories namely; general administration, public amenities, public streets, registration, agriculture, public order, community development, public health, advertisement, sanitation and drainages.

In the performance of the preceding functions, Local Authorities face daunting constraints which have been compounded by the increase in expenditure responsibilities and the unfortunate free rider problem for most Council services. Undoubtedly, the fiscal situation of Councils has been worsened by the erratic disbursement of fiscal grants and the erosion of resource base through interplay of various actions by Central Government. The current macroeconomic situation has undermined the capacity of the Zambian population to pay for services provided by the Local Authorities. Consequently, there has been a failure by Local Authorities to provide essential services at acceptable standards in addition to perpetual defaults on payments to workers, suppliers and statutory bodies (Loljih, 2008).

The following section will cover the background of the study by giving a synopsis of the history of Local Government finance and service delivery in Local Authorities. Further,

statistics on the growing problem of inadequate service delivery in Local Authorities will be elaborated in the statement of the problem to prove the required need of the study. The chapter will then cover the objectives and the research questions before the rationale and limitation of the study as of today and in current context. Before defining the operating terms in the proposal, management of ethical issues will be promulgated as required.

1.1 Background of Study

In Zambia, the development of local government administration can be espoused in four phases using the principal pieces of legislation that have guided the operations of Local authorities; the first phase operated under the Local Government Act of 1965, the second phase operated under the Local Administration Act of 1980 and the third phase, operated under the Local Government Act of 1991. Currently, Local Government is operating under the Local Government Act No. 2 of 2019.

The Local Government Act of 1965 was the basic piece of legislation for Local Government for the period 1965 and 1980. It was operationalized on 1st November of 1965. This system of Local Government was adopted from Britain. The principal objective of this Act was to redress inequality and ensure equitable distribution of public services. It should be noted that before independence, the provision of public services was biased towards areas occupied by whites. Further, the 1965 Act provided for three types of Local Authorities; one rural and two urban authorities. All Councils were alienated into wards. Each ward was represented by an elected Councillor for a three-year period. Under this Act, the minister responsible for Local Government was empowered to appoint persons to a Council (Local Government Act of 1965).

In terms of organisational structure, each municipal council was politically headed by a Mayor and Deputy Mayor. In the case of rural and township council, there was a Chairperson and a Vice Chairperson. These were elected annually by Councillors from among themselves. Town Clerks were executive heads for a city and municipal councils while the executive wing of a township and rural council was headed by a Council Secretary.

In a quest to improve the effectiveness of Local Authorities, the Local Government Act of 1965 was repealed and replaced by the Local Administration Act of 1980 in January 1981.

Government argued that under the 1965 Act, local government proved ineffective. This was in part attributed to the lack of integration and cooperation between different levels and institutions at district level. To redress this, the 1980 Act had three principle objectives; to decentralize power to the people, to ensure an effective integration of the primary organs of local administration and to enable district Councils play a more direct and substantial role in the development process.

In terms of organisational structure, each Council was then composed of the District Governor, a District Political Secretary, two Trustees, Chairpersons of ward committees of the United National Independence Party (UNIP) and all Members of Parliament of the district. Additional council members include; one representative from each of the trade unions operating in the district, one representative from each of the security forces, a representative from each of the officially constituted mass groupings operating in the district and one Chief elected by all Chiefs of the district. Further, the Act established a Secretariat for each Council, under the supervision of a District Executive Secretary (Local Administration Act of 1980).

Under the Local Administration Act of 1980, the hassle of inappropriate structures intensified the degeneration of institutional and administrative capacity of Local Authorities. The merging of the local party structure and the Local Authority for instance, opened avenues for widespread financial mismanagement and diversion of Council resources to party activities.

Following the change of government in 1991, a new Local Government Act was enacted. The new government under the Movement for Multiparty Democracy (MMD) repealed the 1980 Act and enacted the Local Government Act of 1991. Prominent alterations in the 1991 Act were the clear institutional divorce of party structures from the Council and the abandonment of the integrative role of the district Councils. Most importantly was the re-introduction of representative local government based on universal adult suffrage. Under this act, the members of the Council include; elected Councillors, Members of Parliament (MPs) and two representatives of chiefs in the district. There was a Mayor and Deputy Mayor for city and municipal councils and a Chairperson and Vice Chairperson in the case of district councils. These were elected annually by the Council from among the elected Councillors (Local Government Act of 1991).

In its quest to give effect to the decentralisation policy and provide for an integrated local government, the 1991 Act was repealed and replaced by the Local Government Act No. 2 of 2019. In accordance with the new Act and the amended Constitution of 2016, Councils are now composed of democratically elected councillors in accordance with article 47(3) and a Mayor or Council Chairperson elected in accordance with article 154. In addition, there is a Deputy Mayor or Deputy Chairperson elected by the council from among the elected councillors and not more than three chiefs representing all chiefs in the District. The executive heads of Local Authorities are Town Clerks (city/municipal) and Council Secretaries (town councils). In terms of responsibilities, the Councillors are in charge of policy formulation while the executive wing has the responsibility of rendering technical advice and policy implementation. All in all, the key actors in local government include the Minister, councillors, and the appointed council officials (Local Government Act No. 2 of 2019).

It should be noted that, Local Authorities are multi-purpose bodies responsible for delivering a broad range of services in relation to roads, traffic, planning, housing, economic and community development, environment, recreation and amenity services as well as fire services (Kemp, 2007).

The general functions of Local Authorities are; to establish and maintain sanitation and drainage systems, to facilitate the removal of refuse and effluent, to construct and maintain public roads, streets, sanitary lanes, bridges and water courses and remove all obstacles thereof. Additional functions include; registration of marriage, deaths and clubs as well as the establishment and maintenance of street lighting in public places, fire fighting and prevention services in order to protect life, property and natural resources from damage by fire. In any setup, Local Authorities, control premises and persons engaged in manufacturing and those engaged in preparations, storage, sale or distribution of food or drink including intoxicating substances. In land administration, they grant planning permissions and control land use in the interest of public health, safety and orderly development of the Council area. Further, Councils are mandated to create and maintain health centres, cemeteries, crematoria, mortuaries and public amenities such as parks, zoos, gardens and are supposed to entomb the dead and destitute persons who die in the area of the Council (Local Government Act No.2 of 2019).

Central to the fulfilment of the Local Government mandate are financial resources, yet, most of the Council services are not paid for by the residents and currently, municipalities are owed billions of Kwacha and the ratio is climbing. To finance their operations and provide public services, Local Authorities collect revenue in the form of; property tax, personal levy, rent, fees and charges. Regrettably, government has taken away all the lucrative sources of income from councils such as sales tax, income tax, road tax, water, and electricity charges. This has resulted in the creation of a vicious circle of horizontal and vertical fiscal imbalances owing to the differences in local tax base and assigned expenditure responsibilities respectively (Martinez *et al.*, 2006).

It can be observed that, the revenue generating power of the Central Government by far outstrips that of Local Authorities charged with the responsibility of public service provision. This points to the dominance of the Central Government in revenue generating capacity and therefore leads Local Authorities to widely rely on transfer from the Central Government for them to provide essential service to the public. The palpable presence of vicious imbalance of revenue and expenditure assignments in Local Authorities has resulted in poor service delivery (Faguet, 2001).

The preceding imbalances have been caused by interplay of complex national and local political and policy issues such as government decision in 1992 to discontinue funding to council and the scrapping of 35% sales tax share. In addition, Central Government gave a directive to lease or sale all commercial ventures run by Councils and transferred the motor vehicle road taxation function to the Road Traffic Commission from Local Authorities in the 1992 budget speech (Government of Zambia Budget Speech-1992).

The financial position of Local Authorities was worsened by Central governments issuance of statutory instrument number 55 of 2000 and the enactment of the Water and Sanitation Act no 28 of 1997, which transferred the water and sewerage functions to utility companies, as well as the 1997 amendment of the ratings act which drastically exempted a number of rateable properties (Government of Zambia SI 55 of 2000, Rating Act amendment No. 12 of 1997).

Consequently, the fiscal and social effect of these changes is manifested in the poor road and drainage system, uncollected garbage and unsanitary facilities which is evident in the recent

death of over 100 people from the cholera outbreak which affected most towns in Zambia especially Lusaka in the year 2018.

Besides, many Local Authorities are unable to adhere to statutory and recurrent obligations. The fiscal challenges are so severe that they fail to pay salaries and wages to their employees on time. What exacerbate these problems are regressive policies and directives that are constantly issued by government. One such retrogressive directive was the sale of Council houses and the transfer of the water and sewerage responsibility from Councils to utility companies. These directives have indelibly narrowed the revenue base of Councils. Additionally, the existing legislation does not support the development of a robust local government system. It is no wonder that most Local Authorities are overstaffed and paradoxically do not have well qualified staff in key positions. Under the prevailing poor conditions, it is argued that it is very difficult to attract qualified manpower to manage Local authorities (Loljih, 2008).

Arising from the above, it can be inferred that the few qualified employees in Local Authorities are just on standby for greener pastures. To make matters worse, the majority of the policy maker in this case the Councillors, are academically challenged and under qualified. It is highly unusual that such councillors can raise motions and deliberate policies that aim to enhance social and economic development within their communities. Correspondingly, the current voting patterns and voter apathy have resulted in the election of policy makers that are intellectually incapacitated but are merely popular among the electorate (Garcia *et al.*, 2001).

Generally, improbable policies and directives tied with political rhetoric define the administration of Local Government in the country. With the Decentralisation Policy in place, there is hope that service delivery by Local Authorities will improve. The policy provides for the devolution of decision-making powers and resources to Councils. Further, the policy proposes a citywide election of Mayors and Council Chairpersons. This proposition has been actualised with the first Mayoral election conducted in 2016. The election of the Mayor through universal adult suffrage will ensure that office bearers are accountable to the electorate and not their fellow Councillors that elect them to these positions as the case was (Zambia's Decentralisation Policy, 2003).

1.2 Statement of the Problem

The establishment of the Local Government Equalisation Fund upstretched service expectations of residents within Council jurisdictions. It renewed hopes of improved service delivery, improved capital investments and conditions of service within local government spheres. According to the Local Government Amendment Act No. 12 of 2014, government established the Local Government Equalization Fund to which each year Parliament appropriates not less than five percent of the total amount projected to be collected as income taxes for the Republic for that financial year.

The purpose of the fund is to provide a predictable, stable and more sustainable source of financing for service delivery and local development initiative. It is meant to enhance capacities of Councils to perform their functions as listed in the first schedule of the Local Government Act No.2 of 2019. Further, the fund is intended to narrow the existing gaps in economic growth and development among Local Authorities. It is disbursed using a formula based on population residing within the jurisdiction of each Council, adjusted by poverty levels to ensure an equitable allocation of the funds across Councils.

In a quest to redress the rising trend of inadequate and poor service delivery, Local Authorities are expected to use at least Twenty percent (20%) of the funds received, in any financial year, to finance capital expenditure, Twenty one percent (21%) on service provision and Fifty nine (59%) on personal emoluments (Local Government Amendment Act of 2014).

The continued presence of heaps of uncollected garbage, the unkempt burial sites, the irregular statutory inspections in market stalls, restaurants, butcheries and the poorly maintained local roads, manifests the tragedy of inadequacies of Local Authorities to deliver services. According to Lolojih (2008), the capacity of Councils to deliver adequate and quality services in an effective, efficient and transparent manner has remained below the expectation of local communities. He argues that Councils lack managerial abilities, appropriate technology, and financial capacity to deliver services in Zambia. Implicitly, for Local Authorities to deliver any meaningful public service, Central government budgetary subvention becomes a necessary ingredient and precursor.

The dependence of Local Authorities on central government transfers is so significant that without them, most of the Local Authorities would not even provide essential services or cover their recurrent expenditure. Further, the increasing transfer of expenditure responsibilities from Central Government to Local Authorities has exerted financial pressure on the already struggling Local Authorities. It should be underscored that increase in Local government responsibility requires a matching increase in the financial resources of Local Authorities.

It is clear that, the revenue base of Local Authorities has been diminishing following government decision to take away most if not all the lucrative sources of income from Councils such as sales tax, income tax, road tax, water and electricity charges. The financial problems worsened when government in 1992 decided to discontinue funding to council and the scrapping of 35% sales tax share as well as the 1997 amendment of the ratings act which drastically exempted a number of rateable properties. This has resulted in the creation of a vicious circle of horizontal and vertical fiscal imbalances owing to the differences in local tax base and assigned expenditure responsibilities respectively. No doubt, these imbalances have affected service provision.

Despite the introduction of the equalisation fund, the performance of Local Authorities as manifested in the provision of municipal services still remains meagre and a discernible problem in Zambia. Even now, although government and non-government have mobilized financial and technical resources to improve municipal performance, there is lack of research and quality evaluation to inform policy and practice. Although there has been considerable growth in the empirical research on the effect of increased financing to Local Authorities by other institutions and organizations, little research has been done to analyse the effect of the equalisation fund on service delivery in Local Authorities in Zambia.

With the meagre and discernable problem in service delivery by Local Authorities, question arises on the effects of the equalization fund on service delivery. Therefore the aim of this research was to analyse the effects of equalization funds on service delivery in selected Local Authorities in Zambia.

1.3 Objectives of the Study

1.3.1 General Objective

To analyse the effects of Equalization Funds on service delivery in selected Local Authorities in Zambia.

1.3.2 Specific Objectives

- a) To determine the extent to which Local Authorities utilize equalization funds against prescribed conditions
- b) To determine the methods of service delivery employed and their effectiveness
- c) To establish the technical, financial and administrative effects of equalization funds and document the output on Local Authorities.

1.4 Research Questions

1.4.1 General Research Question

What has been the effect of equalization fund on service delivery in selected Local Authorities in Zambia?

1.4.2 Specific Questions

- a) What is the expenditure composition of equalisation funds in Local Authorities?
- b) What methods of service delivery are currently in use by Local Authorities?
- c) What are the technical, financial and administrative effects of the Local government equalization fund?

1.5 Significance of the Study

By analysing the effects of the Local Government Equalization Fund on service delivery in selected Local Authorities in Zambia, the study has contributed to a better understanding of the causes of poor service delivery by Local Authorities in Zambia. Secondly, it has helped development stakeholders and government to understand how Local Authorities utilize the equalization fund and better appreciate the technical, financial and administrative effects of the equalization fund. It has revealed important information on the state of Local Authorities and their capacity, which is very useful in informing sound policy. Further, the study has made recommendations on how to solve the problem of inadequate service delivery. Finally, it has identified critical topics that need further research.

1.6 Scope of the Study

In many countries there is an enormous diversity between Central and Local Government in terms of revenue assignments and expenditure responsibility, expressed in the type and level of service delivery. To redress fiscal imbalances, equalization payments are made by spreading wealth from richer parts of the Country to poorer areas essentially for promoting service delivery and local self-governance, or from richer individuals to poorer ones if a progressive personal tax system is in place. However, this research primarily analysed the effects of equalization funds on service delivery in Local Authorities. In line with this, the research focused on three dimensional effects of equalization transfers, that is, technical, administrative and financial effects. Geographically, the study concentrated on Lusaka City Council; Luanshya Municipal council, Chisamba and Luangwa Town Councils.

1.7 Ethical Consideration

Ethical concerns were taken into consideration from the start of the analysis to the final thesis report. Ethical approval was sought from the ethics Committee of the University of Lusaka. The researcher accepted individual responsibility for the conduct of the research and ensured that informed consent from respondents in the study was obtained in order to make sure that all respondents participate freely and voluntarily. The selected individuals were informed that the study is purely for academic purposes. Therefore, confidentiality was guaranteed before

embarking on data collection from respondents. Further, the respondents were free to withdraw from the research process if they felt uncomfortable.

1.8 Definition of Key Terms

Equalization funds are conditional or unconditional transfer of funds by the central government to a sub-government with below-average revenue per capita, intended to ensure that all sub-governments provide comparable levels of service and taxation (Dahlby and Warren, 2003).

Local Authority is an organization that is officially responsible for all the public services and facilities in a particular area (Boetti *et al.*, 2012).

Vertical fiscal imbalance is a mismatch in the revenue powers and expenditure responsibilities of governments (Martinez *et al.*, 2006).

Horizontal fiscal imbalance emerges when sub-national governments have different abilities to raise funds from their tax bases and to provide services (Ibid).

Fiscal relates to public revenues (taxation), public spending, debt and finance (Smart, 2007).

Autonomy is a guarantee given by the Constitution to certain units of the government. It is intended as a guarantee of separation of powers and of independence from political agencies (Chitembo, 2009).

1.9 Organisation of the Thesis Report

The report has been structured into seven chapters.

1.9.1 Chapter One

Chapter one has covered the background of the study by giving a synopsis of the history of Local Government finance and service delivery in Local Authorities. Further, statistics on the growing problem of inadequate service delivery in Local Authorities was elaborated in the statement of the problem. The chapter then covered the objectives and the research questions before the rationale and limitation of the study were presented. Further, the chapter defined the operating terms and promulgated management of ethical issues.

1.9.2 Chapter Two

The second chapter examined the corpus of literature that has been done on the effects of equalization transfers on service delivery in Local Authorities. Focus was on relevant studies that have provided evidence on the effects of equalisation transfers on technical, financial and administrative capacities of Local Authorities.

1.9.3 Chapter Three

Arising from the review of literature, the third chapter propounded theories and concepts that underpinned the study. This chapter introduced and described the theories and concepts that explain the problem of inadequate service provision by Local Authorities.

1.9.4 Chapter Four

The fourth chapter of the report explained the methodology that was used in the study. Under the methodology the following items were outlined; population, sample size, sampling technique, research instruments and data analysis.

1.9.5 Chapter Five

In chapter five, the findings of the study were presented. The findings are presented both qualitatively and quantitatively by use of models, graphs, tables and figures. The findings were presented in accordance with the research questions and thematically fall under talking and topic subheading for clarity.

1.9.6 Chapter Six

Following the presentation of findings of the research, chapter six has discussed the research findings.

1.9.7 Chapter Seven

After the discussion, Chapter seven has presented conclusions and various recommendations.

1.10 Chapter Summary

The chapter covered the background of the study by giving a synopsis of the history of Local Government finance and service delivery in Local Authorities. Further, statistics on the growing problem of inadequate service delivery in Local Authorities were elaborated in the statement of the problem to prove the required need of the study. The chapter then covered the objectives and the research questions before the rationale and limitation of the study as of today and in current context. Before defining the operating terms in the proposal, management of ethical issues were promulgated as required. The chapter concluded by postulating the organisational of the rest of the thesis.

The following chapter examined the corpus of literature that has been done on the effects of intergovernmental fiscal transfers particularly equalization payments on service delivery in Local Authorities

CHAPTER TWO LITERATURE REVIEW

2.0 Introduction

This chapter examines the corpus of literature that has been done previously on the effects of intergovernmental fiscal transfers particularly equalization payments on service delivery in Local Authorities. The focus of this literature review was on relevant studies on local government finance and those that have promulgated various methods of public delivery of services as well as those that have provided evidence on the effects of equalisation transfers on technical, financial and administrative capacities of Local Authorities. It should be noted that the literature review has been thematically arranged and that empirical studies included those that have been done outside Zambia especially in developing Countries, which have common socio-economic and political characteristics with Zambia. The review starts by postulating functions of Local Government and provision of public services. It further looks at Local Government finance with particular reference on intergovernmental transfers. Within each thematic area, an international, regional and local perspective has been highlighted.

2.1 Empirical Studies

2.1.1 Functions of Local Government

The assignment of functions to various spheres of government is fundamental to effective and efficient public service delivery. It is the precondition for good local governance. Assignment of functions to Local Authorities normally focuses on three basic typologies namely; administrative functions, political functions and fiscal functions. The first; administrative functions relate to the universal process of organising human, technical and financial resources. The second; Political functions, grants sub-national governments political decision-making powers. When a country decentralises political functions, representative institutions at sub-national level exert some autonomous political role in undertaking functions and managing resources (Carlsen, 1998:3). These sub-national institutions are often times elected at the national level. Fiscal decentralisation is the third typology of function and relates to assignment of revenue and expenditure responsibilities to Local authorities.

In deciding which functions to relinquish, countries are guided by several principles, such as economies of scale, externalities, equity and heterogeneity of demands. However, the widely applied principle in functional assignment is subsidiarity which dictates that the functions or tasks in question should be undertaken by the layer with the smallest jurisdiction that can do so efficiently and effectively (Von Hagen and Hepp, 2000).

Similarly, Rao and Chelliah (1991) have argued that, assignment of functions across spheres of government has been very difficult to resolve for most countries, including Zambia. However, most countries largely use the principle of subsidiarity. This principle suggests that government functions should be assigned to the lowest level of government that is capable of efficiently undertaking this function. For instance, if fines for grazing on a reserved pasture can best be collected by Local government than the Central Government, the principle provides that such a revenue function should be assigned to the Local Authorities. In addition, the standard tax revenues such as income tax and other inter-country levies and taxes can best be collected by Central Government, and should therefore be assigned to Central Government.

The nature of the model and the corollary assignment of functions can best be understood from the constitution of the country. In this instance, for Ireland, the Local Government Act of 2001 is the principal law on Local government. It provides for structures, powers, functions and duties of Local Authorities. The act recognises that Local Authorities are multi-purpose bodies responsible for delivering a broad range of services in relation to roads, traffic, planning, housing, economic and community development, environment, recreation and amenity services, fire services and maintaining the register of electors. Assuredly, the law provides for local government elections every five years (Ireland-Local Government Act of 2001).

In the Republic of Germany, the Constitution lays down the functions of Towns, Municipalities and Districts. The functions of Local Authorities are many and highly influenced by politics. Functions are not determined forever and change with social and economic convictions of politicians. There are two categories of functions of Local Authorities in Germany; own sphere and transferred sphere of responsibility. The municipality's own spheres of activities are also known as self-government tasks. Within this sphere, there are voluntary and mandatory self-government tasks. It is the discretion of

municipalities to perform a voluntary self-government task. It is entirely up to a municipality whether it wants to establish a theatre, a museum, sports field or municipality hall. The mandatory task includes local government matters that have to be performed by the municipality as a result of federal or land law. The most important self-government tasks are; water, electricity, district heating, gas, land use planning, wastewater services and waste removal (Kemp, 2007).

In the case of the Kingdom of Lesotho, Section 106 of its constitution empowers parliament to establish Local authorities in order to enable urban and rural communities to determine their affairs and to develop themselves. Unlike in other countries where the assignment of powers and functions to various spheres of government is a constitutional matter, the constitution of Lesotho does not necessarily deal with the assignment of functions to Local authorities. Assignment of functions is a matter for legislation. The Local Government Act of 1997 is the organic piece of legislation on decentralisation and Local governance in Lesotho (Lesotho-Local Government Act of 1997).

The Act also establishes political structures in the form of Councils that are elected directly by the citizenry. The legislative powers of these Councils are limited to making by-laws (s 42) but subject to approval by the Minister (s 44). Section 5 of the Act, although it is couched in fairly broad terms, is instructive on the powers of Local authorities in Lesotho. Section 5(1) provides that:

...every local authority shall, subject to the powers reserved to or vested in any other authority by this Act or by any other written law, be the authority within its administrative limits charged with the regulation, control and administration of all matters as set out in the First Schedule.

In terms of section 5(2) of the Act, community councils perform exclusively the functions in the Second Schedule. The section is fairly permissive on what the Local Authorities can or cannot do. The functions are demarcated in terms of the two Schedules attached to the Act in section 5. Refer to Appendix VI.

For the Republic of Zambia, the law and mandate relating to Local Authorities is contained in the Republican Constitution amendment no. 2 of 2016, with the detailed law on Local Government elaborated in the Local Government Act No. 2 of 2019. The law provides for the

establishment of Councils and their functions. Further, the amended Constitution provides for the establishment of a sound, reliable and predictable financial base. This was done to enhance capacity of Local Authorities to initiate, plan, manage and execute policies in respect of matters that affect the people and promote social, spatial, financial and economic planning, at the district level.

Under the Local Government Act, Section 16 has listed Seventy-Nine (79) functions of Local Authorities whose details are given in the first schedule of the Act. These functions have been divided into ten broad categories namely; general administration, public streets, registration, public amenities, agriculture, public order, community development, public health, advertisement, sanitation and drainage.

Therefore, the overall functions of Local Authorities are to establish and maintain sanitation and drainage systems, to facilitate the removal of refuse and effluent, to construct and maintain public roads, streets, sanitary lanes, bridges and water courses and remove all obstacles thereof. Additional functions include; registration of marriage, deaths and clubs as well as establish and maintain a system of; street lighting in public places, fire fighting and prevention services in order to protect life, property and natural resources from damage by fire. Furthermore, Local Authorities, control persons and premises engaged in manufacturing, preparations, storage handling, sale or distribution of food or drink including intoxicating substances. In land administration, Councils control the use of land and erection of buildings in the interest of public health, safety and orderly development of the Council area. Local authorities are mandated to establish and maintain health centres, cemeteries, crematoria, mortuaries and public amenities such as parks and gardens. They also provide for the burial of the dead and destitute persons who die in the area of the Council jurisdiction (Local Government Act Cap 281).

The strength of Local Authorities lies in their ability to provide public services that are in line with local requirements. The functions of Local government are viewed in the broader context of Central Government per se. A number of arguments suggest that Local Governments should be assigned adequate powers of local taxation to finance their expenditure responsibilities rather than having to rely on Central Government grant (Chernick, 2000).

According to Castells (2001), Local Authorities are responsible for the provision of an extensive range of public services in communities. In addition, Local Authorities promote the interests of local communities, including the social, economic, environmental, recreational, cultural, community or general development of an area. Undoubtedly, Local governments play increasingly more critical roles in delivering basic infrastructure services, such as roads, transportation and water, and social services, such as education and health. The effective and efficient provision of public services contribute to the progressive deepening of local democracy, the alleviation of regional inequalities, the promotion of broader and deeper citizen participation in public affairs, and the overall strengthening and efficiency of the public sector.

Bird and Rodriguez (1999), contend that Local Authorities provide and maintain housing, provide amenities, facilities and services related to artistic and cultural activities, sports and games, general recreational and leisure activities, libraries, civic improvements such as monuments, environmental and heritage protection and the public use of amenities. They also plan cities by deciding whether to grant or refuse planning permission for building and development in your area. It also creates a Development Plan which sets out its planning policies and predicting the future of their respective communities, and the direction in which they ought to proceed. They too, have the leeway, to accurately determine which measures will or will not lead to growth and to the promotion of the community's wellbeing. However, sources of revenue are limited and do not always match the requirements. As a result, Local Authorities must prioritise services in a systematic and methodical fashion. In this regard planning is necessary to improve efficiency of services in order to free more funds for providing such services.

Indisputably, Local Authorities provide essential services such as roads and bridges, fire services and drainage, control dangerous places and buildings, abattoirs and knackeries and provide and maintain graveyards and burial grounds. The aim of social services is to provide a quality of life for the socially disadvantaged that is at par with that of all other members of society. Services are provided for those with special physical and mental challenges, single-parent families, children and the elderly. Social services may be divided broadly into public support, such as public financial assistance, and welfare services, such as those for children, childbirth, the elderly and those with special physical and mental challenges. Furthermore, Local Authorities grant licences to street traders to allow them to sell goods on the street and

to casual traders to allow them to sell goods at casual trading areas designated by the city, county, town or borough council. For environmental conservation purposes, Local Authorities are engaged in regulation and guidance based on statutes, by monitoring, measuring and controlling pollution, playing an active role in fighting pollution and through the drive to protect the natural environment (De Mello and Lago-Penas, 2011).

2.1.2 Methods of Public Services Provision

In the works of Bell (2011), the provision of public services such as health care, education, sanitation and criminal justice is a key task for government. People care about public services and depend on them being delivered well because they underpin human welfare and economic growth. They provide the most common interface between people and the state. Their functioning shapes people's sense of trust in and expectations of government. It is of vital importance that public services need to be delivered with integrity, centred around citizens and responsive to their needs, particularly the needs of the most vulnerable. Promoting greater transparency and enabling ordinary citizens to assess the quality, adequacy and effectiveness of basic services, to voice their needs and preferences and to become involved in innovation. This offers an opportunity to enable better use of public funds, and improve service delivery.

Evidently, public services account for a large proportion of government budgets, but increased spending has often not been matched by improvements in outcomes. In the worst case, public services can be bedevilled by corruption which leads to money intended for books, teachers, dispensaries, medical supplies and infrastructure being misappropriated by officials or private contractors (World Bank, 2003). Around the world, children leaving school are still unable to read and do basic arithmetic, and the quality of healthcare remains uneven.

Burgess and Stern (1993), contend that, just increasing resources, equipment, financial, or personnel, does not guarantee that the quality of education or health care will improve. The quality of service delivery is critical. Admittedly, even where the integrity of public resource flows can be secured, approaches to public service delivery designed for a previous era struggle to respond to present day needs driven by complex challenges, such as those created by aging populations, chronic health conditions, mega cities, poverty and inequality.

In most circumstances, public services are traditionally organized in a way that puts the public as the recipient of a standardised service and only have a passive role. This contrasts with innovations in other areas of life such as retail, travel and media where people are used to giving feedback on the goods and services they receive, and playing an active role in making choices. Citizens are connected like never before and have the skill sets and passion to solve problems. Local people often know what the solutions to problems in their area is, but are rarely empowered by bureaucratic processes, and are instead facing public services which may be impersonal, irrelevant, and inefficient (Bird and Rodriguez, 1999).

Currently, governments are experimenting with redesigning parts of the system so that citizens can play a more active role as a user community for public services. This can mean participative processes and forums, community monitoring and citizens' budgets, or new forms of commissioning services. Technology and open data enable a different kind of participation. Open government data allow anyone to write a citizen-facing application using government data, creating new interfaces to government, and opening up new possibilities (Bird *et al.*, 1995).

No doubt, Local Authorities in all parts of the world play an increasingly important role in the delivery of fundamental public services. In their quest to deliver these services, Local Authorities face increasingly bigger challenges as a result of rapid and chaotic urbanization as well as the impacts of frequent natural disasters caused by climate change.

Worse still, the recent global financial and economic crisis has further aggravated these challenges. Arguably, the fundamental problem confronting most local authorities, especially those managing cities in developing countries, is the widening gap between the availability of financial resources and municipal spending needs. One of the main reasons for this increasing fiscal gap is the rapid growth of urban populations, which creates an ever-increasing demand for public services, new public infrastructure, and its maintenance (Borge, 2011).

Additionally, Garcia and Alban (2001), postulate that, Local Authorities are faced with the responsibility of bringing development to people by providing a number of services. However, it is quite evident that Local Governments are not empowered; they are inefficient and are not democratic enough to deliver these expected services. Most developing nations

fail to avail Local Governments the importance they deserve in public service delivery and in the end fail to devise a systematic approach to development. Local Governments need to become pro-active in generating funds to sustain their activities. Dependence on traditional sources of funding like government grants must be analysed with great care.

With the pending autonomy that will come with Decentralisation in Zambia, Local Government will no longer be able to put the blame on government and hence must start putting their house in order now.

Generally, Local authorities have always had the legal power to make use of different forms of service delivery. In England, up to the mid-1980s, Local Authorities provided most of their services in-house with their own departments. Following the introduction of compulsory competitive tendering in the Local Government Act 1988, authorities were legally required to open many of their services to competitive tender. This requirement was replaced by the 'Best Value' regime under the Local Government Act of 1999, after which many forms of alternative service provision have continued to flourish. Reductions to Local government funding during the 2010-15 Parliament obliged Local Authorities to experiment with alternative forms of service delivery, seek to reduce overheads, and explore new means to raise revenue (Ahmad, 1996).

To provide services, Local Authorities use various methods of delivery. In light of this, the following sections outline the various methods of public service provisions that have been pursued by Local Authorities. It should be noted that a number of the approaches outlined here exist in England, Scotland, Wales, Northern Ireland, South Africa and Zambia, but they may operate under different legislative provisions. This implies that, councils' roles and options in different countries may differ slightly from those set out below.

A) Shared services

Legal provisions of Shared Services refer to two or more authorities providing a given service to their electorates on a joint basis. Sharing may take place between neighbouring authorities or non-neighbouring authorities. It may take place between county and district councils, district councils, or between metropolitan boroughs. Shared services may be provided via a joint in-house department or they may be jointly outsourced. Governance of shared services

can take place via a joint committee between the participating authorities, or simply through agreements between the executives of the participating authorities.

The legislative authority for Local Authorities to share services is contained in the Local Government Act of 1972. Section 112 provides that Local Authorities may appoint officers to enable them to discharge their own functions and any functions they carry out for another Local Authority. Section 113 allows a Local Authority to enter into an agreement with another authority to place its officers at the disposal of the other authority, subject to consultation with the staff concerned and negotiation about any changes in terms and conditions. Additionally, section 1 of the Local Authorities Goods and Services Act of 1970 enables a Local Authority to enter into an agreement to provide another Local Authority with goods and services, including administrative, professional or technical services.

Additionally, the general power of competence gives Councils another legal route to provide shared services. It provides that Councils wishing to deliver shared services by trading for a commercial purpose that is, for profit, must do this via a company structure. The immediate rationale for Local Authorities which have decided to share their service provision with other Local authorities is often financial. They may also seek service improvements and improved internal effectiveness. A further rationale may be to tap into greater levels of expertise. Councils do not need to be geographical neighbours to share services (Local Authorities Goods and Services Act of 1970).

De Mello and Lago-Penas (2011), argue that sharing services does not necessarily lead to significant changes in the way that services are delivered. This is just the concept of 'public service transformation'. Simply 'bolting together' management structures to achieve short term cost savings is a tactical solution, not a recipe for long term success, and may leave the bigger strategic prizes of partnering on the table. Comfort with ambiguity, multiple relationships and flexibility in structure, skills and behaviours seem vital to longer-term partnering success. Leaders and their human resource functions need to think about developing and supporting the verb of 'partnering', rather than the noun of a single partnership. They suggest that a locally tailored approach was vital to successful sharing of services. Engagement with Councillors and affected staff was also important.

Gosh and Gosh (2008), revealed that, contracts and partnerships with other public bodies have increased significantly, common examples include: shared management teams; joint service provision; joint commissioning of social care; community budgets; joint transport and economic regeneration strategies; and more joint ventures with the Government through ‘accountable body’ status.

The Local Government Association (LGA) has produced a compendium of shared services as well as a number of resources. The latest version, compiled in October 2015, shows that currently at least 337 councils across England are engaged in 416 shared service arrangements resulting in £462 million of efficiency savings. A map of shared services, for England only, is also available, as is a breakdown of the financial benefits realised by different types of shared services. The LGA contend that, while the map clearly demonstrated the huge savings sharing services can bring, with the biggest partnerships saving as much as £2.5m per year, more than half of all partnerships saved less than £100,000. While back office functions, such as legal, audit and human resources, are the most popular services to share, the LGA said they tend to offer the smallest savings. The biggest savings were made in sharing procurement and capital assets.

It must be emphasised that, any model of service delivery that moves away from direct provision by Local Authorities is likely to raise questions about the democratic accountability for the service. In law, an authority that arranges for another entity to provide its services remains legally responsible for them. However, it can be argued that alternative models of service delivery reduce accountability in practice. Shared services raise the possibility of diffuse accountability. Alterations to a shared service will require the sharing councils to agree before changes are made. This can either affect the sharing arrangement itself or detract from participating councils’ control. For instance, Hammersmith and Fulham changed political control in May 2014, leading to the Councils to step back in some respects from the ‘Tri-Borough’ arrangements.

B) Outsourcing

Local Authorities have the power to outsource provision of services to private or third sector organisations under section 135 of the Local Government Act 1972. However, this was modified by the introduction of compulsory competitive tendering and Best Value. Today,

authorities may decide to outsource services as they see fit, either singly or jointly with another authority, provided that quality and value for money are maintained (Local Government Act of 1988, Local Government Act of 1999).

There are usually a variety of reasons a Local Authority might wish to outsource services. The theoretical basis of outsourcing derives from the notion of competition as the driver of efficiency, quality improvement and innovation. The theory is overlaid with practical considerations around cost-cutting in an age of austerity and the need to tackle failures in public services (Bucovetsky and Smart, 2006).

In case of poor performance by the contractor, Local Authorities may choose to insource functions which have been contracted out, or as a strategic decision to restructure service provision. Insourcing, like outsourcing, is not necessarily a panacea leading to higher quality services at a lower cost. For instance, Islington Borough Council insourced house repairs in 2013, but had to invest some £2 million in setting up the in-house service from scratch (Fiszbein, 1997).

In addition, outsourcing of public services can pose challenges due to the implications of accountability. Contractors are not covered by Freedom of Information legislation, and cannot be obliged to provide information about their activities though they are free to do so voluntarily and the Local Authorities may specify requirements for openness in the contracts themselves. There are also examples of public bodies refusing to release details of contract terms and values on the grounds of commercial confidentiality. Outsourcing can lead to Local Authorities being 'locked in' to contracts lasting for more than one electoral cycle. The contracts may be drawn up in such a way as to restrict the capacity for a change in political control to lead to a change in how services are provided.

C) Local Authority Trading Companies (LATCs)

An increasing number of Local Authorities have set up Local Authority Trading Companies (LATCs). Local Authorities do establish a company if they wish to carry on trading activities for profit. They may use powers to trade found in the Local Government Act or under the general power of competence. Any profits made by a wholly or partly-owned company can be reinvested in other council services. In addition, section 4 of the 2019 Act permits

authorities, via the general power of competence, to provide a service on a commercial basis through a company, though this can only be done for things that the council can do for a non-commercial purpose. Where a Local Authority has statutory responsibilities to provide specific services to individuals, these services cannot be provided on a commercial basis. Guidance on matters to be considered by Local Authorities when deciding whether to use their trading or charging powers was published by the LGA in 2012.

In terms of management, Local Authority Trading Companies are governed by normal company law, and must be run according to the wishes of their shareholders. Like any company, they must pay Value added tax (VAT) and corporation tax, and are subject to business regulations. Trading and commercial activity through LATCs are distinct from shared services. The former are typically used to provide goods or services to the general public or the private sector, whereas the latter (shared services) represent agreements between different elements of the public sector. Shared services do not have to be delivered via a company structure (Dillinger *et al.*, 2001).

Furthermore, wholly-owned trading companies are likely to be more amenable to traditional concepts of accountability than shared services or contracting out, because they remain under the control of the relevant Local Authority. Control will be less direct, as authorities will not retain day-to-day control over trading companies. They would, therefore, have to instigate changes in their capacity as sole shareholder. With regard to community budgets, local bodies' capacity to develop joint strategies and pool budgets can be influenced by the need to be publicly accountable, to local electors or to Parliament, for their spending. Most public bodies are required to ensure that their budgets are spent in accordance with their strategic priorities, as approved by Ministers. Partnerships and shared budgets make their accountability more diffuse (Bahiigwa *et al.*, 2004).

2.1.3 Revenue and Expenditure Assignments for Local Government

The fundamental problem confronting most Local Authorities, especially those managing cities in developing countries, is the widening gap between the availability of financial resources and municipal spending needs. One of the main reasons for this increasing fiscal gap is the rapid growth of urban populations, which creates an ever-increasing demand for public services, new public infrastructure, and its maintenance (Borge, 2011).

Similarly, Martinez *et al.* (2006), notes that most cities in developing countries depend mostly on central government transfers, with lesser revenues derived from property taxation and service charges. The more lucrative sources of revenue potentially suitable for financing urban areas, such as income taxes, sales taxes, and business taxes, continue to be controlled by the Central Governments. Where Local Authorities are able to derive revenues from property taxes and service charges, meaningful tax increases are in most cases denied by Central Governments for fear of losing political support from the citizenry. In some cases, these proposals are rejected by Councillors within the Local Authorities themselves for fear of political backlash from local taxpayers.

To put it differently, there are huge vertical imbalances in most countries at the subnational level in terms of sharing responsibilities and available fiscal resources. Generally, many Central Governments refuse to pay the political and financial costs of the decentralization of roles and responsibilities.

On the whole, for a viable and responsible fiscal future, cities in developing countries should make use of significant sources of tax revenues as well as non-tax revenues collected through user charges and fees. Sufficiency of own revenues is the key to a city's improved ability to deliver necessary goods and services and to better accountability of local officials to their constituents. Own revenues should be complemented by intergovernmental transfers to address differences in expenditure needs and fiscal capacity across cities; and also, for cities to support the implementation of central government programmes (Bird, 2000).

In order to effectively address the challenge of mobilizing adequate financial resources, urban authorities in developing countries should consider using mechanisms such as municipal bonds, bank loans, municipal development funds, funds from institutional investors such as pension funds, corporate bonds, equity markets and public-private partnerships (PPP). Borrowing from capital markets is an alternative way to mobilize financial resources for municipalities. Yet in order to borrow, cities must first demonstrate that they are creditworthy (Boetti *et al.*, 2012).

In the works of Dillinger *et al.* (2001), municipalities need income in order to be able to perform their tasks. The most important sources of income include fees and contribution,

taxes, financial allocations from the federation, income from selling building land or income from real estate and loans. Fees are charged if a specific municipality service is used for instance usage fees for a visit to a swimming pool or administrative fees for issuing passport. The municipalities procure some of their funds from contributions such as development contribution for roads or spa contribution. The purpose of the contribution is to increase the operative capability of the municipality. They are to be paid by people who will gain a direct or indirect advantage from the municipality services. Other important sources of income include trade tax, real property tax and proportionately, income or road vehicle tax.

Arguably, income from fees, contribution and taxes are not enough to finance Local Authority tasks. For this reason, the municipalities receive state allocations from the federal within the framework of Local Authorities' fiscal equalisation. This fiscal equalisation is designed not to only generally improve the financial situation of municipalities; it is also to balance out extremely large differences in the taxable capacity of Local Authorities as well as to be able to bear the special burden of central municipalities that provide services for the surrounding areas. Since the sources of income listed above are usually not enough to cover all expenditure, the municipalities are allowed to take out loans (Faguet, 2001).

Bird *et al.* (1995), adds that taxes should be imposed in cases where user fees are not available. As a general rule the national government has a strong comparative advantage in collection of revenues relative to subnational governments. The advantage arises in part because the capacity to collect the major taxes, including the personal income tax, corporate income tax, value added tax, and customs, is generally enhanced by jurisdiction over a wider geographic area. Further, many countries assign Local Governments a narrow set of revenue instruments, including such choices as amusement taxes, vehicle taxes, various charges and user fees, and stamp duties. Local Governments are also frequently assigned the property tax, which can be a good local tax source, though it generates modest revenues in most countries except for those coming from a British tradition.

Where differences in revenue-generating options exist across cities in a country, larger cities are given greater flexibility than smaller places, creating an additional imbalance. The revenue generating problem is exaggerated at the periphery of large urban areas and in smaller cities because economic activity, the location of businesses, and the site of corporate headquarters are concentrated in larger cities. The outcome is greater tax revenues in big

cities and an enhanced ability to find tax handles, large businesses and visible activity from which to collect taxes. In addition, the collection systems are often more developed in larger cities, though they may be bureaucratic and inefficient. Thus, the difficulty of collecting revenues is more pronounced in smaller towns and outside big cities. Limitations on the access to local resources raise their opportunity cost in the public sector and emphasize the importance of spending them well and on local priorities (Ter-minassian, 1997).

In the works of Devas and Kelly (2001), service delivery is impeded when Local Governments are unable to mobilize the necessary resources to finance appropriate levels, even when demand is present. The outcome is almost surely uneven service delivery across cities because of differential capacities to collect revenues. Smaller urban areas and the periphery of cities are most likely to be disadvantaged and would need to exert much greater efforts to generate the same amount of revenue as those with relatively greater tax bases. Moreover, higher tax rates in smaller cities may exacerbate the problem by causing mobile residents and businesses to move to lower tax jurisdictions.

No doubt, better access to resources is the only solution to service-delivery problems arising because of poor revenue collection systems. This requires a combination of access to better tax instruments, an improved vertical and horizontal transfer system, and a willingness of governments to exercise the revenue authority that they have. Still, it is important to realize the service delivery issues and alternatives discussed above will not improve service delivery that is impeded because of inadequate resources.

A research finding by Yilmaz (2009), associates the problem of inadequate service delivery with tax administration. Accordingly, the lack of a modern tax administration has hampered both the day-to-day implementation of revenue assignments, and adversely affected general government revenue collections in many transition countries like in Russia. In Baltic's, Russia, and other countries of the former Soviet Union, the tax administration is a central government agency exclusive responsibility for collecting taxes at all levels of government. Regional and Local governments do not have their own tax administrations.

The lack of effective control over the regional and local offices of the central tax administration and the de facto dual subordination of tax administrators to the central tax authorities and to sub national government officials has had an important impact on tax

collections at all levels of government. Regional and local officials may be more interested in preserving the economic viability of local enterprises which provide employment and a tax base for sub national taxes than ensuring that federal taxes get paid. They may, therefore, pressure tax officials to be selective in their collection efforts. Furthermore, sub national officials may press tax administrators to employ more resources to the collection of sub national taxes than the low yield of these taxes may warrant. Even among the more advanced reformers, local capacity in tax collection is generally low, which reduces the effectiveness of tax collections (Bird, 2001b).

In another research conducted by Rao and Chelliah (1991), inadequate service delivery is associated with geographic variations among different districts within a federal form of government. Accordingly, geographically vast countries like India face the problem of horizontal fiscal imbalance because natural endowment, climate, and physical conditions have significantly affected provision of essential services. Consequently, economic opportunities are not uniformly available to population residing in different districts of India. This can be manifested through significant difference among regions in the level of per capita income, levels of unemployment rate and physical quality of life.

It is for this reason that, poor service delivery seems intrinsic in almost all federal states. As a regulation, federal governments tend to collect most taxes while sub-national governments are often responsible for more service expenditure than can be financed from sources of revenue directly under their control. The resulting difference between expenditure and revenue of different level of government is called fiscal imbalance. It occurs when there is a lack of coordination between public expenditures and public revenues.

Furthermore, a research conducted by Eyraud and Lusinyan (2013), clearly indicates that variation in capacities arising from revenue generating power of different districts is the cause of poor service delivery in Australian. However, because measurements of these differences are done within each State and are not calculated on a fully uniform basis, it is not possible to give an accurate measure of the extent to which revenue capacities and costs of services differ between authorities.

In another research conducted by Melkamu (2004) contend that, the main factors contributing to poor service delivery in Benishangul region are explained by narrow revenue base of the

region, which largely depends on direct personal income tax, weak administrative and planning capacity, and high fiscal needs of the region resulting from inherent low economic and social development. As a result, the fiscal capacity of the region has remained far below its expenditure requirements. The weak fiscal position of the region, as opposed to its high fiscal needs, has resulted in high vertical fiscal imbalance.

According to Lockwood (1999), there are three basic building mainstay of local government finance, namely; expenditure responsibility to different levels of government, revenue responsibility from tax and non-tax mechanisms and intergovernmental fiscal transfer.

One problem regarding the assignment of revenue sources in many developing countries is that while sub-national governments need to have at least some revenue discretion in order to fully benefit from fiscal decentralization reforms, central governments often seem unwilling to provide a significant degree of real revenue autonomy to sub-national governments for instance, in setting tax rates or pursuing defaulters. In addition, revenue decentralization often causes increased sub-national fiscal inequality with wealthier regions being able to collect more revenues than poorer ones. In these cases, equalization grants or other intergovernmental fiscal transfer schemes become necessary to ensure that sub-national governments have adequate revenues to fulfil their expenditure responsibilities (UNDP, 2007).

Borge and Ratts (2003), note that reforming municipal finance is not easy. Perhaps the most significant challenges facing financing of urban authorities in developing countries are related to political economy issues. These issues are critical to understanding the consistent refusal of the central government authorities to decentralize significant tax revenues, as well as the common refusal of Local Authorities to adequately use the tax revenue authority they are granted. Therefore, Local Authorities need the capacity and political will to implement reforms.

This implies that, they should generate political support among urban constituents to introduce the necessary legal and institutional changes with the aim of generating increased revenue through greater tax rates, improved tax collection and reduced tax evasion. Moreover, Central Governments should offer municipal authorities more financial autonomy to restructure their tax bases and greater jurisdiction over revenue collection. These measures

require conviction and commitment. They cannot happen in a vacuum, but are shaped and influenced by the political economy dynamics and the realities of each country. In that sense, each situation is unique and the reform process and design should be adjusted to reflect local and national circumstances (Shah, 1994).

Likewise, high grant levels can also generate the problem of Local Authorities operating under a soft budget constraint (Kornai *et al.*, 2003). Central Government may be unable to commit credibly to a policy of no bailout of Local Authorities that get into budgetary difficulties, as they may fear being blamed for high local tax increases and may feel obliged to supplement grant funding to prevent this.

Baretti *et al.* (2000), argues that in the Leviathan model of government growth, financing Local Governments by central grant rather than local taxes enables a cartel to be set up between Local Governments where a system of competing local taxes is replaced by a uniform central tax. The effect is to reduce competition between Local Governments and may thereby allow them to expand provision above the optimum level. All these arguments suggest that the design of a system of local government should not leave Local Governments dependent on a high level of grant but that instead they should be allocated adequate powers to raise their own revenue through local taxes.

One way of addressing the problem of high grant levels would be to re-examine the allocation of functions to Local government. If, as is currently being debated, education were moved out of the hands of Local Authorities and instead were directly funded by Central Government this would reduce the proportion of central grant in local government funding. If the change were combined with the introduction of a voucher finance scheme the move would be decentralising rather than centralising, but such a move does not seem to be politically feasible at present. In education, and in social services, those who deplore any element of 'postcode lottery' stand in opposition to the arguments for local choice. Again, in both education and social services, voucher funding could provide decentralisation of choice to the level of individuals, whilst largely avoiding a postcode lottery effect (Smart, 2007).

In light of the above, financial viability is paramount and governments should strive to ensure that Local Governments are fiscally able to perform. Local Governments must have the ability to collect and disburse revenue in a manner that will enhance the development of

urban areas. The grant system practised in Zambia has proved unsustainable and unable to meet the needs of this century. When revenue is collected by Central Government, it is not remitted adequately to the Local Authorities. With increasing urban populations, local administrative units are failing to provide residents with necessary services (Fiszbein, 1997).

According to the Zambian Constitution, as amended in 2016, a Local Authority is competent to levy, impose, recover and retain local taxes. Further, the constitution provides for the establishment of the Local Government Equalisation Fund and gives powers to Parliament to annually appropriate monies to the Local Government Equalisation Fund which shall be disbursed by the Ministry responsible for finance to Local Authorities. The Government may provide additional funds and grants to a Local Authority as prescribed.

In the words of Von Hagen and Hepp (2000), the case for decentralization of government lies mostly on the service-delivery side and not the revenue side of government. Thus, Local governments often find financing of service delivery difficult, as they are constrained to less productive revenue instruments, leading to a more likely inconsistency between service delivery demands and resources at the local level. Service delivery will be significantly impeded, even if demand for the services exists, unless systems are in place to allow sufficient mobilization of local resources.

User fees are an exception that can provide an effective local revenue source and are usually the best option for financing local services. An important advantage is that user fees simultaneously allow determination of the appropriate level of services and provide a financing source for service delivery. If fees are set properly, users obtain the service as long as they are willing to pay the marginal cost of production and the service is unavailable to those who are unwilling to pay the marginal cost. The level of services will be efficient because it is only obtained by those willing to pay the marginal cost (Smart, 1998).

It should be emphasised that, user fees can only be imposed when the services can be priced, such as with water, sewerage, intra-city transit and electricity. User fees are poor instruments where pricing will inefficiently crowd out consumers, such as with basic education, or where collection may be costly or inefficient. Objections to user fees are also sometimes espoused because they are regressive and low-income households may have little access to the services

and still other means of addressing access for low income households should generally be found while relying on user fees to raise revenues (Bird and Vaillancourt, 1998).

2.1.4 Equalisation transfers and Service Provision

Although rapid urbanization has created economic opportunities for many cities, it has also resulted in serious challenges for municipal governments such as increased air and water pollution, transportation gridlock, deteriorating infrastructure, increased violence and crime, rising poverty and urban slums, and widening income disparities. Local governments face pressure from residents to expand and maintain hard services such as water, sewers and roads, as well as soft services such as social services, education, and health. Demands are also coming from businesses to improve transportation and information technology infrastructure to help them compete internationally. Businesses are also looking for services that will attract the knowledge workers, that is, services that enhance the quality of life in the city such as parks, recreation, and cultural facilities (Ahmad, 1996).

Stauss (2005) adds, that services are not physical resources but economic transactions exchanged for money, comprising of the exchange of specialized skills and knowledge. He further insists that goods constitute tangible materializations of knowledge and activities, and thus are nothing more than distributional mechanisms for services. Similarly, Rao (2005) seems to be of the same opinion when he defines services as intangible activities performed by machines or persons or both for the purposes of creating value perceptions among customers. He further stresses that since services are intangible activities, or benefits produced by the service provider and in association with the consumer, their quality results in perception and value assessment by the consumer.

In contributing to service provision, Das and Hammer (2007) postulate that services can be categorised in a number of ways including; the type of entity providing them, the type of user and the nature of the services provided. The categories of services include private services, public services and collective or joint services. Accordingly, public services include all services provided by the government as well as all services where the government has a significant influence. Further, public services can be provided directly by the government or indirectly, where the government is not the direct provider but still plays a role in their provision through regulation or a financial contribution. The most obvious public services are

those directly provided by some level of government, such as police protection or building inspection.

On the other hand, Humphreys (1998), holds the view, that public services are those services which are mainly, or completely, funded by taxation and that typically, public services would include the following areas of public management: central and local government, the health, authorities, education, defence, justice/home affairs and non-commercial semi-state organisations. Public services can also be provided by private firms, for example, solid waste collection and disposal, or by voluntary organisations, for example, community volunteers of a fire brigade. In such cases, while the government does not provide the service it is involved in the process, perhaps by providing funds, establishing regulations or some other means. Examples of this type of arrangement would include the contracting out of local government services, such as refuse collection and local transport, to private companies, as well as the privatisation of certain central government functions, such as the prison service.

It should be noted that, under normal circumstances, public services providers do not operate for financial profit or require immediate payment for goods or services prior to delivery. If public services are charged for, then they are not usually sold to customers at commercial prices set to produce profits. In addition to their primarily non-commercial character, public services are often distinguished by an absolute, or at least comparative, lack of competition in the normal market sense of seeking to entice customers away from their competitors or rival service providers. Indeed, public services are often monopolistic or oligopolistic.

Adding to the discussion, Hala and Kremer (2009), defines service delivery as the actual producing of a service such as collecting refuse and disposing it or lighting the streets. They argue, that depending on the kind of service being offered, each service has a primary intervention of transforming the customer and that the client himself or herself is the principle beneficiary. Whether it is learning new ideas or new skills, acquiring healthier habits, or changing one's outlook on family or society, only the individual served can accomplish the change. He or she is a vital co-producer of any personal transformation that occurs. The service provider or agent can only use his or her skills and conduct activities to facilitate the process.

As a crucial responsibility of government and government institutions, the public service should deliver services that a society requires to maintain and improve its welfare. To do this, government institutions require organizational structures and suitably qualified people who must be supported to deliver the services they are responsible for.

Besley and Ghatak (2007) note that, public services are delivered by a nexus of relationships between beneficiaries, politicians and service providers. They further insist that it is necessary to analyse the incentives that govern the behaviour of politicians and service providers, if services are to match the best interest of the beneficiaries. Public service delivery is characterized by compliance with rules and it is determined by inputs. This is evident given the fact that the role of formal contractual relationships is often quite limited or typically absent in public service delivery, when compared to the market.

According to Tamrakar (2010), public services should be concerned with what customers want rather than what providers are prepared to give. Yet in most of the developing countries public service delivery is characterised by ineffective, cumbersome, too procedural, costly, red taped and not transparent systems. Regrettably, public servants have acted as masters without any sense of accountability and transparency instead of acting as servants of people. However, the citizens have become familiarized to the enhanced service delivery from the private sector and thus, they now view the public sector as another provider of services for which they pay taxes.

Aminuzzaman (2010) in his contribution to service provision, argues that although Local authorities are the frontline local government organization closest to people, the scope and quality of service delivery is one of the most critical areas that have significantly tinted their credibility and institutional image.

According to Fjeldstad *et al* (2010), some of the causes of poor service delivery in town councils include; councillor interference in administration, inadequate public participation, inadequate alignment of budget with the requirements of the Central government, lack of political and administrative leadership, inadequate infrastructure and shortages of skills. Other service delivery impediments include; land tenure and consequential non-rateability of land, inadequate resources, the substandard nature of infrastructure, the limited powers

of Local Authorities to enforce health and education services control, exemption of some areas from building controls, the polarized views of the stakeholders and a history of central government agencies circumventing Local Authorities approvals and involvement.

A study conducted by Aminuzzaman (2010) in Bangladesh revealed that some of the critical institutional challenges of service delivery at the level of Local Authorities include limited manpower and resources. Considering the work load and responsibilities, Local Authorities are understaffed worse still, they lack logistical support like computers, transport and managerial capability as well as resources to design and run innovative service delivery in areas like employment generation, health and education. What worsens the problem is that there are no formal links even between the standing committees of the Local Authorities with the extension workers of the corresponding line ministries of central government. Such isolation makes lots of the services of Local Authorities dysfunctional and ineffective. This also deprives the Local Authorities of getting technical assistance and other professional support from the government line agencies. Additional challenges include; political manipulation, lack of appropriate rules and regulation, ineffective monitoring, lack of accountability and transparency, non-cooperation from central-government based bureaucracy, limited community understanding, exclusion of women, highly centralized project and programme design, limited and insecure revenue base, poor relationship between administration and elected representatives.

Baretti *et al.* (2000), contend that improving the level of service delivery is always a question of resources and governance. The quantity and quality of local public services and the efficiency with which they are delivered in a metropolitan area depend, to a considerable extent, on how its governance institutions especially its formal governmental structures but also civil society, business associations, and non-profit organizations function. Governance determines how efficiently costs are shared throughout the metropolitan area, how service delivery is coordinated across local government boundaries, how effectively local residents and businesses can access governments and influence their decisions, how accountable Local governments are to their citizens, and how responsive they are to their demands.

Access to a range of services, including water, sewer, education, fire protection, transportation, and others, is key to a high quality of life and a productive economic

environment. These services are often delivered poorly in developing countries and access to them varies widely since they are normally localized in both consumption and delivery. Inadequate delivery is particularly a problem at the periphery of large cities and in small urban areas, which lowers consumer satisfaction and weakens production. Lost output not only has implications for the local area but in aggregate can also harm the broader macro economy. Poor service delivery can also lead people and businesses to relocate to areas where services are more plentiful, thereby congesting services and activity in the core of metro areas (Pisauro, 2001).

Smart (2007), postulates that demand for services may be low in some areas, either because the residents have low income, or movement to these areas was because of low demands. Different demographic groups and parts of a country may have varying demands for public services because of reasons such as diverse incomes, ability to substitute alternatives, and conditions. Thus, service levels can efficiently vary across cities. For example, high quality electricity services may be more important in business districts than in neighbourhoods.

In his works on public service delivery, Lockwood (1999), observes that, inadequate access to services can arise because of problems on either the delivery side or the financing side and the limitations discussed here may not always be unique to peri-urban and smaller urban areas. For example, various actors with different goals and motivations make decisions on the levels and distribution of public services. The participants in these decisions are not altruistic and will often act in their own self-interest. As a result, the political process is unlikely to yield an efficient set of service delivery decisions, because of principal-agent problems, information asymmetries, and so forth. Indeed, they may seek to thwart efficient service delivery to maintain rents that exist in the status quo. In other cases, political decisions may be made that result in uneven services across cities or demographic groups, while acceptable service levels are available in other parts of the city. On the other hand, service delivery could potentially be impeded by high service provision costs, at least relative to the core of larger cities. This may create the fear that the governments are too small to allow low cost service delivery. The overall culture and organizational environment for service delivery may be poor, particularly at the periphery.

It must be acknowledged that revenues may be unavailable to finance services because of weak local tax systems. Identifying the causes for inadequate services is necessary if the

problems are to be fixed and better services provided. Care should be taken in presuming that different service levels in one city relative to another or relative to external standards, is necessarily evidence that services are inadequate or that there are underlying delivery problems. Demand for services may vary across a country or counties and these demand-determined differences may well signal efficient rather than inefficient resource allocation (Sharma, 2012).

External standards are developed without consideration of the opportunity cost of resources within a particular city or country, though effective demand considers these opportunity costs. Poor resource mobilization, for example, may mean that the opportunity cost of resources in the public sector is very high and can alter choices for public services. Further, externally driven demand for services, such as can occur when international organizations offer low cost or free infrastructure, likely results in need for more operations and maintenance expenditures and inefficient resource use unless the infrastructure is consistent with local demands. Well intentioned donor finance can result in too high service levels in some places relative to the decisions that local users would make as they evaluate the various trade-offs in resource uses (Chernick, 2000).

To solve the problem of inadequate public service, governments make equalization payments which are cash payments made by central government to Local Authorities, usually with the objective of either offsetting differences in available revenue or in the cost of providing services. Many Governments use fiscal equalisation to reduce the inequalities in the fiscal capacities of sub-national governments arising from the differences in their geography, demography, natural endowments and economies. However, the level of equalisation sought varies. The payments are generally calculated based on the magnitude of the subnational fiscal gap; essentially the difference between fiscal need and fiscal capacity. It should be noted that, fiscal capacity and fiscal need are not equivalent to measures of fiscal revenue and expenditure, as making them so would induce perverse incentives to subnational governments to reduce fiscal effort (Martinez *et al.*, 2006).

In the works of Boadway and Hobson (1993), transfers are how most countries achieve vertical fiscal balance, that is, ensure that the revenues and expenditures of each level of government are approximately equal. Vertical fiscal gaps may in principle be closed in other ways by transferring revenue-raising power to Local Governments, by transferring

responsibility for expenditures to the Central Government, or by reducing local expenditures or raising local revenues. In most countries, however, sufficient mismatch in the revenues and expenditures assigned to different levels of government remains for some balancing role to be assigned to intergovernmental fiscal transfers.

No matter what its stated purpose may be, any transfer from higher-level to lower-level governments will of course help close the fiscal gap. For many purposes, however, it is useful to think of vertical fiscal balance as being achieved when expenditures and revenues including transfers are balanced for the richest Local Government, measured in terms of its capacity to raise resources on its own (Bird, 2003).

Fiscal gaps will, of course, remain for all poorer local governments, but such gaps are better considered as part of the problem of achieving horizontal fiscal balance within the local government sector rather than vertical balance between levels of government.

Castells (2001), explains that an important characteristic of any good system of intergovernmental grants is stability and flexibility. Essentially, there are only three ways to determine the total amount to be transferred which is sometimes called the distributable pool. The first method is to determine it as a fixed proportion of Central government revenues. The second method is where it is determined on an ad hoc basis. The other method is on a formula-driven basis, that is, as a proportion of specific local expenditures to be reimbursed by the Central government.

In the Philippines, for example, most funds transferred to Local Governments come from a pre-determined share of national taxes, the Internal Revenue Allocation are distributed according to population, area and equal share; the weights used are 70%, 20%, and 10%). For the most part, these transfers are not conditional, except for the requirement that 20% should be used for “development purposes.” Since Local Governments seem to be using part of their 20% development fund for a variety of medical, nutrition, social welfare, cultural, youth and sports expenditures, this condition does not seem to be very onerous in practice (Bird & Rodriguez, 1999).

Similar systems operate with respect to most major taxes in some developed countries. Examples are Austria, where Local governments receive about 12% of income and value

added taxes, and Japan, where Local Governments receive 32% of income and alcohol taxes. In both cases, the resulting total is distributed in accordance with a formula that takes into account such factors as population and community size. Large federal countries such as Brazil and Nigeria also tend to use such systems (Shah, 1994).

From the perspective of Central Government, the best system would likely be one in which the total distributed is determined annually in accordance with budgetary priorities. With this system, however, recipient governments will neither be able to budget properly nor will they face an appropriately hard budget constraint. On the other hand, any system in which the total transferred is demand driven or open ended driven, for example, by local expenditures or revenues like the Canadian equalization system is unlikely to be popular with central governments in developing countries (Boadway and Hobson, 1993).

On the whole, the best way to provide both some degree of stability to Local Governments and some degree of flexibility to the Central Government is to establish a fixed percentage of all central taxes or a current revenue to be transferred as is more or less done, for example, in Colombia and Argentina. Sharing specific national taxes is less desirable than sharing all national taxes because experience shows that it biases tax policy over time as Central Governments invariably tend to increase more those taxes which they do not have to share. Sharing all taxes also ensures that the “pain” as well as the “gain” of cyclical variations in central revenue is shared (Fiszbein, 1997).

According to Eyraud and Lusinyan (2013), grant system can thus create poor incentives for Local governments to raise their own revenues. This effect is most obvious in a revenue-pooling system, such as that used in Germany, Russia, and other countries, in which a given share of locally collected taxes is distributed among all local governments. In such a system, local governments receive only a fraction of the revenue collected in their own jurisdictions, with the rest distributed to other governments, usually through an equalization formula of some sort. Since the cost of local taxation is higher than the benefit to the local treasury, the marginal cost of public funds appears artificially high to the Local Government.

This disincentive effect is so clear that such revenue-pooling arrangements seem never to be used when Local Governments can influence the tax rate levied on shared bases. But problems can arise even when tax rates are set by the Central Government if the revenues are

actually collected by Local Governments. Baretto *et al.*, (2000), for example, have argued that this incentive has led to observably lower rates of tax collection by state governments in Germany. Similar problems led to the centralization of VAT collection in Mexico, where originally the central VAT was supposed to be collected by the state governments. Such disincentives have also been prominent in those transitional countries such as China before 1994 and Russia in which central revenues are collected by tax administrations which are significantly influenced by Local Governments.

To avoid such problems, most countries which have formal equalization transfers avoid revenue pooling and generally aim either to equalize the capacity of Local Governments to provide a certain level of public services or the actual performance of this level of service by Local Governments. The performance criterion, which adjusts the transfer received in accordance with the perceived need for the aided service which may also allow for cost differentials is generally more attractive to Central Governments because the level of service funded is then in effect determined centrally, and transfers can be made conditional on the provision of that level of service. Unfortunately, unless adequate adjustment is made for differential fiscal capacity, with this system, Local Authorities which tries least will receive the most (Dahlby and Warren, 2003).

In contrast, under capacity equalization the aim is to provide each Local Government with sufficient own-source revenues plus transfers to deliver a centrally pre-determined level of services however, differentials in the cost of providing services may or may not be taken into account. Transfers are based on a measure of each jurisdiction's potential revenue-raising capacity such as assessed values for property taxes or measured tax bases for other taxes and not on actual revenues. Provided revenue capacity is measured accurately though it is often not an easy task. Such transfers will create no disincentive for Local Governments to raise revenues because at the margin the Local Government still bears full fiscal responsibility for expenditure and taxing decisions essentially because transfers are lump-sum or infra-marginal in nature (Smart. 2001).

It can be argued that, if Local Governments can directly or indirectly manipulate the proxies for capacity used in the transfer formula; capacity equalization too may induce undesirable incentive effects such as driving the local tax rates higher than is desirable from a national point of view. Consider for example the representative tax system (RTS) formula for

equalization, as used in Canada and Australia. Under the RTS approach, each Local government receives a transfer equal to its deficiency in the measured tax base relative to the national average, multiplied by a target tax rate that is considered appropriate usually the national average tax rate. If all governments choose the target tax rate, then capacity differences are fully equalized, and all jurisdictions have the same per capita fiscal resources. The measured tax bases will generally decrease as tax rates rise for instance, as higher taxes are capitalized in property values and as economic activity moves to other jurisdictions or more lightly taxed transactions (Smart, 1998).

Consequently, Local Governments that raise their tax rate above the target will see their tax bases depressed and their transfers rise in consequence. Implicitly, when the local tax is just at the target level, the marginal excess burden of higher taxation perceived by the Local Government is zero because of the transfer effect, although it is strictly positive for the country as a whole. Full equalization as defined above in the sense of closing all gaps will be achieved only if the standard revenue-raising capacity which the grant is intended to provide is set at the level of the richest Local Government. In most countries, budgetary constraints lead to lower standards, such as the average revenue-raising capacity of Local Governments. In such cases, Localities with below-average capacities obviously remain disadvantaged (Boadway, 1998).

According to Bahl and Wallich (1992), many other countries such as most of the transitional Countries of Central and Eastern Europe have so-called “tax sharing” revenue pooling systems. This system distributes a fixed share of certain national taxes for example, the income tax or the value-added tax among Local Governments. Although many of these systems attempt to allocate all or part of the total thus determined in accordance with the origin or derivation of the tax revenues being shared, others for example, in Germany and Morocco allocate the total set by the shared tax amount in accordance with a formula that attempts to take into account both needs and capacity. From the perspective of central government, the best system would likely be one in which the total distributed is determined annually in accordance with budgetary priorities. With this system, however, recipient governments will neither be able to budget properly nor will they face an appropriately hard budget constraint. On the other hand, any system in which the total transferred is demand driven or open ended driven, for example, by local expenditures or revenues like the

Canadian equalization system is unlikely to be popular with Central Governments in developing countries.

On the whole, the best way to provide both some degree of stability to Local governments and some degree of flexibility to the Central Government is to establish a fixed percentage of all central taxes or current revenues to be transferred, as is more or less done, for example, in Colombia and Argentina. Sharing specific national taxes is less desirable than sharing all national taxes because experience shows biases in tax policy over time as Central Governments invariably tend to increase more those taxes which they do not have to share. Sharing all taxes also ensures that the pain as well as the gain of cyclical variations in central revenue is shared (Shah and Qureshi, 1994).

Smart (2001), adds that equalization transfers may have two distinct rationales. The first is to provide the necessary underpinning for decentralization in general and, as discussed below, for matching transfers, by equalizing to some level the fiscal capacity of territorial entities, thus putting all closer to being on the same footing with respect to incentives. A second rationale might be to provide sufficient resources to enable all Local governments, even the smallest and poorest, to provide a basic package of local services.

From a purely economic point of view, the second of these objectives may appear to make little sense. Often, however, small rural areas are simply not able to provide any significant local services solely without such transfers. It is important not to confuse this lack of local resources with a lack of local capacity to make and implement suitable expenditure decisions (Jha, 1999).

Fiszbein (1997) and Faguet (2001) have shown that, any good transfer system should distribute funds on the basis of a formula. Discretionary or negotiated transfers are always undesirable. The essential ingredients of most formulas for general transfer programmes as opposed to matching grants which are specifically intended to finance narrowly defined projects and activities are needs, capacity, and effort. Often, needs may be roughly but adequately proxied by some combination of population and the type or category of Local government. Of course, a transfer formula that incorporates observable measures of need may induce further incentive problems, as discussed above. A more difficult, but conceptually

critical problem is usually to include some measure of the capacity of Local governments to raise resources, and their efforts in doing so.

A possible aim of such a transfer system might be to provide each Local Government with sufficient own-source revenues plus transfers to deliver a centrally pre-determined level of services. Differentials in needs and in the cost of providing services for example, in rural or less densely populated areas may be taken into account as desired. In light of this, caution is necessary in this respect since it is all too easy to turn a simple and transparent formula into an obscure and manipulable one by introducing too many refinements. In Argentina, for example, in the period 1973-88, they were using a transfer formula that distributed 10% of fiscal transfers in accordance with the inverse of population density, 65% in accordance with population while 25% in accordance with an index of a developmental gap. The development gap was based on measures of the quality of housing, the number of vehicles per inhabitant and the level of education (Buettner, 2006).

According to Dillinger *et al.*, (2001), some developing countries include explicit measures of the potential tax capacity of recipient jurisdictions in their formulas. Many countries, however, use transfers to return some or all of certain taxes to where they are collected, a policy which of course benefits localities in which more taxes are collected, that is, those with greater fiscal capacity as measured by actual collections. In Spain, for example, 30% of personal income taxes are allocated in accordance with local tax collections. This approach may perhaps make the inclusion of a more redistributive component in transfers which is more acceptable to the rich regions for example; other Spanish transfers are distributed mainly on the basis of population and are much more equalizing.

As discussed earlier, such tax-sharing arrangements generally have undesirable incentive effects. In contrast, Denmark and Sweden, like Canada and Australia, explicitly make local transfers on the assumption that an average national local tax rate is applied, thus creating an incentive to levy at least average taxes since those localities that levy above average local taxes are not penalized while those that levy below average taxes are not rewarded. Chile goes further and actually taxes richer localities to some extent by reducing their transfers and raising those granted to poorer localities. Similarly, Korea assumes that a standard tax rate is applied by cities and lowers the transfer if the actual rate is lower. It should be acknowledged that, such approaches make sense only if Local Governments have the ability to vary local tax

rates, at least within limits. The absence of much local autonomy with respect to local taxes combined with data difficulties probably explains the relatively few examples of transfer programs incorporating explicit capacity measures in developing countries (Bell and Bowman, 2006).

Buettner (2006) contends that, in some countries, attempts are made to incorporate explicit measures of fiscal effort into distributive formulas. Brazil, for example, allocates some transfers in accordance with per capita income levels in the different states. Nigeria includes a measure of tax effort which in turn requires some concept of capacity to measure effort in the basic distributional formula to states, and Colombia has such an element in one of its transfer programs. In general, however, it is not advisable to include explicit measures of fiscal effort in such formulas, for a number of reasons. Conceptually, while it is not easy to define fiscal effort, it is probably most meaningfully understood as the ratio of actual taxes collected to potential taxes estimated on the basis of some standard measure of fiscal capacity and some standard for example national average, tax rate. Even when so defined, the general absence of reliable empirical estimates of fiscal capacity renders the concept largely non-operational.

Baretti *et al* (2000) holds that, the measurement of fiscal effort is complex. If, for instance, tax bases are sensitive to tax rates, then the usual measures overestimate capacity in low tax-rate areas and hence underestimate the effort needed to increase tax rates because the base will decline if the rate is increased. Moreover, given the limited flexibility most Local governments in developing countries have to alter their revenues through their own actions in any case, it is unclear to what extent it is meaningful to interpret the behaviour of revenues as reflecting their effort. In addition, placing too much weight on fiscal effort in allocating grants often unduly penalizes poorer areas, where, by definition, a given percentage increase in effort as usually measured is more difficult to achieve.

The problem giving rise to the need for equalization in the first place is that the fiscal capacity of poor areas is too low, not that their tax rates are too low. Imposing an additional penalty on poor localities in a transfer programme, given the shortage of resources in developing countries, will almost inevitably fall short of fully equalizing fiscal capacity. On the other hand, experience in some countries suggests that introducing an effort correction which is conventionally defined as actual collections over potential collections into fiscal

transfers may end up giving still more to poorer areas that is, increase the redistributive effect of transfers. This result comes about because poorer areas may levy relatively higher taxes than their richer neighbours, because of the incentive for excessive taxation discussed above. In Canada, for example, the highest tax rates on both income and sales are found in the poorest provinces, that is, in those with the lowest fiscal capacity (Boadway and Hobson, 1993).

Arguably, Oakland (1994) holds that, properly designed equalization transfers in any case embody a strong implicit incentive for transfer recipients to levy taxes at least at average levels. This suggests that it is neither necessary nor desirable to include explicit effort factors in transfer formulas, even if such factors could be calculated in some reliable way. Nonetheless, it is of course important to take fiscal effort into account in a more general sense in designing transfers. The reason is not because of some technical worry about the substitutability of transfers for local resources. It is rather because it seems essential to require local citizens to pay in some meaningful sense for what they get, if those who make local expenditure decisions are to be held accountable through local political institutions for their actions. So long as Local Governments are spending what they and their constituents view as other people's money, they are unlikely to be under much local pressure to spend this money efficiently.

Experience everywhere suggests that people are more careful in spending money they have to earn and taxes they have to pay themselves because they are aware of the pain of taxation as well as the pleasure of expenditure and because they will feel more ownership of the activity. Local resource mobilization is thus an essential component of any successful decentralization exercise. Unless increased transfers are matched by a local contribution, however, small that contribution may be in the poorest communities, the full efficiency benefits of decentralization are unlikely to be realized. People do not, it seems, take ownership of what is given to them in the same way as they do of things, they have to pay for themselves. Without local ownership, expenditure efficiency seems unlikely to be enhanced by decentralization. What this argument implies is that transfers are unlikely to have good incentive effects on local revenue mobilization unless at least two conditions are satisfied (Chitembo, 2009).

In the works of Von Hagen (2000), transfers should be designed so that the amount received is neither larger when local fiscal effort is lower or smaller when it is higher. Second, Local

Governments must have both the freedom and the responsibility to impose some significant taxes of their own. An aspect of intergovernmental transfers that has received considerable attention in recent years is as an inter-regional risk-sharing device. Any general transfer is in effect a revenue-sharing system and thus serves to some extent to insure regional governments against adverse cyclical conditions that affect some but not all regions. This stabilization function of transfers is desirable for everyone unlike redistribution, which inevitably pits some against others since stable revenues help fiscal planning and reduces the political and economic costs of short-run deficit finance.

Von Hagen and Hepp (2000), for example, estimate that Germany's *finanzausgleich* system compensates states for 88 percent of annual per capita revenue changes, while Smart (2001) estimates that the equivalent figure for Canada's equalization system is only 28%. This difference is hardly surprising, since the German system is based on actual revenues with consequently stronger adverse incentive effects, as noted above and the Canadian system on estimated revenue capacity. As is often the case with public policy, it is a matter of judgment for each country where it strikes the balance with respect to the weight to be attached to the redistributive, stabilization, and efficiency effects of transfer design. However, the stabilization aspect should certainly not be ignored in designing transfers in developing countries, some of which have in recent years experienced substantial volatility in subnational revenues and expenditures.

Although matching or conditional transfers make Local Governments more susceptible to central influence and control, they also have the important political advantage of introducing an element of local involvement, commitment, accountability, and responsibility for the aided activities. Such grants may be particularly important with respect to capital investment projects where they may either substitute for or supplement subsidized loans (Shankar and Shah, 2003).

According to Rao and Chelliah (1991), the major challenge in the design of grants is the appropriate measurement of tax capacity and expenditure needs. Tax capacity should ideally be measured as the revenue that tax bases available to subnational governments would yield under standard tax rates and administration effort. A variety of methods are used around the world to measure fiscal capacity of subnational governments but none of them is easy, due to scarcity of necessary data. Regardless of the difficulties, actual collected revenues should

never be used as a proxy for fiscal capacity because that would introduce powerful negative incentives to own tax revenue effort. Expenditure needs can be defined as the funding necessary to cover all expenditure responsibilities assigned to the subnational government at a standard level of service provision.

In practice, this can be measured with expenditure norms from the bottom up or top down, but a more commonly used approach is to estimate some type of index of relative expenditure need as the weighted sum of population and other demographic factors, and differences in the costs of providing public services. The use of actual expenditures or measures of existing facilities should be strictly avoided to exclude the presence of perverse incentives regarding spending discipline and efficiency. The design of the formula should be such that neither the central government authorities nor the local governments would be able to affect the final results or actual transfers by either manipulating the information or by changing behaviour (Boadway, 2005).

The use of matching arrangements for the transfers of the funds in which Central Government contributes a certain part and Local Governments contribute the rest can increase the leveraging and effectiveness of the transferred funds since Local Governments are given a specific incentive to contribute their own funds to the particular programme. Conditional grants are best implemented when feasible on a capitation basis for example, per inhabitant or per student. The per capita basis could be modified, if needed, by some adjustment coefficient to reflect different costs of provision or needs, but only as long as these adjustments can be made by formula and do not involve negotiation among central and Local Authorities (Shah and Qureshi, 1994).

Most countries use some form of capital transfers in support of subnational governments for specific infrastructure expenditure areas such as roads, water and sewerage treatment plants, transportation, housing, education, health, and so on. Country experiences vary regarding the allocation mechanisms, which range from ad hoc allocation decisions to formalized approaches using pre-established formulae. Similarly, country experiences vary regarding the flexibility in the use of funds from the least flexible project-based grants to unconstrained funds provided as part of a general revenue transfer. Often the sum of a capital grant has to be matched with locally raised resources and the matching rate is sometimes inversely related to the local income. The range of objectives for capital transfers includes closing disparities in

local infrastructure stocks, subsidizing capital projects with cross-jurisdictional spill overs of benefits, addressing vertical imbalance in the assignment of revenue sources and addressing lack of credit availability (Ahmad, 1996).

One general reason for the widespread use of capital grants is that in real-world decentralized systems of government the lack of taxing powers affects the ability of subnational governments to finance their capital investments in the same manner as their ability to finance their operating costs. Another significant reason for the prevalence of capital grants is that central governments tend to treat capital development in a more centralized manner than recurrent programmes. However, across the world, subnational governments account for almost two-thirds of public investments in infrastructure, of which only one-third is financed with capital grants, which in turn accounts for one-fifth of intergovernmental transfers. Typically, the share of subnational governments in capital expenditures of a country is twice their share of recurrent expenditures (Chitembo, 2009).

Australia introduced a formal system of horizontal fiscal equalisation in 1933 to compensate regions with lower capacity to raise revenue. The principal objective was full equalisation. Implicitly, after horizontal fiscal equalisation, each of the regions would have the capacity to provide services and the associated infrastructure at the same standard. This is only possible if each region made the same effort to raise revenue from its own sources and operated at the same level of efficiency. Currently the funds distributed to achieve horizontal fiscal equalisation are the revenues raised from the Goods and Services Tax (Shah, 1994).

Achieving horizontal fiscal equalisation does not mean that the states are directed how to raise revenue or how to spend their funds. Goods and services tax from the Commonwealth are unencumbered and available for any purpose. Accordingly, horizontal fiscal equalisation equalises fiscal capacity, not fiscal policies which remain for the states to decide for themselves. It does not result in the same level of services or taxes in all states, direct that the states must achieve any specified level of service in any area, nor impose actual budget outcomes in accordance with the Commission's calculations (Bucovetsky and Smart, 2006). The distribution of goods and services tax required to achieve horizontal fiscal equalisation is decided by the Federal Treasurer each year, on the basis of advice provided by the Commonwealth Grants Commission (CGC).

On discussions about equalisation payments, Borge (2011) argues that, equalization payments should be based on a formula that calculates the difference between the per capita revenue yield that a particular province would obtain using average tax rates and the national average per capita revenue yield at average tax rates. The objective of the equalisation is to ensure that all provinces have access to per capita revenues equal to the potential average of all ten provinces. The formula is based solely on revenues and does not consider the cost of providing services or the expenditure need of the provinces. This may imply that, equalization payments do not, technically, involve wealthy provinces making payments to poor provinces, although in practice this is what happens, via the federal treasury. As an example, a wealthy citizen in New Brunswick, a so-called have not province, pays more into equalization than a poorer citizen in Alberta, a so-called have province. However, because of Alberta's greater population and wealth, the citizens of Alberta as a whole are net contributors to Equalization, while the citizens of New Brunswick are net receivers of Equalization payments.

Bird (2003), in his works contend that equalization payments are one example of what are often collectively referred to in Canada as transfer payments, a term used in other jurisdictions to refer to cash payments to individuals. In fact, there are four types of federal transfers to provinces and territories; the Canada Health Transfer (CHT), the Canada Social Transfer (CST), Equalization, and Territorial Formula Financing (TFF). Under this arraignment, government makes payments for the development of offshore oil and gas reserves. The money the provinces receive through equalization can be spent in any way the provincial government desires. The payments help guarantee reasonably comparable levels of health care, education, and welfare in all the provinces.

Intergovernmental fiscal transfers have, for good or for ill, long been a dominant feature of public finance in many countries. The appropriate level of transfers among governments in a country is often determined by appealing to notions of fairness and equity. When evaluating the structure of transfer programmes, however, it is essential to pay close attention to the incentives they create for central and Local governments and, indirectly, for residents of the different regions of the country. Whether the results of transfers are good or ill depends upon the incentives whether intended or not, that are built into transfer systems (Buettner, 2006).

Smart (2006) adds that Equalisation transfers generate a dramatic upsurge in expectations. Citizens look more to Local Authorities for those public services that improve daily living conditions. Central Governments depend on Local Governments to support priority development and poverty reduction goals while Private firms increasingly rely on Local governments to deliver infrastructure and other services that support production and stimulate job creation. One of the most critical factors underlying the ability of Local Governments to meet the growing expectations placed on them is the quality of the architecture and operation of the intergovernmental fiscal system. Local Government finance is important because the role and impact of Local Governments have dramatically increased with decentralisation.

Boadway (2005), argues that most cities in developing countries depend mostly on Central Government transfers, with lesser revenues derived from property taxation and service charges. The more lucrative sources of revenue potentially suitable for financing urban areas, such as income taxes, sales taxes, and business taxes, continue to be controlled by the central governments. In most countries, there are huge vertical imbalances at the subnational level in terms of sharing responsibilities and available fiscal resources. Stated differently, many Central Governments refuse to pay the political and financial costs of the decentralization of roles and responsibilities.

A common pattern is that this dependency on central government transfers affects the Local Authorities' potential to implement their development plans. The transfers are often highly volatile and delayed. In Tanzania, for instance, the national guidelines and budget ceilings, including information on grants, developed by the Ministry of Finance are often not received by the Local Authorities until very late in the budgeting process (Fjeldstad *et al.*, 2010). Consequently, to initiate the planning process, some Local Authorities use indicative budget figures from the previous fiscal year. Jibao (2009) reports that there are cases when District Assemblies in Ghana receive their first quarter allocation of the Common Fund in the third or fourth quarter of the year, with the rest of the three quarters overlapping into the following fiscal year and so on.

It is against this background that Martinez *et al.*, (2006), observes that for a viable and responsible fiscal future, cities in developing countries must make use of significant sources of tax revenues as well as non-tax revenues collected through user charges and fees. Sufficiency of own revenues is the key to a city's improved ability to deliver necessary goods

and services and to better accountability of local officials to their constituents. Own revenues should be complemented by intergovernmental transfers to address differences in expenditure needs and fiscal capacity across cities; and also for cities to support the implementation of central government programmes. In order to effectively address the challenge of mobilizing adequate financial resources, urban authorities in developing countries should consider using mechanisms such as municipal bonds, bank loans, municipal development funds, funds from institutional investors such as pension funds, corporate bonds, equity markets and public-private partnerships (PPP).

2.1.4 Vertical and Horizontal Fiscal Imbalance

Equalisation transfers seek to redress inequities which exist along two dimensions: vertical fiscal imbalance and horizontal fiscal imbalance. Vertical fiscal imbalance (VFI) arises from the fact that subnational taxes must be levied on a relatively immobile base in order to avoid inefficient migration of capital and labour as well as destructive sub-national taxation competition. Moreover, as noted and demonstrated in the tax assignment, progressive taxation particularly income taxation can only be effectively levied by the Central Government. As a result, Central Government generally levy taxes well in excess of their immediate responsibilities for instance, the central government levies 80.1% of taxation nationally whilst Local government levies just 3.5% (Boex, 2009).

Boadway and Hobson (1993), add that, transfers are how most countries achieve vertical fiscal balance, that is, ensure that the revenues and expenditures of each level of government are approximately equal. Vertical fiscal gaps may in principle be closed in other ways by transferring revenue-raising power to Local Governments, by transferring responsibility for expenditures to the Central Government, or by reducing local expenditures or raising local revenues. In most countries, however, sufficient mismatch in the revenues and expenditures assigned to different levels of government remains for some balancing role to be assigned to intergovernmental fiscal transfers. No matter what its stated purpose may be, any transfer from higher-level to lower-level governments will of course help close the fiscal gap. For many purposes, however, it is useful to think of vertical fiscal balance as being achieved when expenditures and revenues including transfers are balanced for the richest Local Government, measured in terms of its capacity to raise resources on its own.

Surprisingly, the UK has a high level of vertical fiscal imbalance, with Local authorities heavily dependent on central grant. This has reduced local autonomy and accountability. Currently about 75% of local government revenue expenditure is funded through the centre through grant and distributed non-domestic rates, and only 25% funded through locally generated revenue. High levels of grant funding led Central Government in the direction of attempting centralised micro-management, as witnessed under the current best value and comprehensive performance management systems. These systems suffer from the information problems that are inherent in central planning. High central funding also reduces the importance of local elections, contributing to poor turnout, and places the system of grant allocation and its assessment of needs under great strain as the system is responsible for the majority of the funding Local Authorities receive (Ahmad, 1996).

Furthermore, vertical fiscal imbalance can also lead to a common pool problem as a result of services to local residents being paid for by non-residents through central transfers. A version of the prisoners' dilemma can occur where Local Authorities may prefer a system where finance is decentralised for all, but individually do not have an incentive to abstain from fishing in the common pool of central finance.

Findings of the research by Izabela (2012:17), claim that large VFI in Belgium, of between 60 and 70 percent over the last two decades, stems from strong revenue centralization at the federal level. Transfers comprise a limited number of grants. Communities do not have own taxes; they are financed mainly through general-purpose grants. Regions enjoy taxing power and receive federal grants. Yet nearly 80 percent of their funding consists of transfers, and only 20 percent from own taxes. In the same fashion to Belgium, in Norway, the evolution of the VFI was affected by the devolution and subsequent recentralization of health care, although other factors like increase in expenditure decentralization have also been important. Further, declining vertical fiscal imbalance is difficult to achieve, as revenue devolution is sometimes resisted in decentralized spending settings.

Some of the obstacles to devolution of revenue to sub-national governments stem from Local authorities themselves. Local Authorities fear that with revenue devolution, equalisation transfers will decline and will contribute to regional disparities. Some Local authorities admit that they have inadequate tax base and have weak administrative capacities for carrying out increasing revenue responsibilities. Additionally, tax competition resulting from international

tendency towards lowering the tax burden, and the need to support the economy during downturn, coupled with the threat of fiscal mobility, do not prefigure well with the need to exercise increasing fiscal autonomy by raising sub-national taxes (Miaja, 2005).

In a federation, or in a decentralized administrative system, the devolution of spending responsibilities has not always been followed by the devolution of tax revenues, resulting in vertical fiscal imbalances (VFI). To reduce this imbalance and finance their expenditure Local Authorities can have access to transfers and loans (Gosh and Gosh 2008). Arguably, the main reason that justifies the presence of vertical fiscal imbalance in many countries is that the national government is seen as the only level of government capable of addressing national goals of redistribution, correcting equity and efficiency distortions, insuring regions against shocks and facilitating equal treatment in the public sector.

It can be noted that, fiscal gaps will, remain for all poorer Local Governments, but such gaps are better considered as part of the problem of achieving horizontal fiscal balance within the local government sector rather than vertical balance between levels of government.

Among the most pervasive and damaging circumstance that Local Authorities grapple with is the assignment of too few revenues to finance assigned functions. At a global scale, very few countries escape dealing with major gaps between local expenditure and local revenues. This can result from a flaw in system design, but revenue inadequacy tends to occur for political or capacity reasons even in countries where constitutional or legal provisions prohibit unfunded local government mandates. The problem tends to be more significant in some regions. African countries, for example, generally have much less decentralization of revenues than of expenditures, leading to particularly severe revenue-expenditure gaps. Several key aspects of fiscal systems need to be in place and meet certain basic principles for Local Governments to perform effectively. These include; expenditure assignments and management; local own source revenues; properly structured intergovernmental transfers; and, where appropriate, access to borrowing and other alternatives to mobilize resources for development expenditures (Pisauro, 2001).

According to Shah (1994), a clear assignment of responsibilities and explicit methodologies to translate expenditure responsibilities into financial needs are fundamental for local finance. Deficiencies on this front weaken Local Governments and undermine the rest of the local

fiscal framework. Insufficient clarity occurs in many regions, particularly in developing countries in Africa, Asia, Eurasia, and Latin America. This results from poorly drafted laws and conflicts between decentralization laws and sectorial laws regarding specific services. Sectorial responsibilities may continue to be implemented by line ministries without coordination or in competition with Local Governments, duplicating efforts by keeping deconcentrated offices and staff at pre-decentralization levels; this is a common occurrence, for example, in African and Latin American countries.

Devas and Kelly (2001) adds that, in some cases central authorities still play an unwarranted role in the delivery of basic local services, sometimes contrary to decentralization law. This can result in levels and types of services that differ from those desired by local people. In other cases, services with benefit spill overs (affecting people of jurisdictions beyond direct beneficiaries) or a heavy focus on redistribution lack coordination of tasks with higher levels of government; this can result in insufficient or uneven provision of services. This happens, for example, in China, which assigns responsibility for social security and public pensions to Local Governments. Lack of clarity in functional assignment creates room for cost shifting among levels of Government; often through unfunded local expenditure mandates that can be extremely burdensome. These can involve requiring Local Governments to deliver specific services, use particular delivery approaches, or meet certain input or output standards in service delivery. This is a common occurrence among developing and developed countries.

The expenditure assignments can be more ambiguous where there are more levels of government, like in the case of China, and in a Government where intermediate levels have significant but inadequately defined control over Local Governments under their jurisdiction, like in the case of India. A related institutional issue in some countries, such as Australia and Argentina, is whether Local Governments should obtain separate legal status from their intermediate level governments, provinces, or states (Bahl and Wallich, 1992).

In this context, Smart (2006), notes that, the essence of an equalization transfer system is to compensate for horizontal fiscal disparities across Local Governments arising from differences in fiscal capacity or expenditure needs. The higher the importance of revenue autonomy, the more important equalization grants become as part of subnational governments' financing systems. Usually equalization grants are unconditional, meaning the

subnational governments can use the funds in an unrestricted manner, as if they were their own funds.

Horizontal fiscal balance, or equalization as it is usually called, is controversial both because different countries have very different preferences in this respect (Bird, 2001a) and because it is a concept with many different interpretations. For example, if horizontal fiscal balance is interpreted in the same gap-filling sense as vertical fiscal balance, what is implied is that sufficient transfers are needed to equalize revenues (including transfers) and the actual expenditures of each Local Government. Such fiscal dentistry, as this approach has been called by Rao and Chelliah (1991), makes no sense. Equalizing the actual outlays of Local governments in per capita terms in effect ignores differences in local preferences and hence one of the main rationales for decentralization in the first place. It also ignores local differences in needs, in costs, and in own revenue-raising capacity. Equalizing actual outlays would discourage both local revenue raising effort and local expenditure restraint, since under this system those with the highest expenditures and the lowest taxes get the largest transfers.

Bucovetsky and Smart (2006), contend that a grant system can create poor incentives for Local Governments to raise their own revenues. This effect is most obvious in a revenue-pooling system, such as that used in Germany, Russia, and other countries, in which a given share of locally collected taxes is distributed among all Local Governments. In such a system, Local Governments receive only a fraction of the revenue collected in their own jurisdictions, with the rest distributed to other governments, usually through an equalization formula of some sort. Since the cost of local taxation is higher than the benefit to the local treasury, the marginal cost of public funds appears artificially high to the Local Government. This disincentive effect is so clear that such revenue-pooling arrangements seem never to be used when Local Governments can influence the tax rate levied on shared bases. But problems can arise even when tax rates are set by the Central Government if the revenues are actually collected by Local Governments.

According to Chitembo (2009), local revenue generation and autonomy are critical for Local Governments to be able to meet their expenditure responsibilities in an accountable and efficient way. It can be noted that, there are very few countries in the world that provide Local governments with the means and autonomy needed to raise adequate revenues. This

unfortunate situation is manifested in the design and use of local revenue systems. The transfer of expenditure responsibilities to Local Governments has often not been accompanied by devolution of corresponding revenue sources. This has resulted in increasing financial pressures on the local government expenditure, and even where resources are more adequate, greater Local government dependence on central transfers is inevitable.

The property tax is the most commonly recommended and globally used local government tax, but its significant revenue potential often remains unrealized. On average developing countries raise 0.5 percent of gross domestic product (GDP) from property tax compared to two percent in developed countries. This is partly because the tax is unpopular even in some developed countries where it plays a significant role, citizen opposition has been strong. In addition, it is difficult and expensive to administer, all the more so in many developing countries without well-defined property registers, with sizable informal areas, and with weaker local capacity for value assessments, enforcement, and collection (Worldridge, 2002).

According to Burgess and Stern (1993), local tax bases are often narrow, especially given the problems with heavy reliance on the property tax. A number of countries in Europe and North America use local personal income taxes. A local piggyback, flat-rate personal income tax is collected with the national income tax in Nordic countries and some transition economies of Central and Eastern Europe. In Latin America, several countries, such as Brazil, Chile, and Colombia use various types of local business taxation. Local sales taxes are used in a few countries, notably in Canada, with the presence of a national VAT, and in the United States, where there is no VAT.

The preceding discussion point to poor diversification of the local tax base which is often aggravated by the lack of flexibility to adapt to evolving circumstances for example, growth in the service sector. Inelasticity (lack of revenue response to changes in the economic base) of many local taxes over time is problematic as progressively increasing demand for services and costs outstrip revenue growth. In a number of African countries like Tanzania, Uganda, and Zambia some viable local taxes have been recently eliminated and partially replaced with transfers, and many countries, prominently Korea, suffer from a proliferation of nuisance taxes that yield low revenues relative to collection costs (Boex, 2009).

Martinez (2006), notes that, Local Governments need to establish fees for services, ideally on a cost-recovery basis where this is feasible. In Canada and the U.S., Local Governments generate one-quarter of their own revenues with fees and charges, which is all the more significant given their broad high levels of local own tax revenue. The situation is very different in many developing countries. In some African countries, such as Algeria, Benin, Egypt and Tunisia, Local Governments have no authority to set local fees and charges. Political barriers to local revenue generation can be seen in both the reluctance of Local Government to raise taxes as well as in the limitations imposed on local revenue generation legislated by higher levels of government or citizen referendums. To some extent these phenomena result from poor taxpayer education and general expectations by citizens for more and better-quality services with the same or lower taxes.

Baretti *et al.* (2000), for example, have argued that the incentive created by fiscal transfers has led to observably lower rates of tax collection by state governments in Germany. Similar problems led to the centralization of VAT collection in Mexico, where originally the central VAT was supposed to be collected by the state governments. Such disincentives have also been prominent in those transitional countries in which central revenues are collected by tax administrations which are significantly influenced by Local Governments.

A properly structured system of intergovernmental transfers is a critical component of a local finance system. The use of transfers, however, faces a number of challenges that are dealt with in different ways and to varying degrees across regions and countries. Most countries share some central taxes with Local Governments, an arrangement that is simple and has high revenue potential. This can be a partial solution to vertical imbalances, but shared revenues suffer from various constraints. Revenue sharing on a derivation basis can be seen as a stimulus for local economic activity, but it can also reinforce horizontal disparities and leads to higher volatility of local revenues. Particularly in most developing countries, the amounts shared may be uncertain or lack transparency, making long term planning difficult for local governments. However, it should be noted that substantial revenue sharing can create perverse incentives for local revenue generation, undermining both local autonomy and the accountability of Local Governments to their constituents (Borge, 2011).

Despite the significant differences across Local Governments in expenditure needs and the ability to finance them, many countries lack effective equalization grants. In Africa, just a

few countries have introduced them. The situation is a little better in Latin America, where a few countries for example, Brazil and Chile use explicit equalization schemes, although more countries in the region employ only limited redistribution elements in revenue sharing schemes. Some Asian countries use equalization transfers for instance, Australia, Indonesia, Japan, while others virtually ignore fiscal disparities for example, China, India, Philippines, New Zealand. Equalization grants are common in Eurasia, Europe, and North America except at the federal level in the United States, but with varying effectiveness. Some Eurasian countries have not used transparent methodologies for equalization transfers, although the situation is improving (Bird, 2001a).

In Countries where they exist, most equalization schemes have been found faulty. For instance, only differences in fiscal capacity or expenditure needs are considered. In other cases, actual revenues, instead of fiscal capacities, are measured. This creates disincentives for local revenue mobilization. Consequently, since the pool of funds are not stable or well defined, the use of funds is subject to rigid conditions that in effect make the equalization grants, which are normally general purpose grants into conditional transfers.

In addition, conditional grants exist in many countries, especially for capital infrastructure purposes, however, in certain regions, such as Eurasia, conditional grants are not well developed. In other countries, such as Egypt, Nigeria, Tanzania, and Uganda, conditional transfers excessively dominate total transfers. Several problems are often associated with this type of grant, including their number and complexity, which impose high compliance costs on Local governments; lack of transparency, stability or timeliness; and sometimes political manipulation. In addition, excessive reliance on conditional grants can overly constrain Local government autonomy and move their focus from local to national priorities, potentially reducing their own comparative advantage in focusing on local needs (Boadway, 1998).

Several countries have adopted a formula-based recurrent grant system to determine block grant ceilings for priority sectors, including primary education, healthcare, rural water supply, agricultural extension services and local road maintenance. The formula-based system designed for allocating grants to Local authorities commonly has the following factors: size of population; number of school aged children; poverty count; infant mortality rate; and distance from council headquarters to service outlets as proxy for land area. In Uganda, for instance, the Constitution establishes a formula for determining the minimum unconditional

grant paid to local governments to run decentralized services. Besides the unconditional grant, local governments receive conditional and equalization grants (Bahiigwa *et al.*, 2004).

Similarly, Ghana and Zambia uses a system where no less than 5% of the total revenues collected by the Central government are allocated to a 'Common Fund' for the disposal of sub-national governments. In Uganda, unconditional grants are determined annually with reference to the reassignment of tasks between the national and sub-national governments. According to the Ugandan Constitution, the total amount is calculated using a formula that includes the unconditional grant of the previous year, corrected by the increase in the general price level, plus the net change in the budgeted costs of running newly devolved or subtracted services. Thus, the Ugandan formula takes into account the actual devolution of functions and its budgetary implications (Ibid).

Conversely, a performance-based grant which is a relatively recent innovation in the field of transfers has been the introduction of performance-based transfers in some African and Asian countries with support from international organizations. Performance-based grants condition the transfer of funds to meeting certain standards and objectives, generally leaving Local governments to decide how best to use the funds. This type of transfer combines the flexibility of unconditional grants with an unconventional form of conditionality. On the downside, these transfers may privilege jurisdictions with greater administrative capacity, and they may suffer from the problems associated with voucher programs. Thus far they have been used more to promote compliance with financial and administrative management procedures than to improve service delivery outcomes. It is too early to definitively judge the effectiveness of performance-based transfers but they are a promising mechanism and further trials are certainly desirable (Boex, 2009).

Rao and Chelliah (1991), claims that, perhaps the most neglected aspect of Local government finance in many regions of the world is borrowing. In the context of the rapid urbanisation, especially in developing countries in Africa and Asia, the need for infrastructure investment is paramount. In this context, borrowing, with the intergenerational equity that it entails, is potentially an important means to finance longer term investments. At the same time, there are multiple factors that need to be considered for instance; Local government borrowing and fiscal responsibility frameworks. These frameworks are often weakly developed and poorly implemented. Some frameworks are highly restrictive, effectively precluding Local

government borrowing for instance, Denmark, Chile, Kenya and Tunisia. Other frameworks are too lax, potentially allowing for the type of risky behaviour that occurred in the 1990s in Brazil and Argentina. In a few cases such as South Africa, robust frameworks that promote responsible borrowing have been developed.

In many cases, especially in most developing countries, Local Governments often have poor and unreliable access to credit. Financial markets are not well developed, and many Local governments do not have credit histories or do not meet technical standards required by lenders. The situation is brighter in the short and medium term in emerging economies where financial markets tend to be more developed with the introduction of systems for disclosure, credit ratings, pricing benchmarks, and so forth. Special credit institutions that have been set up to lend to Local Governments as is the case in more than 60 countries, often with support from international organizations in developing countries have rarely performed well. Their often-disappointing results have been associated with the politicization of lending decisions and problematic design issues. Many of the intermediary institutions are not sufficiently independent from the government, and they are not allowed or have not attempted to link with domestic credit markets. In this regard, Local Governments are not supported in learning how to become familiar with and develop capacity to comply with market expectations regarding financial capacities, disclosures, provisioning, and so on (Martinez *et al.*, 2006).

A number of central government practices, such as weak appraisal mechanisms for loans from government affiliated credit institutions, local government bailouts and automatic intercepts, have disrupted the normal development of local credit markets. There has been a pervasive problem with approval by government associated lending mechanisms of inadequately vetted loans for non-viable projects. The practice of bailouts when Local governments cannot or will not repay their loans undermines their fiscal discipline and distorts the credit market. Although reliance on automatic intercepts from transfers are generally associated with better repayment to special credit institutions and can help to develop access to credit, maintaining them for long periods without encouraging Local government graduation to more market oriented sources can create poor incentives for Local Governments to properly consider and lenders to properly appraise local government projects (Ibid).

Borrowing can be curtailed if Local Governments have insufficient access to discretionary sources of revenue to make loan payments or if intergovernmental transfers undermine incentives for even relatively wealthy Local Governments to borrow, for self-financing development projects. Lack of appropriate financial management practices also undermines the ability of Local Governments to properly prepare development projects, qualify for credit, and manage their debt portfolios (Burgess and Stern, 1993).

In general, within each sub-national level of government there are always some jurisdictions that are richer than others. The resulting difference in the fiscal capacities (FC) of governments at the same level is called horizontal fiscal imbalance (HFI). If resources are not equalized, the poorest jurisdictions should exert a higher fiscal effort (higher tax rates) in order to reach a level of expenditures comparable to the richest jurisdictions. Measuring HFI is not straightforward since it is based on the concept of fiscal capacity. There is a general agreement between scholars and politicians that the data series used for measuring capacity should have the following characteristics; precise and stable over a range of several years; not susceptible to manipulation by decision-makers, easily verifiable by all government units and parties involved in the equalization process (Dafflon 2012).

According to Jha (1999), there are two common ways of measuring the fiscal capacity of government units. One is based on macroeconomic indicators, such as the Gross Domestic Product (GDP), calculated per government unit and per capita or average incomes in jurisdictions if GDP measures are not available. The other measure is the use of the Representative Tax System (RTS) for an approximation of taxable capacity. The RTS may be defined as a hypothetical tax system that is representative or typical of all the taxes actually levied by sub-national governments of a country. In other words, it consists of the calculations of the per capita tax amounts that jurisdictions could raise if each jurisdiction imposed taxes at the standard tax rate, that is, in the absence of fiscal effort. The macro indicators present a theoretical limit. They involve some macro indicators related to incomes or local GDP as proxies for the fiscal capacity but in many cases this could lead to a biased measure of real revenue-raising capacity. For example, if a region is a significant tourist attraction place, that region could collect significant amounts of revenues from tourists such as sales taxes and hotel taxes. These revenues are not captured by indicators like the average jurisdictional income.

On the other hand, the macro measures would be simpler or more transparent to apply in econometric estimations. The statistic procedure to calculate macro measures are simpler compared to the RTS approach since it needs less data. Furthermore, in many cases there is a strong correlation between the macro measures and the fiscal capacity computed by means of the RTS. Different purposes leads to different measures fiscal capacity (RTS, GDP and Income). Once the fiscal capacity's measure is obtained, it is possible to evaluate the HFI using common inequality indices. The most frequent global measures, that is, relative to the entire country, of the degree of HFI used in literature are the usual inequality or variability indices (between local jurisdictions) of the variable chose as proxy of the fiscal capacity (Shankar and Shah 2003).

One of the most complete empirical studies about the combined impact of VFI and HFI on fiscal performance is provided by Eyraud and Lusinyan (2013). They adopt a cross-country approach using panel data and aggregate data, in contrast to the prolific case study literature on VFI. They use several macro indicators of fiscal capacity, such as income level, income per capita and population associated to different measures of HFI (variance, coefficient of variation, min-max ratio, max-average ratio). The results of this empirical analysis suggest that, VFIs and HFIs may interact with each other, and their combination could be particularly damaging to fiscal performance, measured by the primary balance of the general government as a share of GDP. However, this study did not conduct empirical analysis on the effect of HFI on the fiscal effort (local tax burden) even if there are positive effects of equalizing transfers on local tax rates.

Baretti *et al.* (2000), asserts that money is fungible, so even transfers based solely on need and capacity measures do nothing to ensure that the recipient governments will in fact use the funds they receive as the central government might wish unless receipt is conditioned on performance and compliance is monitored in some way. As a general rule, when local governments essentially serve as agents of the centre, some conditionality often seems desirable particularly when important national services such as education and health are provided by local governments. The rationale for transfers with the strongest basis in the economic literature is that local services may spill over to other jurisdictions. In order to induce Local Governments to produce the right amount of such services, what is needed is some form of matching grant that in effect provides a unit subsidy just equal to the value at the margin of the spill over benefit.

Although matching or conditional transfers make Local Governments more susceptible to central influence and control, they also have the important political advantage of introducing an element of local involvement, commitment, accountability, and responsibility for the aided activities. Such grants may be particularly important with respect to capital investment projects where they may either substitute for or supplement subsidized loans. In principle, the correct matching rate, or the proportion of the total cost paid by the Central Government, should be determined by the size of the spill overs or the strength of the preferences of the central government for the aided activity. This rate may decline as the level of expenditure rises if the externalities diminish or if the central preference is only for a basic or minimum national standard of service. It may also vary across localities if there are reasons to expect greater externalities in some places than in others or if there is reason to expect a higher local price elasticity of demand for the service in question in some areas (Fiszbein, 1997).

Kemp (2007), holds that a matching grant programme designed to encourage the optimal provision of public services would be expected to vary primarily with the nature of the activity, that is, the matching rate should depend upon the level of associated externalities. Unless local fiscal capacities are fully equalized, a uniform matching grant which in effect offers the same price to different Local Governments discriminates against poor regions. Matching rates thus sometimes vary inversely with the revenue capacity of recipient governments or the income level of regions. The rationale is to ensure that all local governments, regardless of their fiscal capacity, can provide a similar level of certain specified public services to their residents. The basic idea is simply to set the price of the service to each local government in such a way as to neutralize differences in capacity by varying the matching rate. The higher the income elasticity of demand for the service, the higher the matching rate needed for low-income recipients to offset the higher expenditures out of local resources on the aided service in higher-income areas, and the higher the price elasticity, the lower the matching rate needed to achieve a given level of total expenditures. There may thus be a case for introducing an equalizing element by varying matching rates inversely with income levels.

Such equalization, according to Castells (2001), differs from the general equalization argument discussed earlier in three ways. First, specific services are designated; either because they are thought to entail spill overs or because they are considered especially

meritorious. Education and health have been singled out in this way in a number of countries. Second, the specific level of service to be provided is also established by the donor government. Third, the payment of the grant is conditioned on that level of the specified services in fact being provided. The matching rate faced by any particular locality for any particular program should therefore be higher the greater the degree of central interest and the lower the (expected) degree of local enthusiasm (price elasticity) and ability (income elasticity) to support the program. The exact structure of the final formula for any service can usually be determined only after a period perhaps a prolonged period of trial and error, of observing the results of formulas such as those now in place and adjusting them as necessary to approximate more closely to the desired outcomes.

Although there have been a number of empirical studies of the effects of matching grants on local expenditures, the evidence is decidedly mixed and in any case is perhaps too dependent on institutions to draw general conclusions. At the broadest level, it appears that Local governments are often more responsive to grants for capital projects such as roads than to grants for such social services as education and welfare. Often, matching grants are designed for local expenditures such as health and higher education that are essentially private goods, so that spill overs among regions are unlikely to motivate central intervention. Even in such cases, however, matching grants can serve to equalize differences in fiscal need where such differences are unobservable by the central government. For example, the central government may wish to increase spending on health, while targeting the increase to regions where funds are needed most (Chernick, 2000).

Sharma (2012), notes that, one way to do so is as was done in Canada until 1977 to match local health care expenditures say, on a dollar-for dollar basis, essentially on the grounds that those who choose to spend more on health are, by definition, more deserving of assistance. As with a tax deduction for health-related expenditures by individual taxpayers, more benefits thus flow to those who demonstrate their need or preference for the favoured activity. In reality, there appear to be few good examples of matching grants in developing countries. One reason may be because even important inter-jurisdictional spill overs may largely be infra-marginal and the appropriate subsidy (matching) rate is of course that which applies at the margin. Another likely reason is that in practice in many countries redistributional concerns, not efficiency concerns, determine matching rates. Poor localities get more assistance because they are poor, not because a higher matching rate is required to

induce them to produce the socially optimal amount of the service in question. Perhaps the most basic problem with the matching approach is that, it is so demanding in terms of information. Ideally, its application requires a clear specification of the level of service to be provided. Often, for example, in education grants, many different types and levels of education service such as language training, music and special education are specified.

In addition, fairly accurate and up-to date estimates of the costs of providing each level of service are needed. Moreover, Local Governments need to have a fair degree of tax autonomy if they are to respond appropriately to the incentives. In addition, standard tax rates need to be carefully specified, estimates of local fiscal capacity must be made, and some idea of the probable effect of income differentials on local responses to differential matching rates on the price of the aided service is needed. As a rule, even the abundant information available in developed countries is insufficient to determine the precise matching rate appropriate for particular expenditure programs, let alone how those rates should be varied in accordance with the very different characteristics of different Local Governments. Whatever their theoretical merits, in practice in many countries, conditional transfers seem to have become so detailed and onerous to an extent of hampering effective local government (Garcia and Alban, 2001).

When Local Governments are expected to play a major role in delivering social services, they inevitably depend in large part on central fiscal transfers. The design of such transfers can be based on two quite different approaches. On one hand, to the extent the primary objective is to ensure that all regions have adequate resources to provide such services at acceptable minimum standards, simple lump-sum transfers, with no conditionality other than the usual requirements for financial auditing, seem indicated. This federalist approach assumes that the funds flow to responsible local political bodies, that there is sufficient accountability, and that it is neither necessary nor desirable for the Central Government to attempt to interfere with local expenditure choices (Oakland, 1994).

On the other hand, when the central government explicitly employs Local Governments as agents in executing national policies, such as in providing primary education, then it may make sense to make transfers conditional on the funds actually being spent on education or on the achievement of a certain standard of educational performance. The Philippine model seems close to the federalist approach. Most funds transferred to local governments come

from the internal revenue allocation. These transfers are allocated in part equally to each province and in part according to population and area. The poorest region (Bicol) received slightly above the average, while the Cordillera Administrative Region received almost double the average regional transfer per capita. On the whole, there is not much apparent relation between per capita transfers and levels of regional poverty in the Philippines (Bird & Rodriguez, 1999).

In Indonesia, general-purpose transfers represented only 23% of all transfers in 1990–91. Transfers per capita were lower than the average provincial transfer for the capital, Jakarta just as for Metro Manila in the Philippines. On the whole, per capita transfers appear to be more closely related to poverty levels in Indonesia. The two poorest provinces in the country, in Timor, received quite different transfers, presumably reflecting in part the well-known political situation in that region. The frontier province of Irian Jaya received more than three times the average provincial per capita transfer. Frontier regions also receive strong attention from central governments in Argentina and Chile. In sharp contrast to Indonesia, only 14% of transfers to provinces were conditional in Argentina in 1992. As in Indonesia, the relationship of transfers and poverty was broadly positive, with poorer provinces receiving more support from the Central Government, though it was not the very poorest that gained most (Shah and Qureshi, 1994).

Further, per capita transfers to the poorest provinces (Chaco, Formosa, & Santiago del Estero), in which 40% of their populations live under the poverty line, were only slightly higher than the average per capita transfer to all provinces. At the same time, some relatively wealthier provinces such as Catamarca received almost double the average per capita transfer. Matching grants exist in some developing countries, and matching rates are occasionally differentiated according to characteristics of the recipient regions. An example of such a system is in Zambia, where Local Governments receive a transfer which equals the difference between the estimated cost of providing a specified level of local services and the expected revenues to be raised locally by applying a standard set of local tax rates. In Korea a similar matching grant exists with varying degrees of refinement (Ahmad, 1996).

The basic problem with this approach is that it is quite demanding in terms of information. Transfers intended to finance particular types of service for instance road maintenance or education are often linked to particular measures of need such as length of roads or number of

students. At one extreme, this approach leads to the sort of norms found in Vietnam and a number of other transitional countries for example, Hungary, and gives rise to patterns for example, allocating funds on the basis of installed capacity which may reflect past political decisions, rather than need. More careful determination of expenditure needs may have some role with respect to conditional grants for instance, for basic education but seems less likely to prove useful with respect to grants intended to finance general local expenditures.

Experience in countries such as Australia and Canada suggests that considerable amounts of reliable disaggregated data are required before the detailed norm approach makes sense. In the absence of such data, simpler approaches based on, for instance population and a simple categorization of localities by size, by type, perhaps by region seem more likely as a rule to prove useful in measuring general expenditure needs. A number of developing countries distribute transfers by a formula intended both to equalize public expenditures in localities with differing needs and capacities and to stimulate local fiscal efforts, although severe data problems often constrain the parameters employed in such formulas. Simpler approaches such as those used in Morocco and Colombia based on such generally available and moderately reliable factors as population and a simple categorization of localities by size, by type, perhaps by region have sometimes proved to be helpful guides to general expenditure needs (Rao and Chelliah, 1991).

Further, it is argued that poor service delivery occurs when there is a mismatch between the expenditure responsibilities assigned to each level of government and the fiscal resources available to them to carry out those responsibilities. Poor service delivery primarily results from a mismatch between expenditure responsibilities and revenue raising power of the two tiers of government. The revenue raising power of the lowest level of government is affected by poor tax collection and administration. In line with this, the most common source of poor service delivery is the lack of revenue autonomy at the sub national level including the perception of the central authorities that most significant taxes should be centrally managed (Martinez, 2006).

Designing revenue and transfer components of a decentralized intergovernmental fiscal system in the absence of concrete expenditure responsibility would adversely affect decentralization process. The lack of clarity in the definition of sub national responsibilities has a negative impact on some important aspects. First, if the responsibilities are vague, the

parallel revenues will remain poorly defined. Second, without clear responsibilities, sub national government officials might prefer to invest in populist projects which benefit them in the short run rather than in projects with long run impact on region's economy. Third, there will be confusion whether sub national expenditures request local priorities or centrally determined programs (World Bank, 2003).

Apart from the redistributive reasons, the presence of large vertical fiscal imbalances undermines the autonomy and vitality of decentralized decision-making. It adversely impacts the subnational government accountability and induces the flypaper effect. The flypaper effect will in turn generate fiscal illusion, a phenomenon which arises when the link between taxes and benefits is distorted. In this case, voters are less likely to sanction overspending politicians (Rodden *et al.*, 2003).

Furthermore, the presence of vertical fiscal imbalances affects fiscal performance because it leads to the problem of the soft budget constraint. In fact, sub-national governments with high VFI, do not have sufficient tax and borrowing authority to cope with idiosyncratic shocks (Von and Hepp, 1996). Councils with high vertical fiscal imbalances may enter into a fiscal crisis and be unable to pay wages or default on loans when faced with adverse shocks. As they may claim that they are not responsible, the pressures from voters, civil servants, and creditors will likely be directed at the Central government, which will have no choice but to bail them out.

Anticipating this, sub-national governments have an incentive to engage in riskier fiscal policies. As a result, since transfer-dependent Local governments face weak incentives to be fiscally responsible, the VFI affects negatively the fiscal performance (Rodden *et al.*, 2003). Empirical literature provides many tests on the negative relation between vertical imbalances and fiscal performance, that is, the existence of the soft budget constraint problem. Additional evidence shows that higher reliance on intergovernmental transfers worsens the general government's overall balance. Further, transfer dependency is associated to larger fiscal deficits, the negative impact being larger at high levels of decentralization. Arguably, transfers increase the size of the government at the sub-national, national, and general government levels (Eyraud and Lusinyan, 2013).

According to Martinez *et al.*, (2006), inadequate public service is due to the fact that usually a portion of Local government's expenditure is financed by intergovernmental grants rather than through local taxes. Horizontal Fiscal Imbalance are due to the fact that richest jurisdictions are characterized by a larger amount of local tax bases than others, hence, exerting the same fiscal effort, they have the possibility to spend more than poor jurisdictions. Large VFI may relax fiscal discipline. Although some degree of mismatch between subnational own revenue and expenditure is inevitable some may even be desirable.

In addition, irrespective of whether explicitly labelled fiscal equalization or embedded in a system of revenue sharing, the common characteristic is that transfers are inversely related to the tax base or some corresponding measure of fiscal capacity. As a consequence, those schemes will tend to compensate jurisdictions for the adverse impact of higher taxing efforts on the tax base. Standard theoretical models of tax competition argue that in a decentralized setting the mobility of the tax base will tend to increase the marginal cost of raising public funds. Further, the marginal contribution rate of equalizing transfers exerts a significantly positive impact on the local tax rate (Buettner 2006).

Switching the focus from equalization to fiscal capacities' disparities, we expect that fiscal disparities, net of the equalizing transfers, exert a negative effect on local tax burden. Castells (2001) confirm this theory. They find that negative shocks in fiscal capacities of some municipalities increased inequality without increasing equalization are internalized through an increase in tax effort. On the other hand, equalizing transfers, which aim to reduce the horizontal fiscal imbalance, enforce the negative effect due to the VFI since they increase the total amount of grants in the poorest jurisdictions, increasing the transfer dependence of local jurisdictions which leads to the problem of the soft budget constraint. Consequently, it is anticipated that horizontal fiscal imbalance enforces the negative impact of the vertical fiscal imbalance on fiscal effort since it increases the transfer dependence. Furthermore, horizontal fiscal imbalance has a negative effect on fiscal effort. This negative effect should be mitigated by transfers.

In essence, if sub national governments do not carefully balance their annual expenditures with revenues and transfers, it will result in sub national faults and the incurrence of debt. Intergovernmental fiscal transfers are frequently used to achieve diverse objectives, including minimizing vertical fiscal gaps, addressing horizontal fiscal inequities, providing

reimbursement for benefit spill outs, and influencing sub national policies in taxing, spending, and regional and local economic stabilization (UNDP, 2007). In addition to this, the way intergovernmental fiscal relations are organized varies from country to country based on historical and geographical characteristics, the degree of heterogeneity of the population and the extent of government intervention in the economy.

Eyraud and Lusinyan (2013), holds the empirical view that there are different factors that cause vertical fiscal imbalance in developing countries, especially in sub Saharan Africa. One of the causes is the exaggerated focus on the revenue side. This has been triggered by the decentralization movement in many developing countries which has over the past decade made the mistake of designing a system of decentralized finances, revenue assignments and transfers, in the absence of a clear expenditure assignment. Additional causes revolve around capacity constraints resulting from a lack the necessary capacities by Local Authorities to effectively make use of the available resources and competencies assigned to them. The imbalances due to external shocks such as external financial crisis have added another layer of complexity by altering the balance of the economy and creating fiscal pressure for local governments.

All in all, according to the above empirical finding, unclear expenditure assignment, weak revenue power, limited human capacity and external financial crises are the core rationales for the existence of fiscal imbalance in developing countries, especially Africa.

A research finding by Miaja (2005) contend that, the major reason for the existence of vertical and horizontal fiscal imbalance in Ethiopia is the weak revenue base of Regional States and local governments. This has been worsened by a lack of incentives to raise revenue for Local governments. To make matter worse, most productive and lucrative sources of revenue remain under Federal Government control. Furthermore, inadequate institutional and human resource capacity of regional States to raise revenue and lack of reliable and up-to-date data on the Grant Formula has significantly contributed to the existence of vertical imbalances. In the same vein, inequality of regional states and growing demand for financial resources by relatively less developed Regional States and nationalities is among the core factors for existing fiscal imbalance.

2.2 Research Gap

In spite of the documented significance of Local Authorities in national development, there has not been adequate empirical investigation on the effect of equalisation transfers on service delivery. However, works by Lolojih (2008), Momba (2002), Dafflon (2011) and Martinez Vazquez *et al.* (2006), are quite informative and provide useful insights on local government administration and service delivery in general.

Martinez *et al.* (2006), in their paper argue that Local Governments around the world increasingly play key roles in the delivery of basic public services and in the provision of public infrastructure necessary for business development. These roles of Local Governments are developing against a backdrop of multiple challenges in the global arena including environmental and natural resource crises, increasing urbanization, and growing backlogs of infrastructure demands, all of which are likely to aggravate the financial difficulties faced by Local Governments. Furthermore, in order to fulfil their mandate in a fiscally responsible manner, Local Governments in developing countries must have significant sources of own tax revenues. This should be complimented by non-tax revenues collected from user charges and fees. Implicitly, adequacy of own revenues is the key to both a city's improved ability to deliver necessary goods and services, as well as to better accountability of local officials to their constituents.

While significant sources of own revenue is desirable, Martinez *et al.*, in their analysis did not factor in the role of differential fiscal capacities and efforts. Local authorities have varying tax base and so even if some rural council was assigned all the taxes sources they would not be able to generate sufficient revenue to provide basic services. It is no wonder that this research, in its analysis, differential fiscal capacities were integrated and the associated fiscal effort were espoused.

Lolojih (2008), in his PhD thesis on local government administration and service delivery in third republic argues that a central government predisposed to centralising tendencies cannot create an enabling environment for efficient and effective service delivery by local councils. He further showed that the poor service delivery by Local Authorities has been due to inadequate financing, poor policies, lack of adequate equipment's and qualified staff, lack of initiative and poor work habit and mismanagement of scarce resource.

Works by Lolojih are quite informative on the operations of Local Authorities; nevertheless, a lot of changes have taken place in the management of Local Authorities in Zambia. Notable changes include; the introduction of the Local Government Service Commission, the implementation of the decentralisation policy and the establishment of constitutional equalisation transfers to Local Authorities. All these measures are meant to counter constraints as postulated by Lolojih. In light of the above, this research analysed the effects of equalisation funds on three dimensional aspects namely; administrative, technical and financial.

In another study by Momba (2002), on the problem of effectiveness in service delivery, accountability and transparency of local councils in Zambia, it is argued that lack of adequate and reliable source of revenue was the major stumbling block to effective and efficient service delivery. Central government grants were generally considered as inadequate and not capable of enhancing financial planning given their irregularity.

There is no doubt, the study has made significant contribution as regards the understanding of the problems facing Local Authorities in Zambia and achieve the purpose for which it was intended by transparent international Zambia. Nonetheless, the nature and scope of study exhibits substantial limitations. The relative close proximity of the two councils in the study to each other and the Local government headquarters may have an impact on several issues including the people's perceptions about the responsibility of Local Authorities and the ability to lobby Central Government for funding. Clearly the study was for advocacy purposes not designed to collect data in a comprehensive manner. To counter this deficiency in this research, data was collected and analysed from each level in the hierarchic of Local government that is; City, Municipal and Town councils.

2.3 Chapter Summary

This chapter has reviewed the literature body that has been done on the effects of intergovernmental fiscal transfers on service delivery in Local Authorities. On functions of Local Authorities; studies have generally concluded that Local Authorities are responsible for the provision of an extensive range of public services in communities. They exist to promote the interests of local communities, including the social, economic, environmental,

recreational, cultural and general development of an area. Undoubtedly, Local governments play increasingly more critical roles in delivering basic infrastructure services, such as roads, transportation and water, and social services, such as education and health.

To provide services, Local Authorities use various methods of delivery. Among them is the use of self-help groups, local government enterprise and franchise. To execute their mandate, Local Authorities require resources; however, reviewed studies have shown that revenues may be unavailable to finance services because of weak local tax systems. Identifying the causes for inadequate services is necessary if the problems are to be fixed and better services provided. Care must be taken in presuming that different service levels in one city relative to another or relative to external standards, is necessarily evidence that services are inadequate or that there are underlying delivery problems.

The literature body on equalisation funds has established that equalisation transfers seek to redress inequities which exist along two dimensions: vertical fiscal imbalance and horizontal fiscal imbalance. Vertical fiscal imbalance (VFI) arises from the fact that subnational taxes must be levied on a relatively immobile base in order to avoid inefficient migration of capital and labour as well as destructive sub-national taxation competition. Moreover, as noted and demonstrated in the tax assignment literature above, progressive taxation particularly income taxation can only be effectively levied by the Central Government. As a result, Central government generally levy taxes well in excess of their immediate responsibilities for instance, the Central government levies 80.1% of taxation nationally whilst local government levies just 3.5%.

The reviewed literature on equalisation transfers and service provision exhibited gaps which provided rationale for this study, particularly, Martinez *et al.*,(2006), in their analysis did not factor in the role of differential fiscal capacities and efforts in revenue mobilisation and service delivery. It is no wonder that this research, in its analysis, differential fiscal capacities were integrated and the associated fiscal effort were espoused. It should be noted that Local authorities have varying tax base and so even if some rural council was assigned all the tax sources they would not be able to generate sufficient revenue to provide basic services. Additionally, works by Lolojih (2008), are quite informative on the operations of Local authorities; nevertheless, a lot of changes have taken place in the management of Local authorities in Zambia. Notable changes include; the introduction of the Local Government

Service Commission, the implementation of the decentralisation policy and the establishment of constitutional equalisation transfers to Local Authorities. All these measures are meant to counter constraints as postulated by Lolojih. In light of the above, this research analysed the effects of equalisation funds on three dimensional aspects namely; administrative, technical and financial.

The following chapter introduces and describes the theories that underpinned the study and concepts that explain the problem of inadequate service provision by Local authorities.

CHAPTER THREE

THEORETICAL AND CONCEPTUAL FRAMEWORK

3.0 Introduction

This chapter discusses theories and concepts that underpinned the study. According to Abend (2008), theories are formulated to explain, predict, and understand phenomena and, in many cases, to challenge and extend existing knowledge within the limits of critical bounding assumptions. The following sections introduce and describe the theories and concepts that explain the problem of inadequate service provision by Local Authorities.

3.1 Theoretical Framework

A theoretical framework is a collection of interrelated ideas based on theories. It is, a reasoned set of prepositions which are derived from and supported by data or evidence (Kombo and Tromp, 2011). The framework of this study is based on the Cost of Service Theory of Taxation, Benefit Theory and the Efficiency Service theory. The selected theories have helped to explain the problem of inadequate service delivery and inherent challenges in the fiscal architecture of Local Authorities in Zambia

3.1.1 Cost of Service Theory of Taxation

Historically, the best-known proponent of the cost of service theory of taxation is Adam Smith. In contrasting natural prices with market price, he theorized that market prices would tend to move toward natural prices, where outputs would stand at what he characterized as the "level of effectual demand". At this level, natural prices of commodities are the sum of the natural rates of wages, profits, and rent that must be paid for inputs into production (Baretti *et al.*, 2000).

This theory implies that the Government should tax the citizens according to the cost of service rendered by it. The Government renders certain services to citizens and the cost of such services should be collectively met by the citizens. The tax, an individual should bear, must be equal to the cost of benefit they receive (Samuelson, 2012).

Under this theory, Central Government makes equalisation payments to Local Authorities to overcome threats of secession and creating a sense of national unity. Further, equalisation transfers under this system will inevitably advance social justice and efficiency in market resource allocation because the cost of service will be subsidized and quality guaranteed, *ceteris paribus*. This theory is relevant in the analysis of the effects of equalisation funds on service delivery as it provides grounds for local government taxation, the amount of taxes and the level of services to be provided by the Council using an economically just mechanism.

This theory has been criticised because finding out total cost of services rendered by the Government is very difficult and therefore, the question of distribution of total cost among citizens is not so easy to solve. Secondly, if we presume that the total cost of services can be determined, the next difficulty is how to divide the cost of the services among individuals. Besides, if this theory is followed in the modern welfare state, the poorer will have to pay more taxes because they enjoy more benefits. Hence, it is opposite to the principle of justice. Worse still, the cost of the services rendered depends very much on the efficiency of the administrator. If the administrator is efficient, the cost would be lower and if the administrator is inefficient, the cost of the benefit would be higher (Giersch, 2007).

3.1.2 Benefit Theory

This theory was developed by Knut Wicksell and Erick Lindahl. The theory bases taxes to pay for public-goods expenditures on a politically-revealed willingness to pay for benefits received. The principle is sometimes likened to the function of prices in allocating private and public goods (Besley and Ghatak, 2007).

In this theory, tax levels are automatically determined, because taxpayers pay proportionately for the government benefits they receive. In other words, the individuals who benefit the most from public services pay the most taxes. This implies that, the state should levy taxes on individuals according to the benefit conferred on them. The more benefits a person derives from the activities of the state, the more he should pay to the government (Friedman, 1999).

This theory is relevant to this study because Equalisation transfers under this theory will ensure the integration of socially disadvantaged groups into the economy by creating a

common economic unity in which all residents within the political boundaries of Local Authorities will enjoy a comparable level of public services.

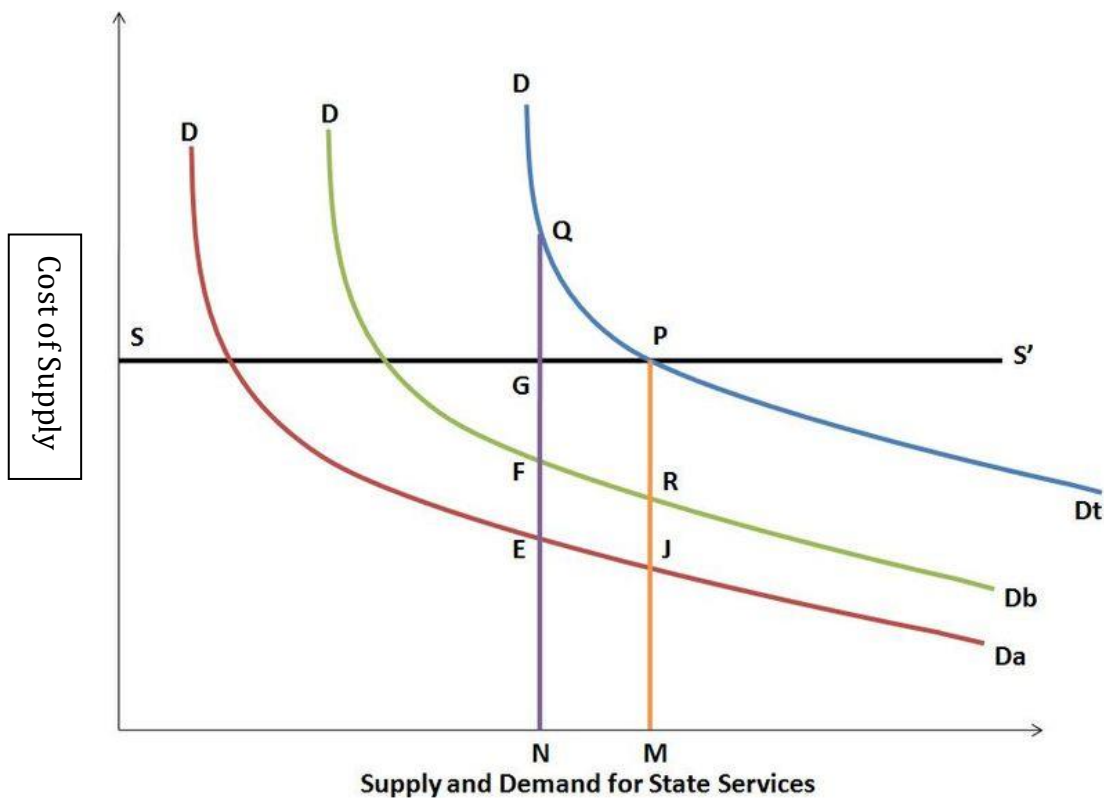
This principle has been subjected to severe criticism on grounds that if the state maintains a certain connection between the benefits conferred and the benefits derived, it will be against the basic principle of the tax. A tax, as we know, is compulsory contribution made to the public authorities to meet the expenses of the government and the provisions of general benefit. There is no direct *quid pro quo* in the case of a tax (Giersch, 2007).

Secondly, most of the expenditure incurred by the state is for the general benefit of its citizens, it is not possible to estimate the benefit enjoyed by a particular individual every year and if we apply this principle in practice, then the poor will have to pay the heaviest taxes, because they benefit more from the services of the state. If we get more from the poor by way of taxes, it is against the principle of justice (Smart, 2007).

Therefore, this research will, employ two models that have adopted the benefit approach: the Lindahl model and the Bowen model.

According to Giersch (2007), the Lindahl model tries to solve three problems namely; extent of state activity, allocation of the total expenditure among various goods and services and, allocation of tax burden. In the Lindahl model, if SS is the supply curve of state services it is assumed that production of social goods is linear and homogenous. Da is the demand curve of taxpayer A, and Db is the demand curve of taxpayer B. The Horizontal summation of the two demand curves results in the community's total demand schedule for state services. Taxpayer A and B will pay different proportions of the cost of the services which is, vertically measured. When ON is the amount of state services produced, A contributes NE and B contributes NF; the cost of supply is NQ. Since the state is non-profit, it increases its supply to OM. At this level, A contributes MJ and B contributes MR (the total cost of supply). Equilibrium is reached at point P on a voluntary-exchange basis.

Figure 3. 1 Diagrammatic presentation of Lindhals Model



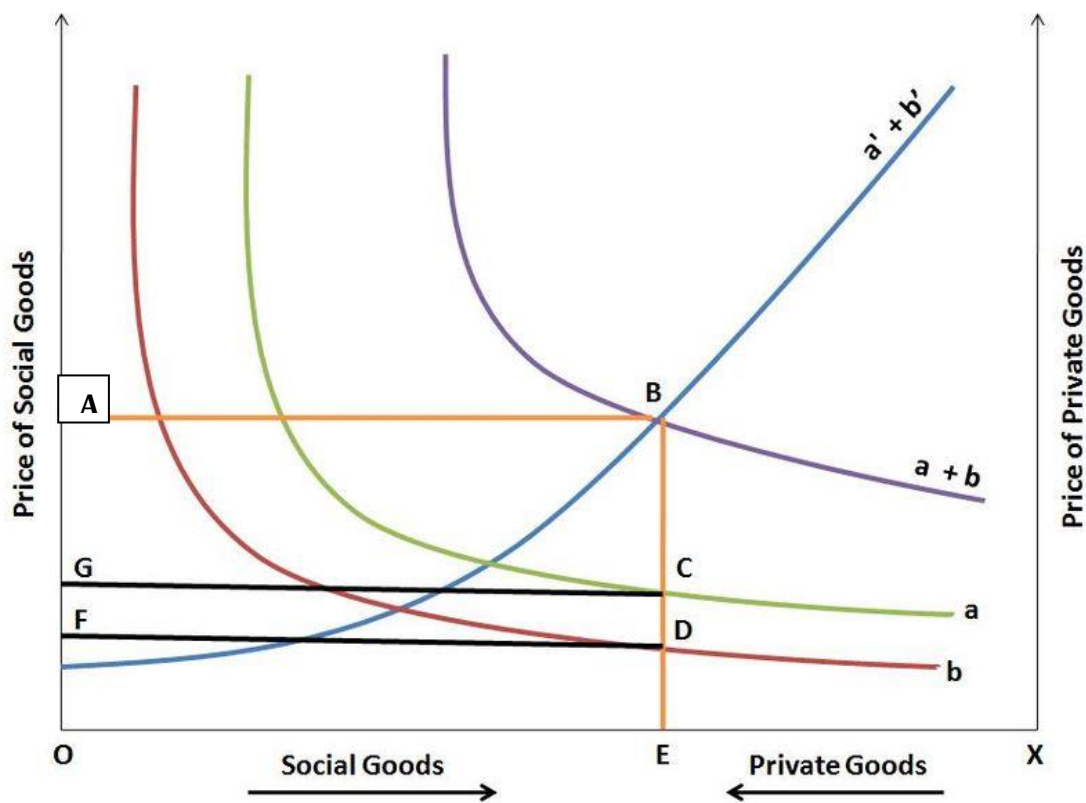
Source; economicconcept.com

The other model is the Bowen's model which has more operational significance, since it demonstrates that when social goods are produced under conditions of increasing costs, the opportunity cost of private goods is foregone. For example, if there is one social good and two taxpayers (A and B), their demand for social goods is represented by a and b; therefore, a+b is the total demand for social goods. The supply curve is shown by a'+b', indicating that goods are produced under conditions of increasing cost. The production cost of social goods is the value of foregone private goods; this means that a'+b' is also the demand curve of private goods. The intersection of the cost and demand curves at B determines how a given national income should (according to taxpayers' desires) be divided between social and private goods; hence, there should be OE social goods and EX private goods. Simultaneously, the tax shares of A and B are determined by their individual demand schedules. The total tax requirement is the area (ABEO) out of which A is willing to pay GCEO and B is willing to pay FDEO (Samuelson, 2012).

According to Friedman (1999), the advantage of the benefit theory is the direct correlation between revenue and expenditure in a budget. It approximates market behaviour in the

allocation procedures of the public sector. Although simple in its application, the benefit theory limits the scope of government activities. In its proposition government can neither support the poor nor take steps to stabilize the economy. The other limitation of the theory is that it is only applicable when beneficiaries can be observed directly which is impossible for most public services. Additionally, taxation in accordance with the benefit principle would leave distribution of real incomes unchanged which is not possible in practice.

Figure 3. 2 Diagrammatic presentation of Bowens Model



Source; economicconcept.com

3.1.3 Efficiency Service Theory

The core postulate of this theory is that the main purpose of Local Government is to provide services to the people on the grounds that it was the most efficient agent for providing those services that are essentially local. The proponents argue that the efficient delivery of some local services is so compelling that if Local Government does not exist, something else will have to be created in its place, implying that Local Government is indispensable (Ebel and Yilmaz, 2002).

Equalisation transfers will supplement local revenue and enhance efficient service delivery by Local Authorities. Knowledge of local preferences will allow Local Authorities to design service provision arrangements that embed efficiency considerations in terms of cost and quality

The advocates of efficiency service theory believe that the main purpose of Local Government is to provide services to the local people. The efficiency services theory also stipulates that the smallness of the population allows for efficient provision of the basic social amenities. It also allows for flexibility in decision-making and implementation. In addition, the theory stipulates that local government exist to articulate and aggregate the interests and aspirations of the people for better and more efficient services. However, from the perspective of the efficiency-services school, the appropriate functional focus of Local Government should be the provision of services, and its success or failure has to be judged by this yardstick (Garcia et al, 2001). The theory argues that what is central and important to the people is the knowledge and articulation of the problem confronting the people and finding appropriate solutions to the problems. The theory further argues that since the officials of the local government councils are indigenes of the areas, they are in a better position to understand the needs of the people and provide efficient services for their welfare. The proximity of the local government to the grassroots makes it especially suited to provide certain functions far more efficiently and in a more cost effective manner than the much more remote government at the higher level.

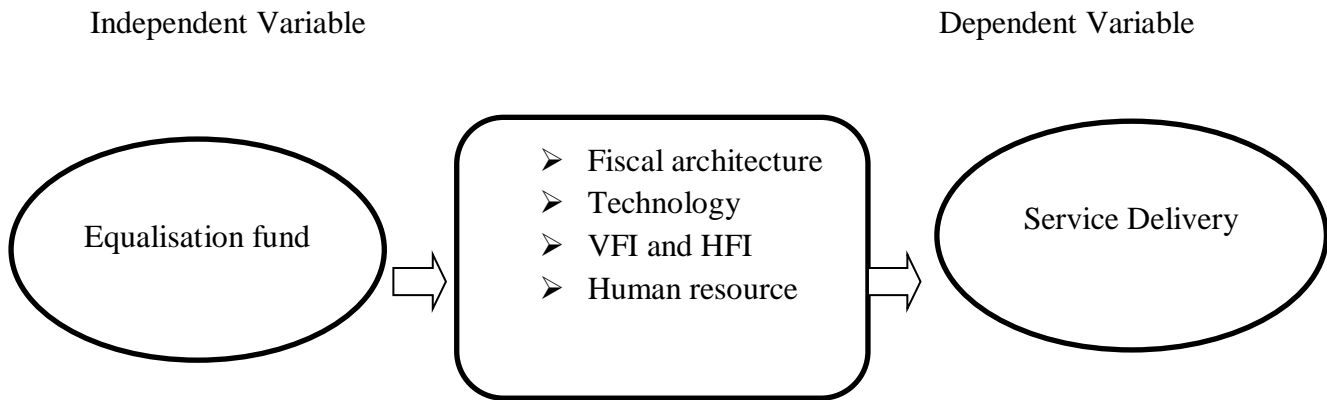
The relevancy of this theory to the study is that it emphasises the allocation of functions to Local authorities with matching resources and the necessary autonomy to manage them.

3.2 Conceptual Framework

Following the presentation of the theoretical framework, a conceptual framework was built from the theory constructs. The following conceptual framework explains the path of a research on the effects of equalisation funds on service delivery and grounds it firmly in theoretical constructs of the cost of service theory, the benefits theory and the efficiency service theory. The overall aim of the framework was to make research findings more meaningful, acceptable and ensures generalizability. The framework assisted in stimulating research while ensuring the extension of knowledge by providing both direction and impetus

to the research inquiry. Further, it enhanced the empiricism and rigor of a research. Thus, it is no exaggeration for Kara (2012) to say that the conceptual frameworks give life to a research.

Figure 3. 3 Conceptual Framework



Source: Author, 2018

Figure 3.3, contends that the major reasons for the poor and nonexistence of public services by local authorities can be generalized as follows; inadequacies in the fiscal architecture of Local authorities which has resulted in weak revenue base of Local Authorities and lack of incentives to raise revenue for Local Authorities and that the most productive and lucrative sources of revenue remained under central governments control. Government policies and various amendments to laws relating to Local authorities have indelibly deteriorated the financial capacity of Local authorities to provide public services.

By coincidence, Central Government has a tendency of transferring revenue functions while leaving expenditure functions with Local Authorities. For instance, Central Government in 1993 transferred the motor vehicle licensing functions from Councils to the Road Traffic Commission while the responsibility to maintain the roads remained with the Council. In addition, water supply and sanitation undertakings were transferred from Councils to commercial utilities, wholly owned by councils, under Statutory Instrument No. 55 of 2000, without transfer of related liabilities. Further, the Local Authorities Superannuation Fund (Amendment) No. 27 of 1991 made it mandatory for Council employees who had spent 22 years in service of Councils to retire but did not provide for the resulting terminal payments to retiring employees. All these instructions and amendments altered the fiscal architecture of Local Authorities.

Arising from inadequate revenue, Local Authorities are unable to acquire appropriate and efficient technology to maintain roads and provide other services. In addition, inadequate institutional and human resource capacity of Local Authorities to professionally execute responsibility assignments has greatly contributed to poor service delivery. The framework demonstrates that many Local Authorities lack adequate institutional and skilled personnel to collect revenue; the more so in relatively less developed and border area or 'emerging councils'. Arguably, the quality of services provided by Local Authorities depends on the skills and capacity of its employees as well as the type of technology employed in service delivery.

All in all, according to the above framework, unclear expenditure assignment, weak revenue power, limited human resource capacity and internal financial crises are the core reasons for poor service delivery in Zambia. A research conducted in Nepal by Bell (2011) clearly reveals that, weak revenue generating power, vague and comprehensive expenditure responsibility, and low fiscal capacity of Local Governments, low political commitment and absence of politically elected officials are the core reasons behind the problem of vertical fiscal imbalance in Nepal local districts.

It can be observed that, if quality service delivery is to be a reality, Local Authorities should control their own sources of revenue. Those that lack independent sources of revenue can never truly make sustainable service improvement decisions and enjoy fiscal autonomy. The question, then, is which revenue sources (including taxes) can and should be assigned to Local Authorities and how these assignments are to be effected. Each level of government should be assigned taxes that are related to the benefits of its spending. Thus, the proper assignment of taxes that are related to benefits depends on the assignment of expenditure functions. In general terms, the central government should be responsible for expenditures having benefits that extend across sub-national boundaries or that are characterized by economies of scale not realized at the sub-national level (Jha, 1999).

It can be concluded that, resource constraints during a period of greater responsibility and need pose obvious threats, but so does the damaging curtailment of local government autonomy, which is a necessary condition for the full realization of the promise of decentralization. Beyond the impact of the global financial crisis, Local governments are confronted with other significant structural challenges. As substantial urbanization continues

unabated in some parts of the world, public service demands are growing faster than many Local Governments can keep up with. New needs are also arising as a result of an emerging understanding of the onerous implications of global environmental challenges, as well as from major demographic changes, such as the increasing number of the elderly in some countries and the explosion of youth as a share of the population in others (Sharma, 2012).

Ebel and Yilmaz (2002), observes that fragmentation is a major issue for many countries in most regions of the world. In many countries the appropriate structure and size of Local governments is an on-going debate. Small Local Governments cannot independently take advantage of economies of scale in the delivery of some services, resulting in higher costs. Smaller Local governments, however, generally provide a stronger political connection to citizens and may be better able to respond to local demands. Getting the right balance, for instance, by maintaining smaller Local Governments but providing mechanisms for cooperative arrangements among them and links to higher levels for large scale services, is a critical challenge in many counties. Thailand has more than 7,500 bottom tier Local Governments with an average population of less than 10 000, and there are concerns that these are too small for service delivery. For instance, in Uganda, new Local Governments are being constantly created, diluting the capacity of Local Governments that were only recently empowered. In a number of countries perverse incentives, such as offering equal lump sum transfers to all Local Governments regardless of size, create incentives for further jurisdictional fragmentation.

On the other hand, in countries such as France with 36,600 Local Governments, citizens strongly identify with smaller Local Governments. These are said to bring greater representation and accountability, thus potentially balancing the additional costs represented by the inability to realize economies of scale, particularly if the latter can be realized by creating cooperative arrangements among the smaller units. When local governments in South Africa were substantially consolidated in 2002, some analysts expressed concern that the new larger, more fiscally viable local governments had damaged political connectivity to citizens in some areas (Ter-minassian, 1997).

According to Martinez *et al.* (2006), local government finance is prospering in much of Europe, North America, and parts of East Asia and the Pacific (Korea, Japan, Australia, New Zealand). It remains at an early stage in some regions, such as the Middle East & Western

Asia, where most local governments are deconcentrated units of the central government with limited autonomy. South Asia has a recent tradition of democracy, but local governments face controls by higher level governments. In Latin America and Eurasia, local finances are generally improving, but still face challenges associated with past centralized traditions. China and most of Southeast Asia have made progress, but intergovernmental fiscal relations are unevenly developed and still experience significant challenges. African local governments are rarely well empowered, but there are hopeful advances, especially in some Anglophone countries, such as South Africa or Tanzania. One of the critical inferences emerging from the diversity of local government systems is that there is a need for diverse approaches to deal with fiscal challenges, even those that are relatively common.

A finding of the research by Boex (2009), notes that large VFI in Belgium, of between 60 and 70 percent over the last two decades, stems from strong revenue centralization at the federal level. Transfers comprise a limited number of grants. Communities do not have own taxes; they are financed mainly through general-purpose grants. Regions enjoy taxing power and receive federal grants. Yet nearly 80 percent of their funding consists of transfers, and only 20 percent from own taxes. In the same fashion to Belgium, in Norway, The evolution of the VFI was affected by the devolution and subsequent recentralization of health care, although other factors like increase in expenditure decentralization have also been important. Further, declining vertical fiscal imbalance is difficult to achieve, as revenue devolution is sometimes resisted in decentralized spending settings.

In a federation, or in a decentralized administrative system, the spending responsibilities have not been always followed by the devolution of tax revenues, resulting in Vertical Fiscal Imbalances (VFI). That is, sub-national authorities can have access to transfers, and to a lesser extent, on borrowing by the Central Government in order to finance their expenditure (Gosh and Gosh 2008). The main reason that justifies the presence of VFI in many countries is that the national government is seen as the only level of government capable of addressing national goals of redistribution, correcting equity and efficiency distortions, insuring regions against shocks and facilitating equal treatment in the public sector.

3.3 Chapter Summary

This chapter has propounded theories and concepts that underpinned the study. The theoretical framework is based on the Cost of Service Theory of Taxation, Benefit Theory and the Efficiency Service theory. The selected theories have helped to explain the problem of inadequate service delivery and inherent challenges in the fiscal architecture of Local Authorities in Zambia.

Historically, the best-known proponent of the cost of service theory of taxation is Adam Smith. This theory implies that the Government should tax the citizens according to the cost of service rendered by it. The Government renders certain services to citizens and the cost of such services should be collectively met by the citizens. The tax, an individual should bear, must be equal to the cost of benefit they receives (Samuelson, 2012).

The other theory that underpinned the study was the benefits theory which was developed by Knut Wicksell and Erick Lindahl. The theory bases taxes to pay for public-goods expenditures on a politically-revealed willingness to pay for benefits received. In this theory, tax levels are automatically determined, because taxpayers pay proportionately for the government benefits they receive. In other words, the individuals who benefit the most from public services pay the most taxes. Implicitly, the state should levy taxes on individuals according to the benefit conferred on them. The more benefits a person derives from the activities of the state, the more he should pay to the government (Friedman, 1999).

The chapter concluded with the efficiency service theory whose core postulate is that the main purpose of Local Government is to provide services to the people on the grounds that it was the most efficient agent for providing those services that are essentially local. The proponents argue that the efficient delivery of some local services is so compelling that if Local government does not exist, something else will have to be created in its place, implying that Local Government is indispensable. In light of this, equalisation transfers will supplement local revenue and enhance efficient service delivery by Local authorities. Knowledge of local preferences will allow Local Authorities to design service provision arrangements that embed efficiency considerations in terms of cost and quality

Following the presentation of the theoretical framework, a conceptual framework was built from the theory constructs. The conceptual framework contends that the major reasons for the poor and nonexistence of public services by Local Authorities can be generalized as follows; inadequacies in the fiscal architecture of Local Authorities which has resulted in weak revenue base of Local authorities and lack of incentives to raise revenue for Local Authorities and that the most productive and lucrative sources of revenue remained under central governments control. Government policies and various amendments to laws relating to Local Authorities have indelibly deteriorated the financial capacity of Local Authorities to provide public services.

The next chapter explains the methodology that was used in the study. It will outline the population, sample size, sampling technique, research instruments and data analysis.

CHAPTER FOUR RESEARCH METHODOLOGY

4.0 Introduction

This chapter explains the research methodology that was used in the study. The chapter also highlights specific items comprising; population, sample size, sampling technique, research instruments and data analysis.

4.1. Research Design

This research used the mixed methods approach in collecting, collating, analysing and integrating quantitative and qualitative data. By mixing qualitative and quantitative methods, the research gained in understanding and validating the data collected and research findings, while eliminating some limitation intrinsic to using each approach by itself. It provides a more complete and comprehensive understanding of inadequate service provision by Local Authorities by using a complimentary of quantitative and qualitative approaches. However, like any other research approach, mixed method approach has some other limitations that result from the complexity and time taken in this type of study. Additionally, it may be difficult to plan and implement one method by drawing on the findings of another and it may be unclear how to resolve discrepancies that arise in the interpretation of the findings (Howell, 2013).

Within the mixed methods, explanatory sequential design was used, this typically involved two phases; an initial quantitative instrument phase, followed by a qualitative data collection phase, in which the qualitative phase builds directly on the results from the quantitative phase. In this way, the quantitative results are explained in more detail through the qualitative data. For example, findings from instrument data about costs can be explored further with qualitative focus groups to better understand how the personal experiences of individuals match up to the instrument results. This kind of study illustrates the use of mixed methods to explain qualitatively how the quantitative mechanisms might work. This method has the strength of been easy to describe and implement because the steps fall into clear separate stages (Kara, 2012).

Creswell (2008), explicates that sequential explanatory studies focus on analysis of a situation or a specific problem to explain the patterns of relationships between variables. The presence of cause-and-effect relationships can be confirmed by causal evidence of temporal sequence, concomitant variation and non-spurious association. Further, explanatory sequential design will help in, identifying reasons for poor service delivery by local authorities. It offers the advantages of replication if necessity arises and is associated with greater levels of internal validity due to systematic selection of subjects. It is meant to provide details where a small amount of information exists for a certain product in the mind of the researcher.

Mixed methods design was adopted in this study because it sought to identify the extent and nature of cause-and-effect relationships as well as assess effects of equalisation funds on service.

4.2 Study Location

The study was conducted in Lusaka, Luanshya, Chisamba and Luangwa Local Authorities of Zambia.

Lusaka City was selected because it is the largest city in Zambia and one of the fastest growing cities in Southern Africa region with an ever increasing demand on municipal service, it is socially, politically and economically a power house of the country. It is the centre of both commerce and government in Zambia and hosts the legislative, executive and judicial branches of government and epitomized by the presence of the National Assembly and the State House. As of 2010, the city's population is estimated to be 2.4 million (Lolojih, 2008).

Luanshya was selected because it is a mining town with a unique revenue base. It was founded in the early part of the 20th century. Since then, copper was mined in great quantities at Luanshya but towards the end of the century, mining has become increasingly uneconomic, causing a severe recession in the town. The population and demand on municipal services has however been increasing steadily. It is located in the Copperbelt Province of Zambia with a population of 156, 059 (2010 census).

On the other hand Chisamba Town, a relatively new Local Authority was selected because it has an agrarian economy, located 97 km north of Lusaka in Central Province of Zambia. It has an estimated population of 103, 983 covering an area of 5, 252 Km² with population density of 19.8/Km² (Ibid). Public service provision in an area which is predominately agrarian has atypical challenges.

Luangwa Town is located in Lusaka Province. It has a population of 28, 996 covering an area of 3, 872 giving a population density of 7.489/Km². It faces an increasing free rider problem on municipal services with a significant difference in the day time and resident population. It is a transit town bordering two Countries. The Zambezi River forms the border between the Luangwa Town and Zimbabwe while the Luangwa River forms the border with Mozambique. Its natural endowment and inherent potential in trade and tourism and as a border town makes Luangwa a good research area.

The selected towns presented good areas of study to compare and analyse the effect of equalisation funds on service delivery.

4.3 Study Population, Sample and Sampling Technique

In this study, the population comprised registered property owners within the political boundary of selected Local Authorities and council officials. The sample was drawn from residential and business property owners, council appointed officials and councillors using stratified sampling. The registered property owners were partitioned into strata, then obtained a simple random sample from each stratum, thereafter data was collected from each sampling unit that was randomly sampled from stratum. The Cochran formula was used to calculate an ideal sample size given a desired level of precision, desired confidence level, and the estimated proportion of the attribute present in the population (Robson, 2002).

The Cochran formula is:

$$n_o = \frac{Z^2 pq}{e^2}$$

Where:

- e is the desired level of precision (i.e. the margin of error),
- p is the (estimated) proportion of the population which has the attribute in question,

- q is 1 – p.

The z-value is found in a Z table.

Stratified sampling is suitable for this kind of study because just as Creswell (2012) argues that it works best when a heterogeneous population is split into fairly homogeneous groups. Under these conditions, stratification generally produces more precise estimates of the population percentages than estimates that would be found from a simple random sample.

Table 4.1 shows how the research obtained a stratified sample.

Table 4. 1 Stratified Sample

Population	All registered property owners within council jurisdictions
Groups (Strata)	Residents, Business community, council appointed officials and councillors
Obtain a Simple Random Sample	$n_o = \frac{Z^2pq}{e^2}$ <p>people from each of the 4 strata</p>
Sample	n selected people

Source: Author, 2019

Morse (2000), adds that stratification is the process of dividing members of the population into homogeneous subgroups before sampling. The strata should be mutually exclusive in which every element in the population must be assigned to only one stratum. The strata should also be collectively exhaustive in which no population element can be excluded. Then simple random sampling or systematic sampling is applied within each stratum. The objective is to improve the precision of the sample by reducing sampling error. It can produce a weighted mean that has less variability than the arithmetic mean of a simple random sample of the population.

This will increase a sample's statistical efficiency while providing adequate data for analysing the various subpopulation and enable different research methods and procedures to be used in different strata.

Table 4.2 shows how the Sample was calculated.

Table 4. 2 Calculation of Sample Size

Town	Population (Registered property owners)	Stratum	Sample Size $n_o = \frac{Z^2pq}{e^2}$ $n = \frac{n_o}{1 + \frac{(n_o - 1)}{N}}$	Sample
Lusaka	63, 319	Residential	$n_o = 1.64^2 * 0.89 * 0.11$	105
		Business	$\frac{0.05^2}{0.05^2}$	79
		Council	$n_o = 1.64^2 * 0.08 * 0.92$	
		Official	$\frac{0.05^2}{0.05^2}$	31
		Councillors	$n_o = 1.64^2 * 0.03 * 0.97$	5
Luanshya	30, 156	Residential	$n_o = 1.64^2 * 0.91 * 0.09$	88
		Business	$\frac{0.05^2}{0.05^2}$	61
		Council	$n_o = 1.64^2 * 0.06 * 0.94$	9
		Official	$\frac{0.05^2}{0.05^2}$	
		Councillors	$n_o = 1.64^2 * 0.0084 * 0.992$	3
Chisamba	544	Residential	$n_o = 1.64^2 * 0.94 * 0.06$	61
		Business	$\frac{0.05^2}{0.05^2}$	41
		Council	$n_o = 1.64^2 * 0.04 * 0.96$	9
		Official	$\frac{0.05^2}{0.05^2}$	
		Councillors	$n_o = 1.64^2 * 0.0086 * 0.992$	2

Luangwa	1, 250	Residential	$n_o = \frac{1.64^2 * 0.92 * 0.0}{0.05^2}$	79
		Business	$n_o = \frac{1.64^2 * 0.04 * 0.96}{0.05^2}$	51
		Council Official	$n_o = \frac{1.64^2 * 0.009 * 0.991}{0.05^2}$	10
		Councillors		2
Total				636

Source: Author, 2019

4.4 Research Instruments

The research used both primary and secondary sources of data. Primary data was collected from the field through questionnaires. A questionnaire is a research instrument consisting of a series of questions or other types of prompts for the purpose of gathering information from respondents, in this research the questionnaire made use of checklist and rating scales. This helped simplify and quantify people's perceptions and attitudes (Wilcox, 2010).

Advantages of using questionnaires in this study were that they had been sent to a large number of people, they saved the researcher time and money compared to interviewing. In addition, People were more truthful while responding to the questionnaires regarding controversial issues in particular due to the fact that their responses are anonymous. It also allowed the respondent to answer at their leisure while fitting diverse experiences into predetermined response categories. They produced results that were easy to summarize, compare, and generalize. Additionally, McNeil (2005), argues that questionnaires are one of the most affordable ways to gather quantitative data. Apart from being inexpensive and flexible, questionnaires are also a practical way to gather data. Additionally, they facilitate the selection of questions asked as well as the format (open-ended or multiple choice). This offers researchers an opportunity to gather vast amounts of data on any subject.

While there are many advantages of using questionnaires, they are sharply limited in that respondents must be able to read the questions and respond to them. Worse still, dishonesty can be an issue. Respondents may not be 100 percent truthful with their answers. This can happen for a variety of reasons, including social desirability bias and attempting to protect individual privacy. At times, answers will be chosen before fully reading the question or the potential answers. Sometimes respondents will skip questions, or split-second choices may be made, affecting the validity of the data. A questionnaire cannot fully capture emotional responses or the feelings of the respondents. Without administering the questionnaire in face-to-face interview, there is no way to observe facial expression, gestures, postures, reactions or any body language features (Henn *et al.*, 2006).

This instrument was selected because it provided detailed or insightful information suitable for this kind of study. Secondary data was collected from books, academic journals, statistical bulletins, government documents, published and unpublished research papers among others.

4.5 Reliability and Validity of Research Instruments

Instrument is the general term that researchers use for a measurement device such as a questionnaire. They fall into two broad categories, researcher-completed and subject-completed, distinguished by those instruments that researchers administer versus those that are completed by participants or respondents. Researchers select which type of instrument, or instruments, to use based on the research question. In this research a questionnaire was selected as a reliable research instrument. To guarantee reliability, the research conducted a pilot study.

To extrapolate validity, Bonett (2002), contends that validity is the extent to which an instrument measures what it is supposed to measure and performs as it is designed to perform. It is rare, if nearly impossible, that an instrument be 100% valid, so validity is generally measured in degrees. As a process to ensure validity of the instrument, this research conducted a pilot study to measure the validity of the questionnaire. To ensure external validity so that the results can be generalised from the sample to the population, stratified sampling was used to ensure that the sample is not biased and every element in each stratum is represented. It should be recalled that a sample should be an accurate representation of a population, because the total population may not be available.

4.6 Data Collection

The study used questionnaires to collect data and the data collection procedure was as follows:

- a) Approval was sought from the Ethics Committee of the University of Lusaka and research supervisor from the University of Lusaka;
- b) Permission to access and use relevant data was obtained from Ministry of Local Government and respective Local Authorities; and
- c) Informed consent was obtained from each respondent before conducting research.

4.7 Data Analysis

The data for this study was analysed both qualitatively and quantitatively. Regression and descriptive analysis were done using the Statistical Package for Social Sciences (SPSS) version 25 and Excel in the Microsoft word package when determining the effects and trends in service provision and fiscal capacities of Local Authorities. A narrative approach within qualitative data was used with a view to telling a story. A narrative approach was taken in measuring the extent of the problem of inadequate service provision. Measure of frequency was done because some data that was collected was discrete, as they were separate categories from which respondents choose from.

This approach has been adopted by this research because it wants to draw on the strengths of quantitative and qualitative data gathering techniques to formulate a holistic interpretive framework for generating possible solutions or new understandings of the effects of equalization funds on service delivery. Creswell (2008) argues that this approach encompasses more than simply combining qualitative and quantitative methods but rather, reflects a new epistemological paradigm that occupies the conceptual space between positivism and interpretivism. Additionally, narrative and non-textual information can add meaning to numeric data, while numeric data can add precision to narrative and non-textual information while at the same time generating and testing a grounded theory approach to describe and explain the phenomenon under study. Furthermore, this kind of analysis will, provide stronger and more robust evidence to support a conclusion or set of recommendations and generate new knowledge, new insights or uncover hidden insights, patterns, or relationships that a single methodological approach might not reveal.

4.8 Chapter Summary

This chapter of the research explained the methodology that was used in the study. The research used the mixed methods approach in collecting, analysing and integrating quantitative and qualitative data. Within the mixed methods, explanatory sequential design was used, this typically involved two phases; an initial quantitative phase, followed by a qualitative data collection phase, in which the qualitative phase built directly on the results from the quantitative phase. The study was conducted in Lusaka, Luanshya, Chisamba and Luangwa Local Authorities of Zambia.

In this study, the population comprised registered property owners within the political boundary of selected Local Authorities and council officials. The sample was drawn from residential and business property owners, council appointed officials and councillors using stratified sampling. The Cochran formula was used to calculate an ideal sample size given a desired level of precision, desired confidence level, and the estimated proportion of the attribute present in the population.

The research used both primary and secondary sources of data. Primary data was collected from the field through questionnaires. The data was analysed both qualitatively and quantitatively. Regression and descriptive analysis were done using the Statistical Package for Social Sciences (SPSS) version 25, and Excel in the Microsoft word package when determining the trends in service provision and fiscal capacities of Local Authorities. A narrative approach within qualitative data was used with a view to telling a story.

The next chapter will present findings of a research on the effect of equalization funds on service delivery that was conducted in selected Local Authorities in Zambia.

CHAPTER FIVE RESEARCH FINDINGS

5.0 Introduction

This section of the study will present findings of a research on the effect of equalization funds on service delivery that was conducted in selected Local Authorities in Zambia. A total number of Six Hundred and Thirty-Six (636) property owners were interviewed in Lusaka, Luanshya, Chisamba and Luangwa. The findings are presented both qualitatively and quantitatively by use of models, graphs, tables and figures. The confidence level of the findings are estimated at 90 percent and have been presented in accordance with the research questions and thematically fall under talking and topic subheading for clarity.

5.1 Local Government Equalization Fund

It can be seen from Table 5.1, that Government disbursed 5% of all income tax as equalization transfers to all Local Authorities in 2016 and 2018, while it disbursed slightly less than 5% in 2017.

District Treasurers of Chisamba and Luangwa Town Councils reported that the disbursed equalisation was sufficient to meet most of the recurrent expenditure while Directors of Finance for Lusaka City and Luanshya Municipal Councils reported that the equalisation received was not sufficient to meet even a quota of their expenditure. The reported, delayed disbursement of the fund from Ministry of Finance had compounded the fiscal problem in Local Authorities.

Table 5. 1 Projected Vs Disbursed Equalization Fund in Nominal Terms (Zmw/million)

Fiscal (FY)	Year	Total Budget (TB)	Income Tax (IT)	Projected LGEF (5%) of IT	Disbursed LGEF
	2016	53, 135, 825, 364	14, 340, 300, 000	717, 015, 000	717, 013, 167
	2017	64, 510, 300, 000	19, 647, 920,000	982, 396, 000	887, 850, 000
	2018	71, 662, 385, 976	20, 337, 610, 000	1, 016, 880, 500	1, 078, 428, 000

Source: Budget Speeches, 2016, 2017, 2018

5.2 Council Budgets

The study has shown in Table 5.2 that between 2016 and 2017, Lusaka City Council increased its Budget by 1% and by 7% in 2018. Chisamba Council increased its budget by 8% between 2016 and 2017 with a 46% increase in 2018. Similarly, Luangwa increased its Budget by 8% between 2016 and 2017 with another 8% in 2018, Luanshya on the Contrary reduced its budget by 49% between 2016 and 2017, the council then increased its Budget by 85% in 2018.

Table 5. 2 Estimates of Revenue and Expenditure in Nominal Terms(Zmw/million)

	2016	2017	2018
Lusaka	372, 311, 962	376, 124, 303	404, 721, 249
Chisamba	12, 569, 478	13, 695, 874	19, 164, 391
Luangwa	12, 781, 241	13, 188, 421	14, 245, 407
Luanshya	65, 987, 262	33, 497, 339	61, 741, 961

Source: Estimates of Revenue and Expenditure, 2016, 2017, 2018, Lusaka, Chisamba, Luangwa and Luanshya.

5.3 Utilisation of Local Government Equalisation Fund

To determine the utilisation of equalization finds, the study analysed the composition of Local Authorities' expenditure from 2016 to 2018.

5.3.1 Expenditure on Personal Emoluments

The study has shown that Lusaka City Council spent 53.8% of the total equalization in 2016 and reduced its expenditure to 49.3% in 2017 on personal emoluments. The Council increased its expenditure in 2017 and 2018 to 45% and 65.1% respectively. Chisamba and Luangwa Town Councils spent 53.3% and 56% in 2016 respectively, in 2017 Chisamba Council increased its expenditure by 1.7% while Luangwa Council increased its expenditure by 12%. Luangwa Council reduced its expenditure to 65.4% in 2018 while Chisamba increased its expenditure to 59.4% in the same year.

Even though expenditure on personal emoluments increased in all selected Local Authorities, the study has revealed that delayed payment of salaries and statutory pension contribution is so prevalent in these Councils that employees do not know their next pay day.

Table 5. 3 Personal Emolument Expenditure in Nominal Terms (Zmw/millions)

	Lusaka	Luanshya	Chisamba	Luangwa
2016	43, 817, 519	1, 805, 682	3, 252, 537	4, 727, 560
2017	21, 154, 155	3, 428, 408	4, 191, 645	6, 190, 116
2018	25, 087, 432	7, 884, 706	4, 388, 875	4, 495, 315

Source: Author, 2019

5.3.2 Capital Expenditure

Table 5.4, shows that in 2016, Lusaka City Council, Luanshya Municipal, Luangwa and Chisamba Town Councils spent 5%, 16%, 0.3%, 5% respectively above the minimum prescribed 20% of equalization grant on capital improvements. A large proportion of that expenditure (65%) for Lusaka City was spent on construction and rehabilitation of schools and clinics while 35% was spent on purchase of utility motor vehicles for Managers. No revenue generating investment was reported in 2016 in all selected Local Authorities.

Table 5. 4 Capital Expenditure for 2016 Fiscal Year in Nominal Terms (Zmw/million)

Local Authority	Total Budget	Total LGEF	Expected Capital Expenditure	20% Actual Expenditure on Capital
Lusaka	372, 311, 962	81, 445, 203	16, 289, 040	21, 096, 842
Chisamba	12, 569, 478	6, 102, 321	1, 220, 464	1, 534, 200
Luangwa	12, 781, 241	8, 442, 073	1, 688, 414	1, 714, 686
Luanshya	65, 987, 262	7, 340, 172	1, 464, 034	2, 645, 622

Source: Annual Performance Review Reports for 2016, Lusaka, Chisamba, Luangwa and Luanshya

In 2017, as can be seen in Table 5.5, capital expenditure by Lusaka City Council was 18.7%, this was a 0.7% reduction from the 2016 expenditure, similarly Luangwa and Luanshya Councils spent 13% and 26% in 2017 showing a reduction of 7.3% and 10% respectively while Chisamba spent 25% in 2017.

All the selected Local authorities reduced their capital investments and improvements in 2017.

Table 5. 5 Capital Expenditure for 2017 Fiscal Year in Nominal Terms (Zmw/million)

Local Authority	Total Budget	Total LGEF	Expected Capital Expenditure	20%	Actual Expenditure on Capital
Lusaka	376, 124, 303	42, 909, 037	8, 581, 807		8, 010, 000
Chisamba	13, 695, 874	7, 621, 174	1, 524, 234		1, 610, 111
Luangwa	13, 188, 421	9, 103, 113	1, 820, 622		1, 200, 430
Luanshya	33, 497, 339	7, 618, 686	1, 523, 737		2, 050, 210

Source: Annual Performance Review Reports for 2017, Lusaka, Chisamba, Luangwa and Luanshya.

Table 5.6, shows that while Central Government increased the equalization transfer for Lusaka City Council for 2018, capital expenditure declined by 6% from 2017, Similarly, Government increased the equalization transfer to Luanshya Municipal Council in the same year but the Council reduced its capital expenditure by 12% from 2017. On the Contrary, Government reduced its equalization transfers to Chisamba and Luangwa Town Councils in the same year which in part resulted in the reduction of their expenditure on capital by 6% and 18% respectively.

Table 5. 6 Capital Expenditure for 2018 Fiscal Year (Zmw/million)

Local Authority	Total Budget	Total LGEF	Expected Capital Expenditure	20%	Actual Expenditure on Capital
Lusaka	404, 721, 249	47, 068, 353	9, 413, 670		7, 510, 000
Chisamba	19, 164, 391	7, 388, 679	1, 477, 735		1, 482, 321
Luangwa	14, 245, 407	6, 873, 571	1, 374, 714		980, 000
Luanshya	61, 741, 961	12, 111, 684	2, 422, 336		1, 801, 050

Source: Annual Performance Review Reports for 2018, Lusaka, Chisamba, Luangwa and Luanshya.

Comparatively, in determining the capital expenditure for the year 2018, the study has revealed that Lusaka City Council made per capita expenditure of Zmw 3 with Luanshya

Council making per capita expenditure of Zmw 12. Similarly, Chisamba made per capita expenditure of Zmw 15 while Luangwa made per capita expenditure of Zmw 35. Chisamba and Luangwa Councils have constructed more schools and clinics, drilled and installed more boreholes and pit latrines than Lusaka and Luanshya Councils.

5.3.3 Expenditure on Service Provision

Table 5.7 shows that Lusaka City Council, Luanshya Municipal Council and Chisamba Town Council spent 0.2%, 18.4% and 0.7% more than the prescribed 21% on service provision respectively. On the contrary, Luangwa Town Council spent 2% below the prescribed minimum of 21% of the total equalization transfer on service provision in the year 2016.

Table 5. 7 Service Provision Expenditure for 2016 Fiscal Year (Zmw/million)

Local Authority	Total Budget	Total LGEF	Expected Service Expenditure	21%	Actual Expenditure on Service
Lusaka	372, 311, 962	81, 445, 203	17, 103, 493		17, 233, 010
Chisamba	12, 569, 478	6, 102, 321	1, 281, 487		1, 322, 510
Luangwa	12, 781, 241	8, 442, 073	1, 772, 835		1, 600, 259
Luanshya	65, 987, 262	7, 340, 172	1, 541, 436		2, 890, 751

Source: Author, 2019

As can be seen from table 5.8, Lusaka City Council and Luanshya Municipal Council spent 11% and 8% above the prescribed 21% of Equalisation funds on service provision respectively; however, there was a reduction on real expenditure on service delivery from 2016. Chisamba and Luangwa Councils spent 1% and 2% below the prescribed threshold of 21% of equalization transfers in 2017.

Table 5. 8 Service Provision Expenditure for 2017 Fiscal Year (Zmw/million)

Local Authority	Total Budget	Total LGEF	Expected 21% Service Expenditure	Actual Expenditure on Capital
Lusaka	376, 124, 303	42, 909, 037	9, 010, 897	13, 754, 439
Chisamba	13, 695, 874	7, 621, 174	1, 600, 446	1, 500, 671
Luangwa	13, 188, 421	9, 103, 113	1, 911, 653	1, 700, 290
Luanshya	33, 497, 339	7, 618, 686	1, 599, 924	2, 132, 781

Source: Author, 2019

Table 5.9 shows that in 2018, Lusaka City Council spent 13% above the minimum percentage of 21% on service provision and significantly increased its expenditure in real terms in comparison to 2017. Similarly, Chisamba, Luangwa and Luanshya Municipal Council spent 0.6%, 0.2 and 0.9% above the minimum threshold respectively.

Table 5. 9 Service Provision Expenditure for 2018 Fiscal Year

Local Authority	Total Budget	Total LGEF	Expected 21% Service Expenditure	Actual Expenditure on Capital
Lusaka	404, 721, 249	47, 068, 353	9, 884, 354	16, 112,578
Chisamba	19, 164, 391	7, 388, 679	1, 551, 622	1, 597, 600
Luangwa	14, 245, 407	6, 873, 571	1, 443, 450	1, 460, 588
Luanshya	61, 741, 961	12, 111, 684	2, 543, 453	2, 661, 976

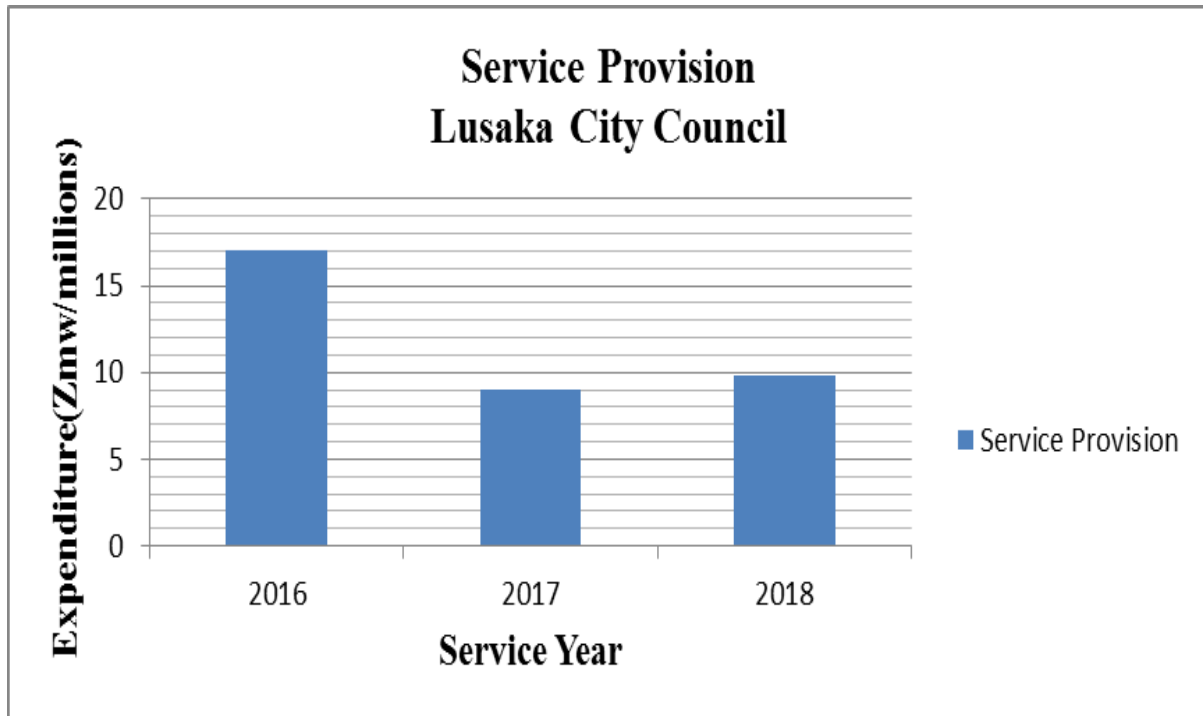
Source: Author, 2019

5.4 Trends in Service Provision

Figure 5.1 shows that, in 2016, Lusaka City Council spent *Seventeen Million Five Hundred and Twenty Four Thousand Kwacha* (Zmw 17, 524, 000). This translates in per capita expenditure of *Seven Kwacha* (Zmw 7). A large proportion was spent on street cleaning and street lighting, however its per capita expenditure declined to *Four Kwacha* (Zmw 4) in 2017, following a reduction in the equalization fund. In 2018, the Council made an increase in its expenditure on service provision to *Nine Million, Eight Hundred Thousand and Twenty One*

Kwacha (Zmw 9, 800, 021.00) with per capita expenditure remaining at *Four Kwacha* (Zmw 4).

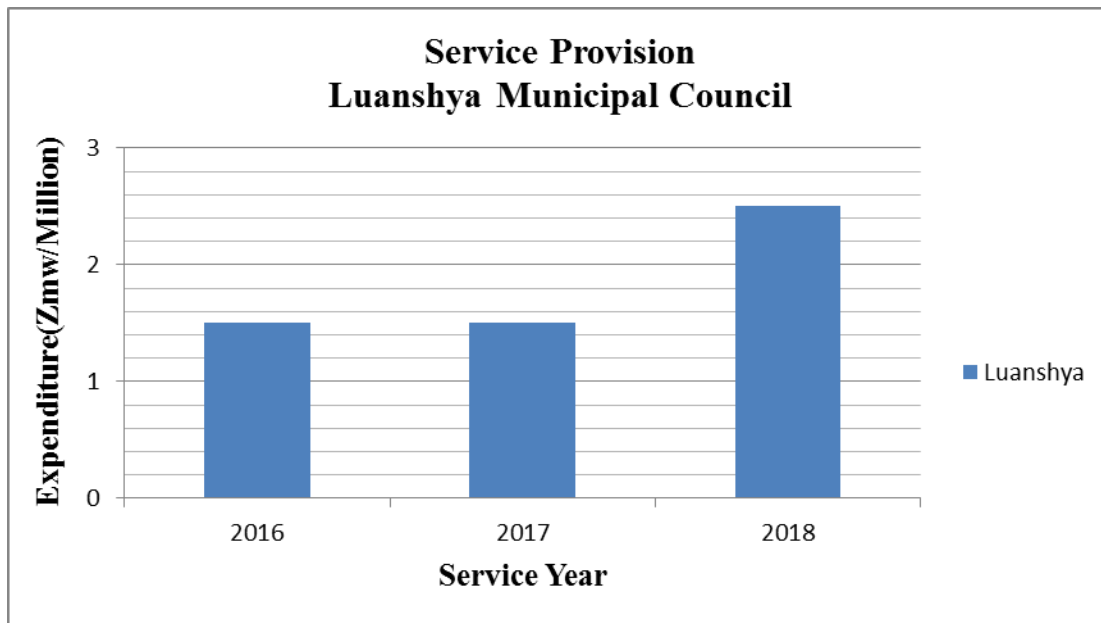
Figure 5. 1 Trends in Service Provision for Lusaka City Council



Source: Author, 2019

Figure 5.2 show that, Luanshya Municipal Council has been steadily increasing its expenditure on service provision despite reducing its budget by half in 2017. In 2016 and 2017, per capita service expenditure was *Ten Kwacha* (Zmw 10). In 2017, the council spent *One Million Five Hundred Thousand Kwacha* (Zmw 1, 500, 000.00) on drainage construction, maintenance of street lights and garbage collection. In 2018, the Council made a 67% increment on service expenditure giving a per capita service expenditure of *Fourteen Kwacha* (Zmw 14).

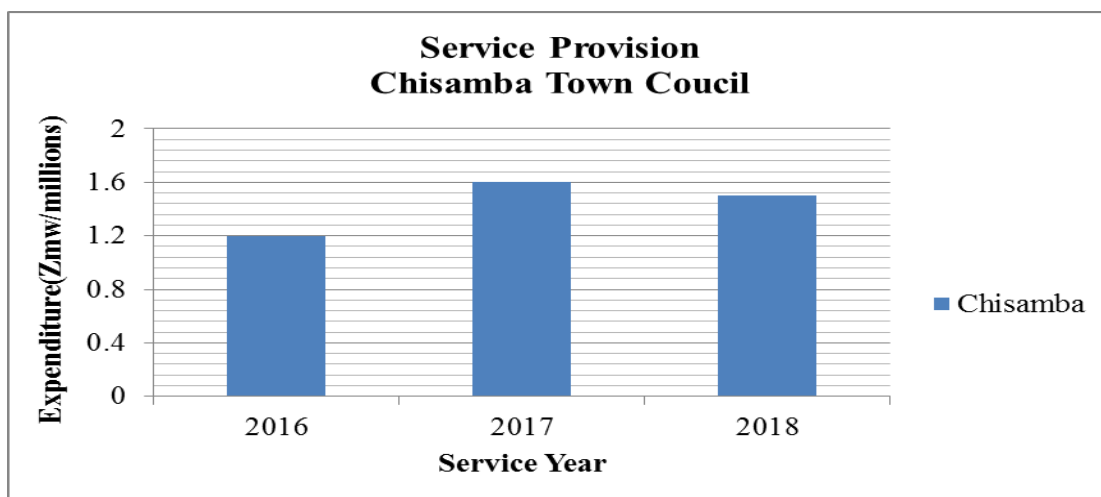
Figure 5.2 Trends in Service Provision for Luanshya Municipal Council



Source: Author, 2019

As can be seen from Figure 5.3, Chisamba Council spent *One Million, Three Hundred Twenty Two Thousand Five Hundred and Ten Kwacha* (Zmw 1, 322, 510) in 2016. This translates in per capita expenditure of *Twelve Kwacha* (Zmw 12). The Council increased its expenditure to *One Million, Six Hundred and Forty Four Kwacha* (Zmw 1, 644, 000.00) in 2017, giving per capita expenditure of *Sixteen Kwacha* (Zmw 16). In 2018, the council reduced its service expenditure by 6.3%, with per capita expenditure reducing to *Fifteen Kwacha* (Zmw 15).

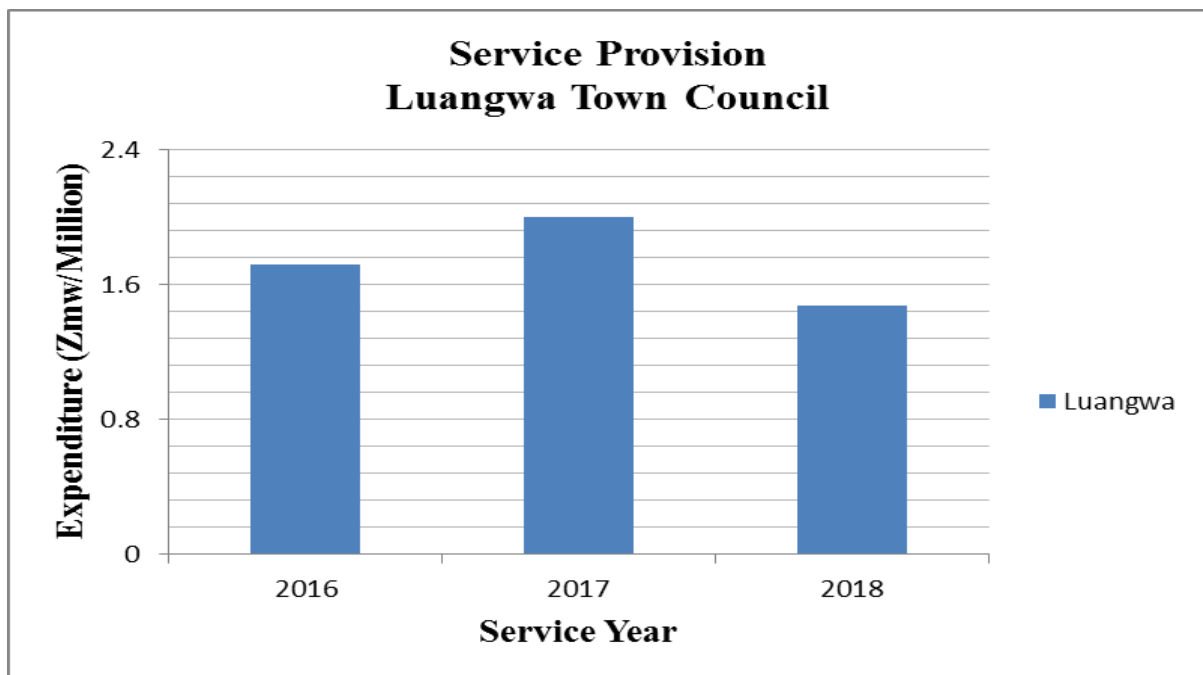
Figure 5. 3 Trends in Service Provision for Chisamba Town Council



Source: Author, 2019

Luangwa Town Council has generally been good in service provision for the period 2016 – 2018. In 2016, the Council spent *One Million, Seven Hundred and Fifty Six Thousand Kwacha* (Zmw 1, 756, 000), with per capita expenditure of *Sixty Three Kwacha* (Zmw 63). An increase of 11.8% was made in 2017. This translates in per capita expenditure of *Sixty Eight Kwacha* (Zmw 68). Conversely, the Councils expenditure on garbage collection, road and drainage works reduced to *One Million Four hundred Thousand Kwacha* (Zmw 1, 400, 000.00) in 2018 with per capita expenditure of *Fifty Kwacha 50* (Zmw 50). Between 2016 to 2017, there was a slight increase in expenditure on service provision, since then service provision drastically reduced.

Figure 5. 4 Trends in Service Provision for Luangwa Town Council



Source: Author, 2019

To establish the effect of payment of user fees on service delivery the study conducted multiple regression analysis. Payment of user fees was the dependent variable with independent variables been; garbage collection, drainage cleaning, functional street lighting, use of council facilities, adequacy of services, provision of sanitary facilities and public library services. Using the stepwise method, the output model has revealed that all the independent variables except garbage collection where excluded because the relationship with dependent variable was not statistically significant. The overall regression model for payment of user fees and garbage collection was statistically significant. The Analysis of

Variance Table with test using alpha = 0.05 shows; $F(1, 393) = 11.93$, $p = 0.001$, $R^2 = 0.03$. The results have shown that, 2.7% of all variability in service provision vis a vis garbage collection can be explained by payment of user fees. The coefficient table shows test results of payment of user fees at alpha = 0.05. Payment of user fees is very significant with $p = 0.001$. The regression equation that predicts the effects of user fees on garbage collection is; $Y = 0.114x + 1.211$. Implicitly, service provision by Local authorities is inversely related to payment of user fees which are supplemented by the service component of equalization funds.

Descriptive Statistics

	Mean	Std. Deviation	N
Payment of user fees	1.24	.749	395
Drainage Cleaning	1.51	.728	395
Functional Streetlights	1.72	.451	395
use of council facility	1.79	1.160	395
Adequacy of service	1.77	.649	395
Provision of Sanitary facilities	2.50	.651	395
Public Library Service	2.70	.614	395
Garbage Collection	1.35	.499	395

Correlations

	Payment of user fees	Drainage Cleaning	Functional Streetlights	use of council facility	Adequacy of service	Provision of Sanitary facilities	Public Library Service	Garbage Collection
Pearson Correlation	1.000	.028	.078	.020	.018	.077	.036	.172
		1.000	.245	.125	.194	.358	.183	.249
			1.000	.141	.270	.480	.365	.185
				1.000	.171	.147	.161	.108
					1.000	.331	.134	.126

Sig. (1-tailed)	Provision of Sanitary facilities	.077	.358	.480	.147	.331	1.000	.433	.321
	Public Library Service	.036	.183	.365	.161	.134	.433	1.000	.076
	Garbage Collection	.172	.249	.185	.108	.126	.321	.076	1.000
	Payment of user fees	.293	.293	.061	.347	.362	.062	.237	.000
	Drainage Cleaning	.293	.	.000	.007	.000	.000	.000	.000
	Functional Streetlights	.061	.000	.	.002	.000	.000	.000	.000
	Use of council facility	.347	.007	.002	.	.000	.002	.001	.016
	Adequacy of service	.362	.000	.000	.000	.	.000	.004	.006
	Provision of Sanitary facilities	.062	.000	.000	.002	.000	.	.000	.000
	Public Library Service	.237	.000	.000	.001	.004	.000	.	.066
	Garbage Collection	.000	.000	.000	.016	.006	.000	.066	.
	Payment of user fees	.395	.395	.395	.395	.395	.395	.395	.395
	Drainage Cleaning	.395	.395	.395	.395	.395	.395	.395	.395
	Functional Streetlights	.395	.395	.395	.395	.395	.395	.395	.395
	use of council facility	.395	.395	.395	.395	.395	.395	.395	.395
	Adequacy of service	.395	.395	.395	.395	.395	.395	.395	.395
	Provision of Sanitary facilities	.395	.395	.395	.395	.395	.395	.395	.395
	Public Library Service	.395	.395	.395	.395	.395	.395	.395	.395
Garbage Collection	.395	.395	.395	.395	.395	.395	.395	.395	

Variables Entered/Removed^a

Model	Variables Entered	Variables Removed	Method
1	Garbage Collection	.	Stepwise (Criteria: Probability-of-F-to-enter <= .050, Probability-of-F-to-remove >= .100).

a. Dependent Variable: Payment of user fees

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.172 ^a	.029	.027	.739

a. Predictors: (Constant), Garbage Collection

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.512	1	6.512	11.926	.001 ^b
	Residual	214.592	393	.546		
	Total	221.104	394			

a. Dependent Variable: Payment of user fees

b. Predictors: (Constant), Garbage Collection

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	.887	.108		8.252	.000	.676	1.098
Garbage Collection	.258	.075	.172	3.453	.001	.111	.404

a. Dependent Variable: Payment of user fees

Excluded Variables^a

Model	Beta In	t	Sig.	Partial Correlation	Collinearity Statistics	
					Tolerance	
1	Drainage Cleaning	-.016 ^b	-.316	.752	-.016	.938
	Functional Streetlights	.048 ^b	.944	.346	.048	.966
	use of council facility	.001 ^b	.027	.979	.001	.988
	Adequacy of service	-.004 ^b	-.074	.941	-.004	.984
	Provision of Sanitary facilities	.025 ^b	.473	.636	.024	.897
	Public Library Service	.023 ^b	.466	.642	.024	.994

a. Dependent Variable: Payment of user fees

b. Predictors in the Model: (Constant), Garbage Collection

Table 5.10 shows that in provision of services to the public, Lusaka City Council and Luanshya Municipal Council have employed various methods of service delivery among them is the use of local government enterprise, contracting out, franchise, volunteers, self-help groups and in-house provision. Chisamba and Luangwa Town Councils have employed in-house provision which is supplemented by local government enterprise and the use of volunteers and self-help groups.

Further, the Council Secretary, Luangwa Town Council justified the use of these Enterprise on grounds

“that appointed officials governing single-purpose enterprises will make better decisions than directly elected municipal politicians who must make decisions, choices, and trade-offs over a vast range of local government functions”.

Table 5. 10 Employed methods of service delivery

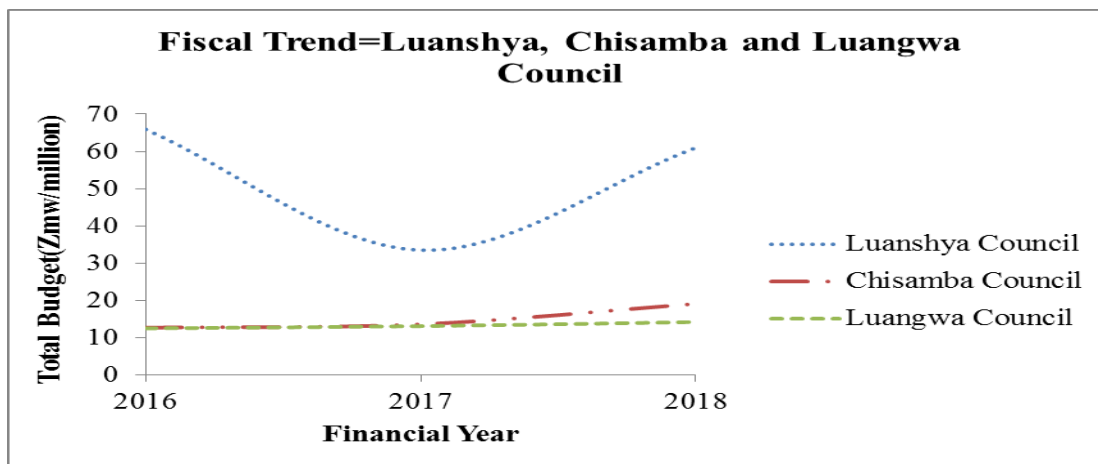
METHOD OF SERVICE DELIVERY	IN-HOUSE	LOCAL GOVT ENTERPRISE	CONTRACTING OUT	FRANCHISE	VOLUNTEERS	SELF HELP
COUNCIL						
LUSAKA	✓	✓	✓	✓	✓	✓
LUANSHYA	✓	✓	✓	✓	✓	✓
CHISAMBA	✓	✓			✓	✓
LUANGWA	✓	✓			✓	✓

Source: Author, 2019

5.5 Fiscal Trends

Figure 5.5 shows that, the estimates of revenue and expenditure for Luanshya Municipal Council in 2016 were Zmw 65million. In 2017, its budget declined by 50% to Zmw 33million then it increased its budget by 96% in 2018. In the case of Chisamba and Luangwa, the budgets have been increasing steadily from 2016.

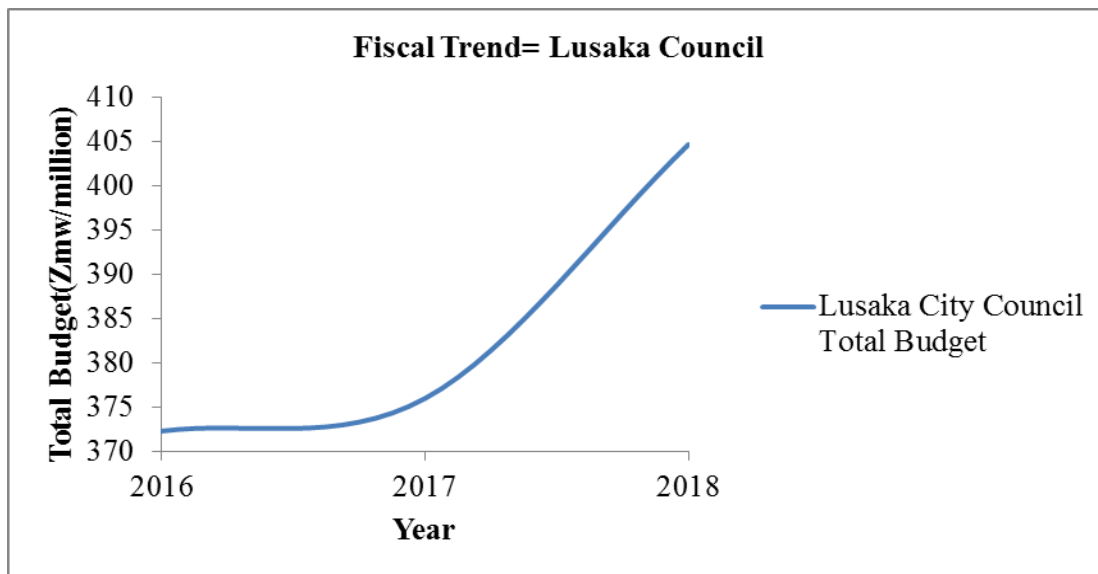
Figure 5.5 Fiscal Trends for the period 2016 – 2018



Source: Author, 2019

Figure 5.6 shows that the estimates of revenue and expenditure for Lusaka City Council have been increasing from 2016. In 2016, the council’s budget was *Three Hundred and Seventy Two Million, Three Hundred and Eleven Thousand Kwacha* (Zmw 372, 311, 962.00). In 2017, the council increased its budget by 1.9%. In 2018 the council’s estimates of revenue and expenditure grow to Four Hundred and Four Million, Seven Hundred and Twenty one Thousand Kwacha.

Figure 5. 6 Fiscal Trends for the period 2016 – 2018, Lusaka

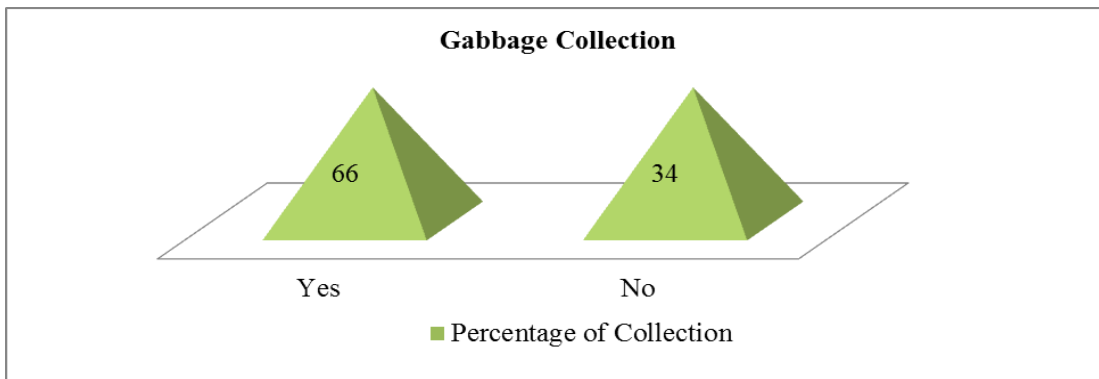


Source: Author, 2019

The research has revealed in Figure 5.7, that the Local Authority or through their contractors, self-help groups and franchise have predominately (66%) been collecting Garbage from local residents, while 34% of the respondents reported to have been disposing off garbage individually.

In terms of frequency of collection, 37.2% reported that garbage is collected at least four times every month while 29.1% reported that garbage is collected once or twice every month.

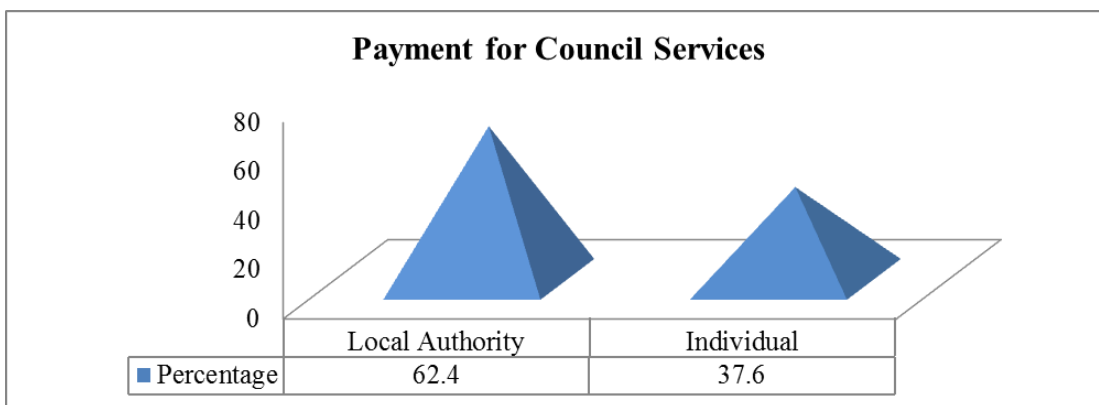
Figure 5. 7 Collection of Garbage



Source: Author, 2019

Further, when property owners were asked on who should bear the cost of Municipal services, 62.4% reported that the Local Authority should finance its operation and cost of service provision. 37.6% of the respondents said users of council services should bear the cost of council services. Worse still, 8.1% of the respondents indicate that they do not pay taxes because the Council does not provide any services, 7.6% claim that it is not their obligation to pay for council service while 4.7% reported that they did not just have money to pay for Council services

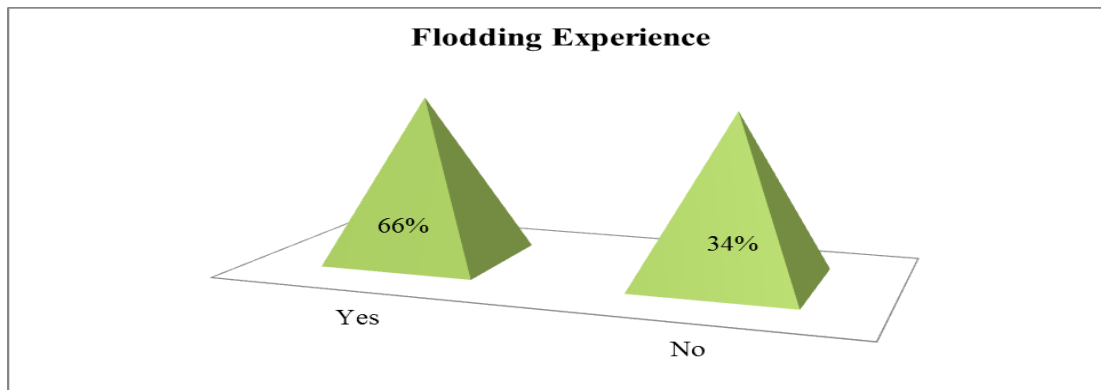
Figure 5. 11 Payment for Council Services.



Source: Author, 2019

As can be seen in Figure 5.8, 66% of respondents experience flooding in their area while 34% do not experience flooding. Those that experienced flooding were largely from peri urban areas with haphazard township layout plans. Out of those that experienced flooding 47.8% reported that their drainages have never been cleaned from the time the road had be constructed while 51.9% reported that the Local Authority periodically cleans their drainages.

Figure 5. 8 Flooding Experience

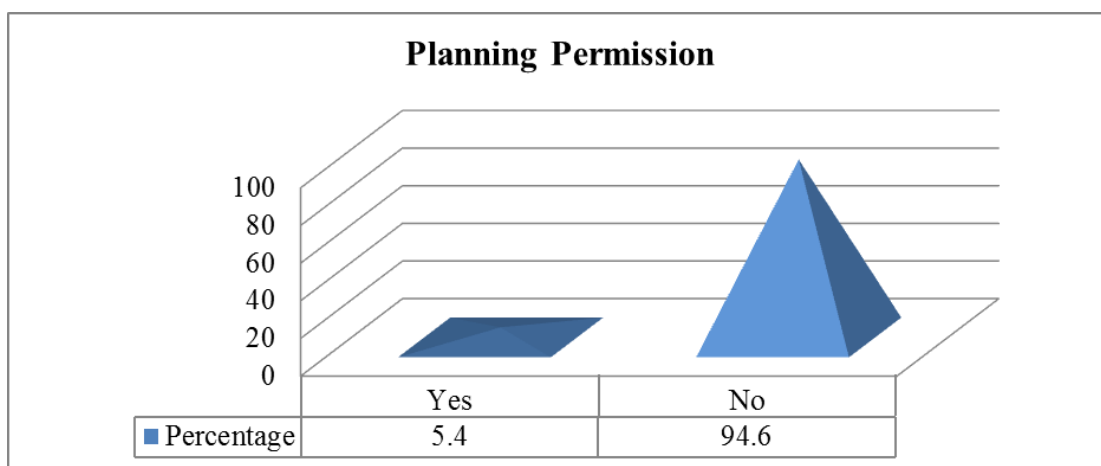


Source: Author, 2019

The study has revealed that 28.4% of the sample has functional street lights in their area while 71.6 % do not have street lights in their areas. In some of these areas that did not have functional street lights, Local Authorities had installed street lights in those areas which were later vandalised or stolen by some residents while in other cases the non-functionality of street lights was because the Council had not paid electricity bills.

Figure 5.9 has shown that 94.6% of all building construction does not have planning permission. Only 5.4% of erected or current construction projects have planning permission from the Council and Provincial Planning Authority in the case of Luangwa and Chisamba Council residents. Out of those that applied for planning permission, only 1.5% received approval response in less than a month while 4% received approval response in three months.

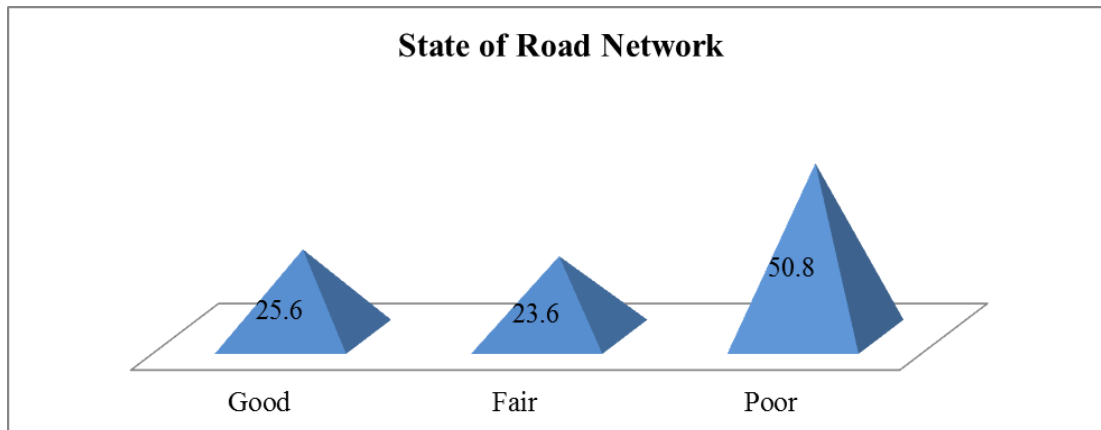
Figure 5. 9 Planning Permission



Source: Author, 2019

In describing the state of the road network, figure 5.10, shows that 50.8% reported that the road network is very poor in their area, 23.6% described the road network as fair while 25.6% described it as good. Of those that described the road network as fair and good, 80.3% bemoaned the Councils response to repair reported road damages and vandalised road furniture.

Figure 5. 10 State of Road Network



Source: Author, 2019

When asked if residents feel the council provided adequate services in their area, 74% of the respondents said no while 26% felt the council provides adequate services in their areas. Evidently, sanitary and sports facilities in the selected Councils were generally not adequate and where they were provided, they were poorly maintained. Further, 55.7% reported that the Council has not improved service delivery in the last three years.

To determine the effect of equalization transfers on service delivery, the study conducted regression analysis. The overall regression model was very significant. The analysis of variance test using alpha= 0.05 shows; $F(1, 391) = 89.86, p < 0.001, R = 0.187$. The analysis revealed that 18.7% of all variations in service provision are as a result of changes in equalization transfers. This was so evident in Town Councils with nearly a non-existence revenue base. Without equalization transfers Local authorities can hardly provide essential services to its residents.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.432 ^a	.187	.185	.457

a. Predictors: (Constant), Equalisation transfers

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18.748	1	18.748	89.860	.000 ^b
	Residual	81.577	391	.209		
	Total	100.326	392			

a. Dependent Variable: Improved service

b. Predictors: (Constant), Equalisation transfer

Coefficients

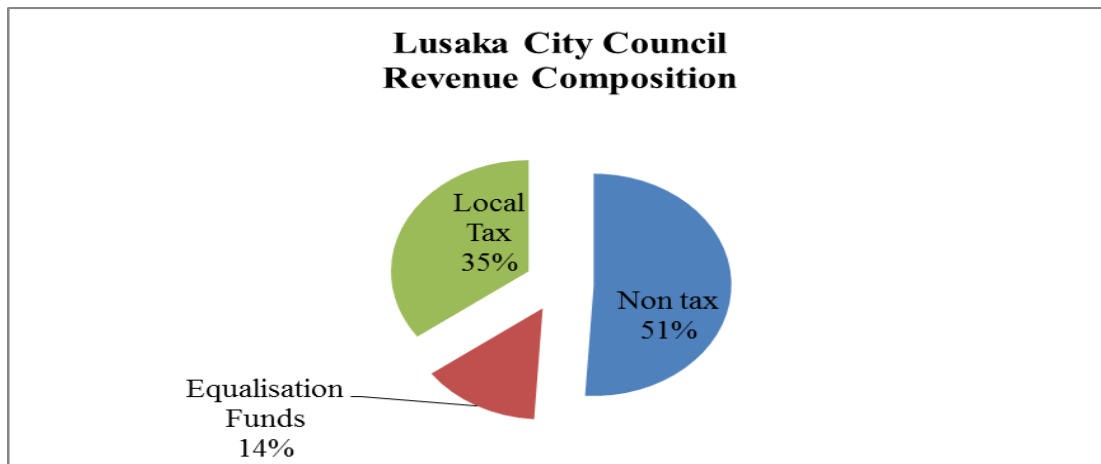
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.804	.084		9.562	.000
	Equalisation transfer	.311	.033	.432	9.479	.000

a. Dependent Variable: Improved service

5.6 Composition of Revenue

As can be seen from figure 5.11, 51% of Lusaka City Councils budget is funded by non-tax revenue, 14% through equalization transfers from Central Government and 35% from tax revenue. Within the non-tax revenue, a large proportion is generated through permits and user fees while in the tax revenue, a large proportion is from property rates, suffice to say that the valuation roll did not capture most of the recent infrastructure developments in the City.

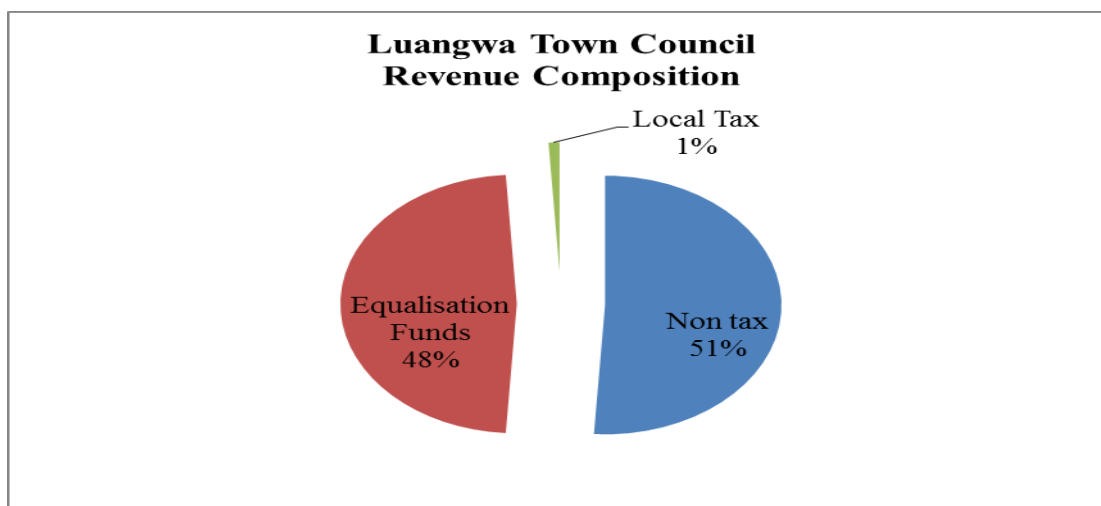
Figure 5. 11 Revenue Composition - Lusaka City Council



Source: Author, 201

Figure 5.12, shows that Luangwa Town Councils budget is 48% funded by equalization transfer from Central Government, 51% from non-tax revenue and 1% by tax revenue. The Council generates much of its non-tax revenue from plot premiums but economic activities in the Town are very low with most of the business transactions revolving around fish trading making the revenue base negligible for taxation.

Figure 5. 12 Revenue Composition - Luangwa Town Council



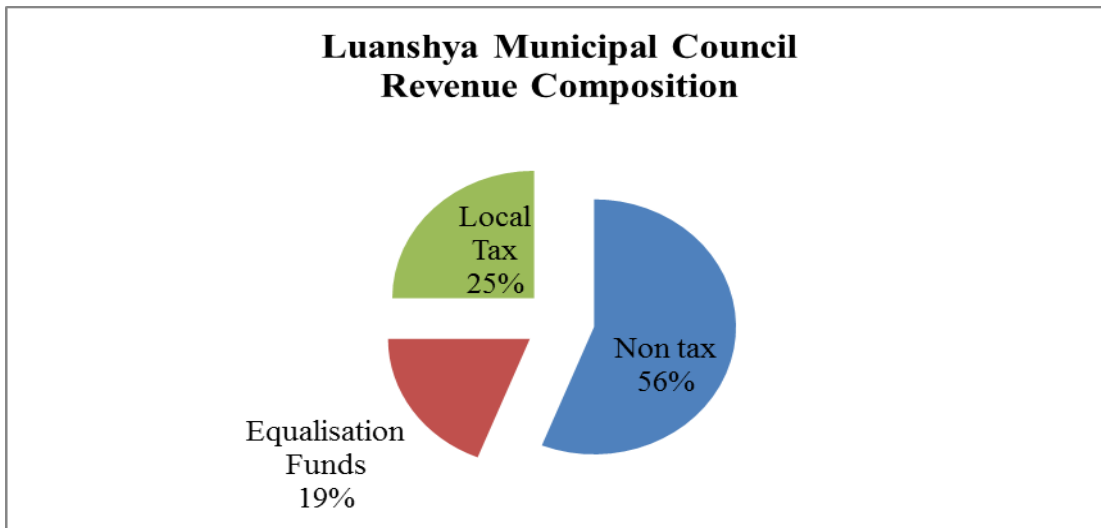
Source: Author, 2019

The study revealed in Figure 5.13 that, 56% of the Councils budget for Luanshya Municipal Council is financed by non-tax revenue, 25% by tax revenue and 19% by equalization funds. The Council generates most of its non-tax revenue from permits and user fees while tax

revenue is largely generated from property taxes with mining companies accounting for a large share.

Further, the Director of Finance reported that “the local authority is able to meet most of its expenditure from tax and non-tax revenue generated from the local revenue base.”

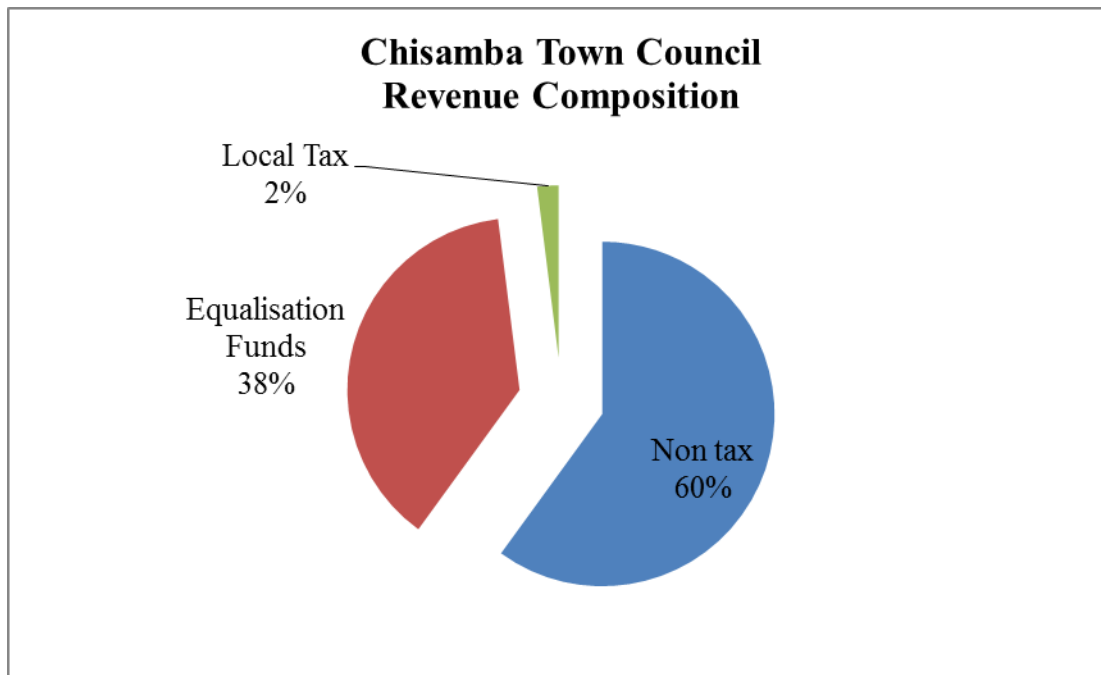
Figure 5. 13 Revenue Composition - Luanshya Municipal Council



Source: Author, 2019

Figure 5.14 shows that, Chisamba Town Council funds 60% of its budget through non tax revenue, 38% through equalisation funds and 2% through tax revenue. Plot premiums account for a large portion of non-tax revenue for the Council while tax revenue is mainly from property tax though the collection efficiency is poor.

Figure 5. 14 Revenue Composition - Chisamba Town Council



Source: Author, 2019

5.7 Fiscal Effort

In determining the fiscal effort, the study has revealed that fiscal effort by Lusaka City Council has been increasing from 2016. Out of its total budget, 78% was internally generated in 2016 with per capita collection of Zmw 116. In 2017, 88% was internally generated with per capita collection of Zmw 133 while 88.3% was internally generated with per capita collection of Zmw143 in 2018.

Table 5. 11 Fiscal Effort, Lusaka City Council

Budget Year	Total Expenditure	Internal Revenue	Equalisation fund	% of own Revenue
2016	372, 311, 962.00	290, 866, 759.00	81, 445, 203.00	78
2017	376, 124, 303.00	333, 215, 266.00	42, 909, 037.00	88
2018	404, 721, 249.00	357, 652, 896.00	47, 068, 353.00	88.3

Source: Author, 2019

As can be seen from Table 5.12, Chisamba Town Council fiscal effort in 2016 was 51% of the fiscal capacity with per capita collection of Zmw 62, this reduced to 44% with per capita

collection of Zmw 58 in 2017 but increased in 2018 to 61% with per capita collection of Zmw 113.

Table 5. 12 Fiscal Effort - Chisamba Town Council

Budget Year	Total Expenditure	Internal Revenue	Equalisation fund	% of own Revenue
2016	12, 569, 478.00	6, 467, 157.00	6, 102, 321.00	51
2017	13, 695, 874.00	6, 074, 700.00	7, 621, 174.00	44
2018	19, 164, 391.00	11, 775, 712.00	7, 388, 679.00	61

Source: Author, 2019

Table 5.13 shows that internally generated revenue for Luangwa Town Council in 2016 was 33% of the total revenue capacity with per capita collection of Zmw 149 but reduced to 30.98% with per capita collection of Zmw 140 in 2017. In 2018, the council improved its fiscal effort to reach 51% of all revenues with per capita collection of Zmw 254.

Table 5. 13 Fiscal Effort, Luangwa Town Council

Budget Year	Total Expenditure	Internal Revenue	Equalisation fund	% of own Revenue
2016	12, 781, 241.00	4, 339, 168.00	8, 442, 073.00	33
2017	13, 188, 421.00	4, 085, 308.00	9, 103, 113.00	30.98
2018	14, 245, 407.94	7, 371, 836.50	6, 873, 571.44	51

Source: Author, 2019

In 2016, Luanshya Municipal Council internally generated 88% of all council revenue with per capita collection of Zmw 375, however, fiscal effort declined in 2017 to 76% with per capita collection of Zmw 165 but rose again in 2018 to 80% with per capita collection of Zmw 318.

Table 5. 14 Fiscal Effort, Luanshya Municipal Council

Budget Year	Total Expenditure	Internal Revenue	Equalisation fund	% of own Revenue
2016	65, 987, 262.00	58, 647, 088.00	7, 340, 172.00	88
2017	33, 497, 339.81	25, 878, 653.81	7, 618, 686.00	76
2018	61, 741, 961.00	49, 630, 277.00	12, 111, 684.00	80

Source: Author, 2019

5.8 Technical Capacity

In terms of machinery necessary for service provision, Lusaka City Council has acquired most the service equipment for road maintenance and construction as well as for street lighting erection and maintenance. Further, the council has a maintenance schedule which they do not adhere to. Similarly, as can be seen from Table 5.15, Luanshya Municipal Council has basic equipment for construction and maintenance but has no equipment for erection and maintenance of street lights and do not have an existing maintenance schedule. Chisamba and Luangwa Town Councils only have a motor grader and dump trucks for service provision and do not have any maintenance schedule in place for these machinery. Further, the dump truck for Luangwa Town Council has been non-functional from 2017.

Table 5. 15 Equipment's for Service Provision

	Motor Grader	Road Roller	Excavator	Front Loader	Bulldozer	Dump truck	Motorised Scaffold	Trenchers
Lusaka	✓	✓	✓	✓	✓	✓	✓	
Luanshya	✓		✓	✓		✓		
Chisamba	✓					✓		
Luangwa	✓					✓		

Source: Author, 2019

5.9 Administrative Capacity

In determining the administrative effects of equalisation funds, the study has shown that Lusaka City Council has 11 Civil Engineers, 4 Electrical Engineers, 3 Water Engineers, 14, Health Inspectors, 9 Physical Planner and 6 Socio-Economic Planners. At least, one engineer, Health inspector and physical planner services a constituency in Lusaka. In the case of Luanshya, the all city is serviced by 3 civil Engineers, 1 water Engineer, 4 Health Inspectors and 3 Physical Planners with 2 Socio-Economic Planners. Chisamba and Luangwa Town Council are serviced by 1 and 2 Civil Engineers respectively with no electrical Engineer, 1 water Engineer, One (1) Socio-Economic Planner and Two (2) Health Inspectors in each Town, Chisamba has Two (2) Physical Planners while Luangwa has one (1) as can be seen in Table 5.16.

Public perception on the capabilities of City Engineers and Planners is generally poor. The public showed they have no confidence in the Planners and Engineers who are key officials in the design and delivery of city services.

Table 5. 16 Number of Technical employees

	Civil Engineers	Electrical Engineers	Water Engineers	Health Inspectors	Physical planners	Socio- Economic Planners
Lusaka	11	4	3	14	9	6
Luanshya	3		1	4	3	2
Chisamba	1		1	2	2	1
Luangwa	2		1	2	1	1

Source: Author, 2019

5.10 Chapter Summary

In determining the expenditure composition of the Equalisation Funds in Local Authorities, the study has shown that of the Total Local Government Equalisation transfers received, Lusaka City Council, Luanshya Municipal, Luangwa and Chisamba Town Councils spent 5%, 16%, 0.3% and 5% respectively above the minimum prescribed 20% of equalization grant on capital improvements. A large proportion of that expenditure (65%) for Lusaka City was spent on construction and rehabilitation of Schools and Clinics while 35% was spent on purchase of motor vehicles for Managers. In 2017, Capital expenditure by Lusaka City Council was 18.7%, this was a 0.7% reduction from the 2016 expenditure, similarly Luangwa and Luanshya Councils spent 13% and 26% in 2017 showing a reduction of 7.3% and 10% respectively while Chisamba spent 25% in 2017.

While Government increased the equalization transfer for Lusaka City Council for 2018, Capital expenditure declined by 6% from 2017, Similarly, Government increased the Equalization transfer to Luanshya Municipal Council in the same year but the Council reduced its Capital expenditure by 12% from 2017. On the Contrary, Government reduced its Equalization transfers to Chisamba and Luangwa Town Councils in the same year which in part resulted in the reduction of their expenditure on capital by 6% and 18% respectively.

Comparatively, Lusaka City Council has made greater expenditure on Capital improvements compared to other selected councils. Chisamba and Luangwa Councils have however, constructed more schools and clinics, drilled and installed more boreholes and pit latrines than Lusaka and Luanshya Councils.

In terms of service provision, Lusaka City Council, Luanshya Municipal Council and Chisamba Town Council spent 0.2%, 18.4% and 0.7% more than the prescribed 21% on service provision respectively. On the contrary, Luangwa Town Council spent 2% below the prescribed minimum of 21% of the total equalization transfer on service provision in the year 2016. In 2017, Lusaka City Council and Luanshya Municipal Council spent 11% and 8% above the prescribed 21% of Equalisation funds on service provision respectively; however, there was a reduction in real expenditure on service delivery from 2016. Chisamba and Luangwa Councils spent 1% and 2% below the prescribed threshold of 21% of equalization transfers. In 2018, Lusaka City Council spent 13% above the minimum percentage of 21% on service provision and significantly increased its expenditure in real terms in comparison to 2017. Similarly, Chisamba, Luangwa and Luanshya Municipal Council spent 0.6%, 0.2 and 0.9% above the minimum threshold respectively.

On methods of service delivery in provision of Council services to the public, Lusaka City Council and Luanshya Municipal Council have employed various methods of among them is the use of local government enterprise, contracting out, franchise, Volunteers, self-help groups and in-house provision. Chisamba and Luangwa Town Council have employed in-house provision which is supplemented by local government enterprise and the use of volunteers and self-help groups.

In determining the fiscal effort by Councils following the introduction of Equalisation transfers the study has revealed that the fiscal effort from 2016 by Lusaka City Council has been increasing, out of its total budget, 78% was internally generated revenue in 2016, while in 2017, 88% was internally generated revenue and 88.3% in 2018. In the case of Chisamba Town Council, the fiscal effort in 2016 was 51%, this reduced to 44% in 2017 but increased in 2018 to 61%. The internally generated revenue for Luangwa Town Council in 2016 was 33% of the total revenue but reduced to 30.98% in 2017. In 2018, the council improved its effort to reach 51% of all revenues. Similarly, Luanshya Municipal Council internally

generated 88% of all Council revenue; however, fiscal effort declined in 2017 to 76% but rose again in 2018 to 80%.

In its quest to determine the technical capacity of councils, the study has revealed that, Lusaka City Council has acquired most the service equipment for road maintenance and construction as well as for street lighting erection and maintenance. Further, the council has a maintenance schedule which they do not adhere to. Similarly, as can be seen from Table 14, Luanshya Municipal Council has basic equipment for construction and maintenance but has no equipment for erection and maintenance of street lights and do not have an existing maintenance schedule. Chisamba and Luangwa Town Councils only have a motor grader and dump trucks for service provision and do not have any maintenance schedule in place for these machinery. Further, the Dump Truck for Luangwa Town Council has been down from 2017.

Administratively, Lusaka City Council has 11 Civil Engineers, 4 Electrical Engineers, 3 Water Engineers, 14 Health Inspectors, 9 Physical Planner and 6 Socio-Economic Planners. At least, one engineer, Health inspector and physical planner services a constituency in Lusaka. In the case of Luanshya Municipal Council, the all city is serviced by 3 civil Engineers, 1 water Engineer, 4 Health Inspectors and 3 Physical Planners with 2 Socio-Economic Planners. Chisamba and Luangwa Town Council are serviced by 1 and 2 Civil Engineers respectively with no electrical Engineer, 1 water Engineer, One (1) Socio-Economic Planner and Two (2) Health Inspectors in each Town, Chisamba has Two (2) Physical Planners while Luangwa has one (1).

The subsequent chapter will interpret and discuss the findings of the research. The findings will be discuss according to the research questions and will fall under various themes.

CHAPTER SIX

DISSCUSION OF FINDINGS

6.0 Introduction

Following the presentation of findings of the study on the effect of equalization funds on service delivery in selected Local Authorities in Zambia, this section will therefore, interpret and discuss the findings of the research. The findings are arranged according to the research questions and will be presented under various thematic areas including the financial effect of equalisation funds and the mix of methods of service delivery.

6.1 Expenditure Composition of Equalisation Funds

The study has shown that in 2016, most Local Authorities adhered to the prescribed guidelines for the utilisation of equalization funds. Lusaka City Council, Luanshya Municipal, Luangwa and Chisamba Town Councils spent 5%, 16%, 0.3%, 5% respectively above the minimum prescribed 20% of equalization grant on capital improvements. A large proportion of that expenditure (65%) for Lusaka City Council was spent on construction and rehabilitation of Schools and Clinics while 35% was spent on purchase of utility motor vehicles for Managers. No revenue generating investment was reported in 2016 in all selected Local Authorities.

Contrary to the prescribed guidelines in 2017, apart from Chisamba which spent 5% above the minimum threshold, Lusaka City Council spent 0.7% below the prescribed threshold with Luanshya and Luangwa reducing expenditure on capital by 10% and 7.3% from 2016 respectively. While Government increased the equalization transfer for Lusaka City Council for 2018, capital expenditure declined by 6% from 2017, Similarly, Government increased the equalization transfer to Luanshya Municipal Council in the same year but the council reduced its Capital expenditure by 12% from 2017. On the other hand, Government reduced its equalization transfers to Chisamba and Luangwa Town Councils in the same year which in part resulted in the reduction of their expenditure on capital by 6% and 18% respectively.

This is contrary to findings of a study on the utilisation of intergovernmental transfers by Oates (1993), who contend that local government officials do not have incentives to act

financially responsible. Further, it has been argued that fiscal transfers induces the flypaper effect and generates fiscal illusion; a phenomenon which arises when the link between taxes and benefits is distorted. In this case voters are less likely to sanction overspending politicians. Additionally, fiscal performance is adversely affected because it leads to the problem of the soft budget constraint. In fact, sub-national governments with huge transfers do not have sufficient tax and borrowing authority to cope with idiosyncratic shocks (Von Hagen, 2000). Councils with high vertical fiscal imbalance may enter into a fiscal crisis and be unable to pay wages or default on loans when faced with adverse fiscal shocks. As they may claim that they are not responsible, the pressures from voters, civil servants, and creditors will likely be directed at the Central Government, which will have no choice but to bail them out.

Anticipating this, sub-national governments have an incentive to engage in riskier fiscal policies (Eyraud and Lusinyan 2013). As a result, since transfer-dependent Local governments face weak incentives to be fiscally responsible, the VFI affects negatively the fiscal performance (Rodden *et al.* 2003). Empirical literature provides many tests on the negative relation between vertical imbalances and fiscal performance, that is, the existence of the soft budget constraint problem. Additional evidence shows that higher reliance on intergovernmental transfers worsens the general government's overall balance. Further, transfer dependency is associated to larger fiscal deficits, the negative impact being larger at high levels of decentralization. Jibao (2009) find that transfers increase the size of the government at the sub-national, national, and general government levels.

On service provision, Local authorities generally adhered to Central Governments prescribed expenditure of not less than 21% of equalization funds with Lusaka City Council, Luanshya Municipal Council and Chisamba Town Council spending 0.2%, 18.4% and 0.7% more than the prescribed threshold respectively. On the contrary, Luangwa Town Council spent 2% below the prescribed minimum of 21% of the total equalization transfer on service provision in the year 2016.

In 2017 Lusaka City Council and Luanshya Municipal Council spent 11% and 8% above the prescribed 21% of Equalisation funds on service provision respectively. However, there was a reduction on real expenditure on service delivery from 2016. Chisamba and Luangwa Councils spent 1% and 2% below the prescribed threshold of 21% of equalization transfers in

2017. Lusaka City Council spent 13% above the minimum percentage of 21% on service provision and significantly increased its expenditure in real terms in comparison to 2017. Similarly, Chisamba, Luangwa and Luanshya Municipal Council spent 0.6%, 0.2 and 0.9% above the minimum threshold respectively.

The study as shown that, Lusaka City Council performed well in terms of service provision. It increased expenditure in street cleaning and street lighting; however, its expenditure declined in 2017 following a reduction in the equalization fund. In 2018, the Council made an increase in its expenditure on service provision compared to 2017 but below its expenditure in 2016. Luanshya Municipal Council has been steadily increasing its expenditure on service provision despite cutting its budget by half in 2017. Chisamba Council increased service delivery but reduced its expenditure in 2018. Luangwa Town Council on the other hand has generally been worsening in service provision for the period 2016 – 2018.

It is the position of this research that poor service delivery occurs because there is a mismatch between the expenditure responsibilities assigned to Local Authorities and the fiscal resources available to them to carry out those responsibilities.

Ebel and Yilmaz (2002), support the position that, poor service delivery primarily results from a mismatch between expenditure responsibilities and revenue rising power of the two tiers of government. The revenue rising power of the lowest level of government is affected by poor tax collection and administration. In line with this, the most common source of poor service delivery is the lack of revenue autonomy at the sub national level including the perception of the central authorities that most significant taxes should be centrally managed.

In terms of personal emoluments, the study has shown that Council have been increasing their Expenditure on personal emoluments from 2016. This increment is as a result of increased recruitment of personnel by the Local Government Service Commission and an increment of salaries and other conditions of services for council employees that was awarded in 2016 and 2017. This can be seen in the expenditure by Lusaka City Council of 53.8% of the total equalization in 2016 on emoluments and 49.3% in 2017. The Council increased its expenditure in 2018 to 53.3%. Luanshya Municipal Council spent 24.6% in 2016 and increased its expenditure in 2017 and 2018 to 45% and 65.1% respectively.

Similarly, Chisamba and Luangwa Town Council spent 53.3% and 56% in 2016 respectively. In 2017, Chisamba Council increased its expenditure by 1.7% while Luangwa Council increased its expenditure by 12%. Luangwa council reduced its expenditure to 65.4 in 2018 while Chisamba increased its expenditure to 59.4% in the same year.

Even though expenditure on personal emoluments increased in all selected Local Authorities, the study has revealed that delayed payment of salaries and statutory pension contribution is so prevalent in these Councils that employee do not know there next pay day.

Baretti *et al* (2000) asserts that, money is fungible, so even transfers based solely on need and capacity measures do nothing to ensure that the recipient governments will in fact use the funds they receive as the central government might wish unless receipt is conditioned on performance and compliance is monitored in some way. As a general rule, when Local governments essentially serve as agents of the centre, some conditionality often seems desirable particularly when important national services such as education and health are provided by Local governments. The rationale for transfers with the strongest basis in the economic literature is that local services may spill over to other jurisdictions. In order to induce local governments to produce the right amount of such services, what is needed is some form of matching grant that in effect provides a unit subsidy just equal to the value at the margin of the spill over benefit.

To establish the effect of payment of user fees on service delivery the study conducted multiple regression analysis. Payment of user fees was the dependent variable with independent variables been; garbage collection, drainage cleaning, functional street lighting, use of council facilities, adequacy of services, provision of sanitary facilities and public library services. Using the stepwise method, the output model has shown that, all the independent variables except garbage collection where excluded because the relationship with the dependent variable was not significant. The overall regression model for payment of user fees and garbage collection was statistically significant. The analysis of variance Table with test using alpha = 0.05 shows; $F(1, 393) = 11.93$, $p = 0.001$, $R^2 = 0.03$. The results have revealed that, 2.7% of all variability in service provision vis-a-vis garbage collection can be explained by payment of user fees. Implicitly, service provision by Local Authorities is inversely related to payment of user fees which are supplemented by the service component of equalization funds. Local Authorities charge user fees to ensure effective supply and

demand of services. Only those that pay for the service will have access or enjoy the service. This ensures that the right quantities are produced by Local authorities. User fees should not be beyond the reach of most service users because they may inefficiently crowd out consumption of a service.

Smart (2001), adds that there must be an economic link between the user fee and the cost of the services. Considering user fees with respect to economic and legal concerns is important to ensuring their validity and success. Local Authorities may be interested in implementing user fees to fund a municipally provided good or service through user fees rather than through property taxes in order to shift spending to other goods or services, to meet new financial obligations, to encourage users to modify their use, or to evaluate the popularity of a specific good or service.

To supplement the revenue effort for service provision by Local authorities, Central government makes equalisation transfers. The rationale for equalisation transfers with regard to service provision is that some services provided by the Local Authorities have significant externalities. Other services constitute essential elements of national development programs, examples include; the provision of basic education and health services, improving the level and quality of water supply and sewerage treatment as well as local roads construction. These services may be justified as part of efforts to improve the economic productivity of the political boundaries of Local Authorities but will inevitably extend to neighbouring Councils and overall economy. Financing services such as education, roads and health from local resources alone may not be possible, given the scanty current revenues of most Local Authorities. If they are to carry out costly public service provision, they must therefore as a rule heavily rely on grants or transfers from Central Governments (Shah and Qureshi, 1994).

6.2 Methods of Service Delivery

6.2.1 Mix of methods of Service Delivery

In determining the methods of Service delivery, the study has shown that, Lusaka City Council and Luanshya Municipal Council have employed various methods of service delivery among them are the use of local government enterprise, contracting out, franchise, Volunteers, self-help groups and in-house provision. On the other hand, Chisamba and

Luangwa Town Council have employed in-house provision which is supplemented by local government enterprise and the use of volunteers and self-help groups.

The mix of methods of service delivery in the selected Local Authorities is similar to what is prevailing in England following the introduction of compulsory competitive tendering in the Local Government Act of 1988 and the 'Best Value' regime under the Local Government Act of 1999. Local Authorities are legally required to open many of their services to competitive tender. Reductions to local government funding during the 2010-15 Parliament also obliged local authorities both to experiment with alternative forms of service delivery while seeking to reduce overheads, and exploring new means to raise revenue. This mix may consist of provision by one government level of government or department or local business enterprise for another government or governmental agency, or it may consist of the private sector providing part of a service generally through contracting out for a government department or agency.

This use of mixed delivery systems has increased substantially over the past decade. In some instances, this mix of delivery systems is designed to take advantage of savings that arise from economies of scale or scope in the provision of a number of services. These economies are attributed to efficiencies that may be gained from serving a larger population or geographical area. In other instances, however, this mix is used to overcome problems of diseconomies of scale because no municipal government is the most efficient size for providing all public services. By introducing more competition into delivery systems, this mix may resolve concerns over efficiency problems created by monopolistic service providers. Examples are where one Council contracts from an adjacent and generally larger Council in matters such as road maintenance and repairs; operation and maintenance of municipal electric utilities; repair and servicing of public works vehicles; operation of transit services; accounting and legal administrative services; solid waste management; and the like. However, Most governmental construction projects, including buildings, roads, water and sewage lines, and certain professional services such as engineering design, consultants' studies, and legal advice, are contracted from the private sector.

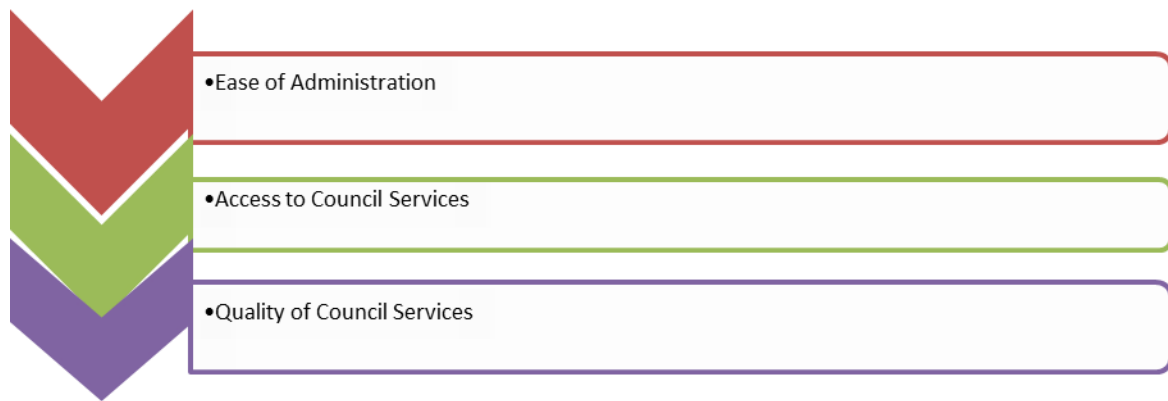
6.2.2 Effectiveness of Methods of Service Delivery

Employed methods of service delivery have proved to be very effective in the case of Chisamba and Luangwa owing to the small population in these areas. Even though Lusaka and Luanshya have tried to employ a number of alternative methods of service delivery, effectiveness of these methods is still below resident's service expectation. This is in part due to the growth of Zambia's population which has outpaced local authority's capacity for service delivery in terms of management, infrastructure, and financing. The problem of inadequate service delivery has been compounded by the growing number of residents living in informal settlements which are characterized by deficient basic services such as decent housing, clean water, sanitation, refuse collection and roads.

Using these methods, the study has revealed that, Councils or through their contractors, self-help groups and franchise have predominately (66%) been collecting Garbage from local Residents, 34% of the respondents reported to have been disposing off garbage individually. With regard to flooding, 66% of respondents experience flooding in their area while 34 percent do not experience flooding. When asked if respondents have functional street lights, 28.4% of the sample reported that they have functional street lights in their area while 71.6% do not have street lights in their areas. In describing the state of the road network, the study has shown that 50.8% have very poor road network in their area, 23.6% described the road network as fair while 25.6 described it as good.

To determine the effectiveness of the methods of public service delivery employed by the Local authorities, the research focused on three thematic areas of analysis within the framework of each method employed.

Figure 6. 1 Three Thematic areas of effectiveness analysis



Source: Author, 2019

To adequately discuss the three thematic areas, the research operationalized the following empirical tests:

- Alternate service delivery test: Is the access to public services being expanded with appropriate partnership or contractual relationships.
- Efficacy test: What is the extent to which the public service delivery method meets stated goals?

6.2.2.1 Local Government Enterprise

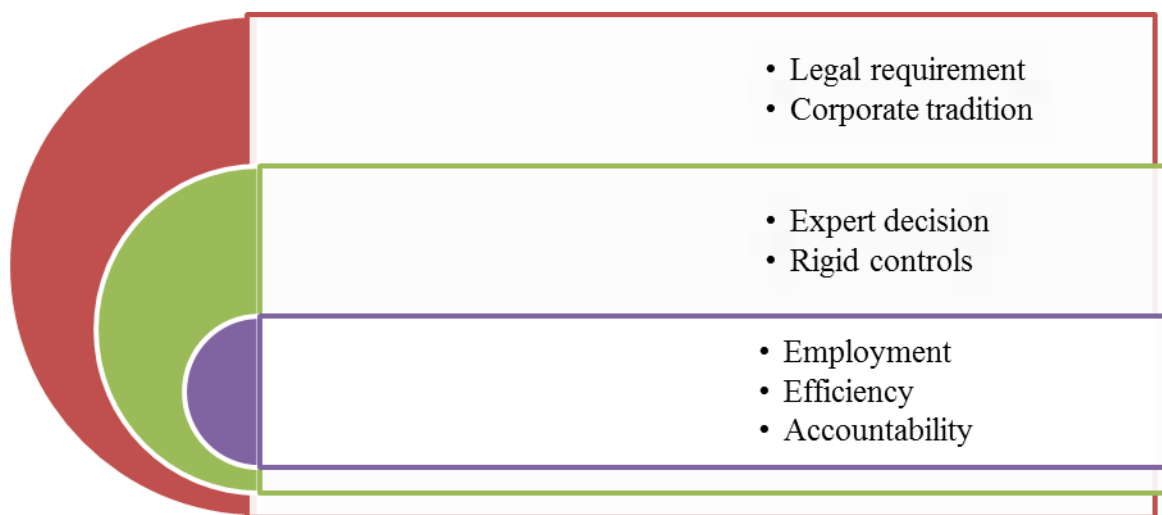
In the works of Faguet (2001), Local Government Enterprise is body within the municipal structure that is generally responsible for the provision of a marketable good(s) or service(s). A marketable good or service is one that has characteristics of a private good and for which a fee or price per unit can be charged. This is why, clothing factories, Lodges, water and sewers, are in most cases the responsibility of local government enterprises or special-purpose bodies while local roads, street lighting, fire protection, and recreation parks services that have characteristics of public goods and for which specific fees or charges per unit cannot be imposed are the responsibility of local authorities themselves.

In terms of management, each enterprise generally operates as a separate functioning business entity; sometimes independent of the locally elected council and sometimes under some kind of governing control or affiliation with the locally elected council. Each tends to be responsible for only one service like a clothing factory for Lusaka City Council, a Lodge

for Luanshya and Luangwa Council and a Bar for Chisamba Council. Usually, each body has its own independent or quasi-independent from the local council governing body that is responsible for all policies affecting the enterprise. Each has its own accounting and financial system, frequently has its own work force and capital equipment, and is responsible for monitoring and reporting on its own activities.

The Zambian scenario is no different from New Zealand, North America, and Europe where local government enterprises are responsible for relatively few local services. Furthermore, almost all of them are provided in an environment where there are generally no alternatives or no competitors. These services often include one or more of the following: electricity, telephone, water and sewers, municipal airports, and social housing. In other countries, by contrast, local government enterprises are responsible for many more services.

Figure 6. 2. Reasons for Using LGE



Source: Author, 2019

Figure 6.2, has listed a variety of arguments that have been advanced in defence of using special purpose bodies or local government enterprises for specific services. It must be acknowledged that Local Authorities are free to choose their governing structures for the provision of local goods and services, in this instance tradition often plays a role in relying on separate enterprises; that is, it has always been done that way and there is no reason to change. In Zambia it is a, legislated requirement that specific services must be the

responsibility of a separate body or enterprise. This responsibility is usually under a governing structure called board, or utility. This is the case for municipal electricity distribution in Ontario, Canada, where, the municipally appointed board or agents make all policy decisions (Boadway, 2005).

Another contention by advocates of local government enterprises is their assertion that funding specific goods and services from user fees or charges or through public sector prices is more business-like, and therefore preferred, if conducted by an independent or semi-independent business enterprise rather than if funded in the same manner but under the governance of a locally elected council. Such an argument overlooks the essentially political nature of decision making with regard to many services supported in whole or in part by user charges or public sector prices. There is no reason a user-supported service cannot be operated on a business-like and self-sustaining basis under a department at city hall.

Bringing all governance and policy-making decisions for local enterprises under the governing responsibility of the local council like the day-to-day management should be left to the managers, regardless of the governing structure has been criticized. This is because local politicians in some countries apparently use these enterprises as places of employment for relatives, friends, and cronies. If governing responsibilities for enterprise operations were left with local enterprises, it has been suggested that these potentially inefficient and unfair employment practices could be minimized. There are at least two reasons this might not be true (Aminuzzaman, 2010).

First, there is nothing inherent in either the governing structure of a local government enterprise or local council operation to suggest that either agency is more or less susceptible to this type of employment abuse. Second, where this is a problem, its resolution should involve the implementation of fair, effective, and transparent employment policies that prevent this kind of nepotistic behaviour. Of the enterprises that exist, many enjoy considerable autonomy and financial independence. In fact, there is a tendency for them to become little governments in themselves with the inherent characteristic that they are independent and in no way subordinate to the elected municipal politicians.

This has led to a situation in which residents and taxpayers have little control and result in political inefficiency. For those that are funded partially by grants or local taxes, there is

often no direct link between the policy-making body (that is, the body making the expenditure decisions) and the revenues (local taxes) that are collected by municipal councils and must be used to fund the agencies. Whenever expenditure and revenue decisions such as these are made independently, the system is likely to be less accountable or transparent and unable to allocate its resources efficiently across all competing municipal services. When agencies are fully funded from sales of their output, there is greater likelihood that they will become independent and more removed from the governing decisions of the local council (Bell, 2011).

This institutional structure, which may be referred to as a localized monopoly, creates a potential impediment to the pursuit of competitive forces if municipal councils are prevented from making all decisions affecting the local municipality in the most accountable, transparent, and efficient manner. This may happen, for example, when a municipality defers all decisions on spending and funding until a local government enterprise has determined its level of spending and funding. For example, a decision by a separate water utility (enterprise) to replace or rehabilitate a water line or sewer main (underground services) may affect a municipality's timing for resurfacing or improving a local road or street (aboveground services). This in turn may affect the way in which the municipality allocates its resources to other municipal services in terms of both timing and its choice of competing alternatives (Besley and Ghatak, 2007).

Similarly, if a decision by a local enterprise to borrow in order to finance the rehabilitation or provision of new capital infrastructure crowds out or inhibits the local council's ability to borrow for other capital projects (perhaps because of debt limits), then resources are not allocated efficiently.

In general, where municipal councils are directly responsible for a service, there tends to be greater pressure toward public accountability (Garcia and Alban, 2001) and political responsibility. Greater public accountability leads to greater pressure to reduce costs, improve efficiency, and justify expenditure increases. When compared with governance under a municipal council, most enterprises are free from the limelight of major municipal elections and consequently further removed from these important political pressures.

It has been observed that, voter apathy develops in municipal elections but the general desire to control costs at city hall extends to all departments, whereas such pressure is less frequently exerted on a separate enterprise. Partly for this reason, many governing boards for local enterprises slip into the rubber stamp syndrome and allow policy decisions to stem from dominant, technically competent managers.

Connected with the idea of political accountability is the financial flexibility available to each type of organization. A sufficient degree of political leverage and direct accountability to the public must be maintained over the governance of local public services; otherwise, strong temptation exists for these organizations to engage in unwarranted expansion or to invest in new assets that are far out of line with investment in other municipal functions.

Municipal council operations appear to satisfy such a condition much more than separate local enterprise operations and the latter's financial freedom may permit greater indulgence in empire building and wasted expenditures (De Mello and Lago-Penas, 2011).

An important source of economies available to operations runs by a municipal council and often not available to single-purpose enterprises comes from the opportunity for certain personnel, facilities, and capital equipment to be engaged in multiple functions. First, municipally provided services may share office space at city hall, whereas separate enterprises are generally established in separate buildings. Second, a municipally governed service easily shares administrative and operational tasks with other departments at city hall for example, accounting and legal services, whereas separate enterprise operations tend to set up their own administrative and operational facilities. In the latter structure, economies of scale and cost savings are less likely to be achieved than in the former structure. Third, opportunities exist for pooling capital equipment and labour in city-governed operations. Doing so permits a reduction in idle hours for capital and labour through the opportunity to transfer equipment and personnel to different functions as needs arise (Garcia *et al.*, 2001).

As with many of its departments, city facilities can achieve economies of scale in the use of unspecialized personnel and equipment. This source of savings is more important for smaller municipalities than for larger ones, because the smaller scale operations are much more likely to encounter indivisibilities in capital and labour inputs. Local government enterprises, however, have a tendency to acquire a separate complement of labour and equipment. These

inputs are not used, as a rule, for other municipal government functions. In many instances, especially for capital equipment, there is considerable downtime and lack of use of some of the capital equipment (Pisauro, 2001).

The Council secretary, Luangwa Town Council defended the use of these Enterprise on grounds that;

“appointed officials governing single-purpose enterprises will make better decisions than directly elected municipal politicians who must make decisions, choices, and trade-offs over a vast range of local government functions. This argument is supported by those who assert that financially independent public utilities are generally well run, honest, and efficient, while utilities governed by local councils are alleged to be markedly worse in each of these respects and likely to be run at a financial loss”.

The study has shown that Local Authorities use these enterprises as a way of escaping rigid controls by central government that apply to what and how local governments spend, who it employs for what, how much it pays people, which revenues it can access, on what terms it may borrow, and the like. In addition, there is some perception in the minds of many politicians and a large proportion of the population that local business enterprises are more efficient and accountable in their operation because they are run more like a business; they sell a product, deliver it, retain the revenue, and cover all costs when compared with other municipally provided services that are not sold for specific fees, charges, or prices.

Finally, local politicians and administrators sometimes prefer business enterprises because there tend to be fewer citizen complaints about revenues generated from the sale of goods and services by what is deemed to be a business enterprise than from increasing local taxes to raise the same amount of money. It seems to be more acceptable politically to set up a local business enterprise and sell a good or service to raise revenues than it is to raise local taxes.

In terms of administration, the existence of a number of independent and semi-independent enterprises complicates local government to the point where citizens cannot understand its structure or determine who is responsible for what. The weakening of the municipal council through the removal of some responsibilities, combined with the inability of citizens to understand government (who is responsible for what), results in a loss of accountability, lack

of transparency, and reduced public interest in local government. As the municipal organization becomes more diffuse it becomes less accessible to political control. Also, the agencies into which local government is fragmented are often only indirectly responsible to the public particularly if their members are appointed. Fragmentation of government into separate enterprises further complicates the problems of administrative integration and coordination (Kemp, 2007).

When a large number of independent single-purpose enterprises exist, coordination of inter related activities is difficult and, in some instances, impossible to achieve. Attempts by locally elected politicians to provide services are frequently thwarted or made more difficult because of decisions made by these independent enterprises over which the politicians have little, if any, control. For example, actions taken by electrical utilities, water and sewer utilities, and public transit authorities may conflict with the council's overall planning effort.

6.2.2.2 Contracting Out

It was discovered that Lusaka City and Luanshya Municipal Councils have contracted out refuse collection. According to the Town Clerk of Luanshya contracting out is said to reduce per unit cost of delivering public service. Similarly, in New Zealand, service delivery exclusively by local council departments declined from 70 percent in 1989 to 26 percent in 1994, while delivery by business units rose from 2 percent to 18 percent. The core services of water supply, sewage systems, storm water control, and drainage are delivered by business units in more than 50 percent of the councils, while the majority of councils that provided legal services, refuse collection, commercial forestry, and refuse disposal use external providers (Dafflon, 2012).

It has been argued that contracting out through competitive tendering improves the competitive environment and leads to lower per unit operating costs for the delivery agent because contractors face incentives to be efficient and sanctions if they are not. However, contracting need not be only to the private sector, it could equally apply to enterprises and governments that contract from each other and for non-profit and voluntary organizations as well.

These contracts are typically awarded through a competitive tendering system in which the lowest bidder is normally chosen. Lusaka City Council has adopted a policy whereby the city is subdivided and contracts tendered for a series of sub regions or areas for those services where economies of scale do not exist. The purpose is to encourage smaller firms to bid on contracts a situation that would not arise if all contracts were large. This provides a stimulus for increased competition and ultimately, cost savings and greater efficiency. In fact, in some cities in the United States, it is not uncommon to see municipal government employees competing with the private sector for responsibility for service delivery.

Where this has happened, considerable cost savings and efficiency gains have followed along with enhanced service levels (Friedman, 1999). The most successful contracts tend to be those based on outputs that can be measured (solid waste, recycling, and the like) primarily because it is easier to monitor the quality of the output. As well, writing contracts in terms of outputs rather than inputs leaves the contractor free to organize the operation to attain output goals or targets in the most efficient way possible.

Mayors and City Managers who are not strong advocates of contracting out have argued that service quality is inevitably lower in the private sector. This concern over quality deficiency has led to suggestions that a monitoring system be established to ensure that quality is maintained at an acceptable level. There is no a priori reason to believe, however, that public sector monitoring will be any more effective or efficient than a policy of competitive tendering for service delivery on a relatively frequent basis (annually, biannually, or every three years, for instance). Tendering, by itself, can create an incentive for a firm to maintain quality if it wishes to be a candidate for continuation of its contract at the time of rebidding.

Most of the empirical work on contracting out suggests that per unit operating costs are lower in privately run operations. Although the bulk of these studies have been completed in the United States and Europe. Similar studies have been conducted in other countries. In New Zealand, for example, cost savings from contracting out are reported to range from 45 percent to 60 percent in the case of refuse collection in Dunedin to 15 percent to 30 percent for other services in Dunedin and Christchurch (Diliinger, *et al.*, 2001).

In Canada, a number of studies on a variety of services (solid waste collection, recycling and disposal, public transit operations, and electrical utility maintenance) provide similar results.

Similar results have been noted in an examination of private sector involvement in three urban services namely; waste collection, water supply, and electricity supply in developing countries (Besley and Ghatak, 2007).

In another study that compiled the results of 203 separate studies on contracting out concluded that savings on the order of 20 percent were most frequently reported without any sacrifice in the quality of service. A critical assessment of several studies concluded that the private sector is more efficient in refuse collection, fire protection, cleaning services, and capital-intensive wastewater treatment, while results are less conclusive for water supply and railways (Borge, 2011).

Most cities in the United States of America have contracted out most service responsibilities especially cities in California and have formed an Association of Contract Cities. This group has generated a highly competitive local service environment with a vast network of producers and contract arrangements. Cities buy and sell to one another while private firms compete, actively among themselves as well as with government producers for contracts. One empirical analysis of these contract cities indicated that they received services at lower cost than the noncontract cities in Los Angeles County (Ahmad, 1996).

While potential cost reductions seem to be prevalent from increased competition, it is well understood that trade unions are generally opposed to contracting out (Dillinger *et al.* 2001). In particular, they are concerned about their members losing jobs and the extent to which contracting out would undermine the union, fragment the workforce, sidestep provisions of collective agreements, and reduce labour costs with resultant profit-taking opportunities for businesses. In addition, the cost savings and increased efficiencies noted in the empirical studies are not universally accepted because, it has been alleged, they fail to consider some important cost items. In particular, the critics have argued that contracting out results in additional costs due to time and money spent on drafting, negotiating, and monitoring a contract. The client must train and oversee the contractor's employees to ensure productivity; and additional costs are incurred in laying off employees after their services have been contracted out.

Offsetting these concerns and criticisms, however, are a number of advantages: greater flexibility for management in allocating human resources; greater productivity and efficiency,

particularly if workers are paid on the basis of incentives; increased ability to hire specialized expertise when needed; reduced turnover; and greater variety for the employee (Boex, 2009).

The conclusion of this study is that most of the efficiency gains from contracting out have resulted from an increased scope for competition rather than from the fact that the service was provided by a private contractor. In addition, the results suggest that where economies of scale are not prevalent, the creation of delivery zones creates a more competitive environment than exists when there is only one delivery agent for an entire municipality. Introducing or increasing rivalry, however, may not be possible without the existence of some private ownership. In other words, some degree of privatization through contracting out may be a necessary but not sufficient condition for substantial performance improvements.

6.2.2.3 Volunteers

Volunteers are used by Local Authorities to deliver specific services. Lusaka, Luanshya and Luangwa use them in places such as libraries and site offices, where they are normally assigned tasks that might not otherwise be undertaken. Smaller municipalities in Canada and the United States frequently have volunteer fire departments or a mix of volunteer and professional fire-fighters. In fact, one study on 104 municipal fire departments in Canadian municipalities in 1991 and 1992 concluded that fire departments employing a mix of full-time and part-time (volunteer) fire-fighters in communities up to 50,000 people enjoyed the benefits of lower fire service costs without sacrificing effectiveness. In communities of more than 50,000 people, effectiveness tended to diminish with a mixed force. The effectiveness of an entirely part-time fire department was reduced because the fire-fighters took longer, on average, getting to fires (Smart, 2001).

Since existing labour is usually not replaced (at least in the first instance) by volunteers, one cannot presume that the use of volunteers will lower delivery costs immediately. Indeed, there may be some administrative costs in maintaining a volunteer staff; for example, training programmes, guidance, and general coordination requirements consume regular staff members' time.

Although costs may be lower in the short run, the dependence on volunteers may also lower costs in the long run, especially if volunteers serve as substitutes for paid employees. Further,

cost savings arise, in both the short and the long run, if the use of volunteers permits extra service or longer hours of service as with volunteer library assistance, for example. Whether this use improves the quality of existing services greatly depends on the quality of the volunteers and the perception of recipients (Kemp, 2007).

A potential problem in using volunteers arises if they are available only at selected times or if they are not dependable because they are not paid to perform. Further problems and costs might be incurred if a system of continuous recruitment is necessary in order to staff the volunteer program.

6.2.2.4 Self-Help Groups

The self-help concept is closely related to the concept of using volunteers. Self-help programmes are designed so that individuals or neighbourhoods provide services for themselves. Typical examples in Lusaka and Luanshya include neighbourhood watch and block parent programmes, or storm water management in their areas. These programmes have grown in popularity over the past few years. In some parts of the Lusaka, residents on certain streets or in certain neighbourhoods have collectively organized and provided funds for the purpose of hiring security firms to reduce the incidence of crime and generally improve safety for local residents (Shankar and Shah, 2003).

Here, the service is provided and paid for directly by the users. Whether self-help groups for many services are willing to organize on their own is a debatable issue and, of course, is likely to depend on the severity of the reason for organizing in the first instance. For example, citizens are more likely to organize for protection purposes than for maintaining a neighbourhood park. Unless it can be proven that delivery costs will fall or service quantity and quality will rise for the beneficiaries for example, through improved security, individuals are unlikely to agree to undertake the activity.

In addition, there is the obvious problem of operating a delivery system if free riders emerge. This problem is likely to be more apparent if large setup costs are involved in establishing certain services. Given these potential problems, efficiency gains will be maximized only if the majority of residents within a given jurisdiction agree to cooperate. Conversely, if governments are able to convince established groups or neighbourhoods to convert to self-

provision as a substitute for rather than an addition to existing public services, then significant savings in the delivery of specific services might be realized. These savings, however, may be offset or partially offset by increased personnel costs associated with their delivery (Melkamu, 2004).

Further problems and increased costs may arise if self-help groups decide, after a short period, to terminate their activity and revert to public provision of the service, possibly by increasing pressure on local politicians to supply the service through the local public sector. It should be noted that, such indecision could create inefficiencies and higher costs. To avoid these costs partial government assistance may be required not only during the initial establishment stages but also on an on-going basis. In fact, this is frequently the practice with maintaining outdoor neighbourhood skating surfaces in municipalities in Canada. The Local government often pays a small per diem or honorarium to a resident of the neighbourhood to ensure that the ice is maintained for local residents (Sharma, 2012).

6.2.2.5 Franchise

A franchise exists when a private firm provides a service to residents within a specific geographic area and when the supplier is paid directly by the users. Franchises may be exclusive (one producer) or nonexclusive (many producers like in our Zambian case). For services provided by nonexclusive franchises, price regulation and monitoring activities would likely be less needed. The attractiveness of this organizational structure is mainly a function of the number of firms involved and hence the degree of competition created. The larger the number of firms is, the more competitive is the environment and hence, the greater is the incentive for improving efficiency, lowering costs, and providing quality services (Fisbein, 1997).

A possible problem with franchise operations is that some users perhaps low-income families may discontinue consumption of certain services. If users view the price of the service as being too high, they may decide to do without it or to find a substitute. This has occurred primarily in smaller communities, where solid waste collection has been franchised. Not only could this lead to unsanitary conditions and impose externalities on those who pay, it could lead to lower-quality service or greater costs for existing users if economies of scale disappear. Use of a franchise operation in lieu of contracting out, therefore, may not be

desirable on the grounds of efficiency, especially for services from which negative externalities might be created because individuals choose not to use the service.

6.2.2.6 Public-Private Partnerships

Although policy-making and funding decisions about public sector infrastructure must ultimately be the responsibility of the Local Authority, that does not mean the governing body must own the assets and deliver the services (World Bank, 2003). Asset ownership and service delivery may be handled in a variety of ways including some type of public-private partnership.

There has been a growing interest in delivering public sector infrastructure through public-private partnerships in Zambia, particularly for services that have substantial capital costs. Similarly, a survey by the Canadian Council for Public-Private Partnerships noted that their government was increasing its reliance on public-private partnerships (Miaja, 2005). This involvement can take different forms, including project initiation or planning, construction, operation, ownership, and financing. These public-private partnerships are a form of contracting out and involve the direct participation of one sector in a venture controlled by the other sector. Both partners contribute funds or services in exchange for certain rights or future income.

Public-private partnerships can take many forms, such as the following: The private sector operates the facility for a fee. The public sector retains responsibility for capital costs. The private sector leases or purchases the facility from the public sector, operates the facility, and charges user fees. The private sector builds or develops a new facility, or enlarges or renovates an existing facility, and then operates it for a number of years. The private sector builds the required infrastructure, operates the facility for some specified period of time, and then transfers it to the government. The private sector builds and operates the facility and is responsible for capital financing. The public sector regulates and controls the operation. The private sector builds the infrastructure and then transfers ownership to the public sector. Public-private partnerships provide some advantages.

In addition to providing a source of capital funds, they enable the public sector to draw on private sector expertise and skill in order to minimize costs. This advantage may be

especially important to small municipalities, which may have greater difficulty than large ones in attracting expertise. The, private sector involvement tends to lead to more innovative and efficient operations than if the public sector provides the service on its own (Rao, 2005).

Like most options, public-private partnerships also have disadvantages. First, there may be some uncertainty about whether the private sector will be able to carry out its role, especially if there is a risk of private sector bankruptcy in the provision of essential local services. Second, there is a potential loss of control to the private sector. Third, there may be a trade-off of upfront capital costs for future operating costs; for example, the annual cost of private sector financing of a project may turn out to be greater than the cost of public sector financing would have been (Shah, 1994). Finally, private sector financing may include government financial or credit backing, hence continuing to impose a potential burden on the public sector.

Experience with public-private partnerships suggests that, in general, most have produced cost savings, efficiency improvements, and expanded services, with the most notable improvements occurring in the presence of meaningful competition (UNDP, 2005). Even where competition has not been prevalent and service provision has remained largely monopolistic, the evidence suggests that where the private sector bears the risk, private participation delivers better results than any credible public sector alternative. It is also apparent that public-private partnerships are more appropriate for infrastructure that provides services with characteristics of private goods.

A study in Bangladesh done by Aminuzzaman (2010) revealed that, partnership would improve service delivery. Municipalities and Councillors should embrace innovative new approaches to delivering core municipal services by inviting non-municipal groups and interests to participate. This tendency towards dismantling public services and handing them over to private providers is based on an irrational expectation that the private sector, with a mandate of generating maximum profit, will take on responsibility for quality public services, delivering basic rights to all people including those living in poverty.

To determine the effect of equalization transfers on service delivery, the study conducted regression analysis. The overall regression model was very significant. The analysis of variance test using $\alpha = 0.05$ shows; $F(1, 391) = 89.86, p < 0.001, R = 0.187$. The analysis

revealed that 18.7% of all variations in service provision are as a result of changes in equalization transfers. This was so evident in Town Councils with nearly a non-existence revenue base. Without equalization transfers Local authorities can hardly provide essential services to its residents. This implies that equalization transfers are precursor and necessary ingredients in the delivery of services to the public.

Similarly, Martinez *et al.*, (2006), contend that to solve the problem of inadequate public service, governments make equalization transfers. These are cash payments made by Central Government to Local Authorities, usually with the objective of either offsetting differences in available revenue or in the cost of providing services. Many Governments use fiscal equalisation to reduce the inequalities in the fiscal capacities of sub-national governments arising from the differences in their geography, demography, natural endowments and economies.

Baretti *et al.* (2000), adds that improving the level of service delivery is always a question of resources and governance. The quantity and quality of local public services and the efficiency with which they are delivered in a metropolitan area depend, to a considerable extent, on how its governance institutions especially its formal governmental structures but also civil society, business associations, and non-profit organizations function.

To determine adequacy of Council services, participants were asked to state whether the council provided adequate services or not, results show that, 74% of the respondents said no and only 26% felt councils provides adequate services in their areas. Respondent also bemoaned the poor quality of services provided by enterprises, like in the case of Lusaka Council, the clothing factory is said to be inefficient and generally delays to deliver orders on time. Evidently, Councils have continued to face pressure from residents to expand and maintain hard services such as drainages, markets and roads, as well as soft services such as social services, education, and health. Demands are also coming from businesses to improve transportation and information technology infrastructure to help them compete internationally. Businesses are also looking for services that will attract the knowledge workers that is; services that enhance the quality of life in the city such as parks, recreation, and cultural facilities.

A study in Nigeria by Fiszbein (1997) found that Local Government is the closest tier of government to the people in Nigeria, yet the resident population is denied the benefits of its existence. This is evident in the environmental state, deteriorating public school buildings, poor market facilities and lack of health care centres. The failure of the Local Governments in the area of service delivery has made the citizens to lose trust in government as an institution. In some areas, council officials are better known for the harassment of citizens than service delivery.

In his study on public service delivery, Lockwood (1999), observes that, inadequate access to services can arise because of problems on either the delivery side or the financing side. In this case, identifying the causes for inadequate services is necessary if the problems are to be fixed and better services provided. Care must be taken in presuming that low (or different) service levels in one city relative to some others or relative to external standards is necessarily evidence that services are inadequate or that there are underlying delivery problems. Demand for services may vary across a country (or counties) and these demand-determined differences may well signal efficient rather than inefficient resource allocation.

External standards are developed without consideration of the opportunity cost of resources within a particular city or country, though effective demand considers these opportunity costs. Poor resource mobilization, for example, may mean that the opportunity cost of resources in the public sector is very high and can alter choices for public services. Further, externally driven demand for services, such as can occur when international organizations offer low cost or free infrastructure, likely results in need for more operations and maintenance expenditures and inefficient resource use unless the infrastructure is consistent with local demands. Well intentioned donor finance can result in too high service levels in some places relative to the decisions that local users would make as they evaluate the various trade-offs in resource uses.

According to Gosh and Gosh (2008), effective service delivery is the provision of services to a buyer in such a way the buyer's expectations can be met or exceeded while, at the same time, the business remains viable. Effective service delivery is rendering services that correspond to the customers' desires, needs and expectations. This concept emanates from the perceived need to treat members of the public that require government services like a private-sector entrepreneur would treat his/her customers.

This is against the backdrop that a major obstacle to efficient and effective delivery of Government services is the attitude of public servants to members of the public who are their customers. A customer is the direct recipient of a service through dealings with the service provider.

Devas and Kelly (2001), blames the ineffectiveness of local administration on the following reasons: lack of mission or lack of comprehensive functional role; lack of proper structure (that is; the role of Local governments in the development process was not known); low quality of staff; and low funding. According to him, these problems lead the local governments into a vicious circle of poverty because inadequate functions and powers lead to inadequate funding which result in the employment of low skilled and poorly paid staff.

In the same vein, Smart (2007), postulates that demand for services may be low in some areas, either because the residents have low income, or movement to these areas was because of low demands. Different demographic groups and parts of a country may have varying demands for public services because of reasons such as diverse incomes, ability to substitute alternatives, and conditions. Thus, service levels can efficiently vary across cities. For example, high quality electric services may be more important in business districts than in neighbourhoods.

Although there has been relatively limited discussion and application of the role of franchises, volunteers and self-help agencies in delivering public services, these instruments or organizations may become important in the future, especially if governments reduce or discontinue some services. There is increasing evidence that public-private partnerships will grow in importance. As for the future of private sector delivery of public services, the debate will continue. There will be advocates for greater partnerships, as there will be critics. In reality, however, political pressure to reduce government expenditures and reduce or restrict increases in taxes and user fees will force governments to resort to private sector delivery in one form or another, for a variety of what are currently referred to as municipal services.

6.3 Effects of Local Government Equalisation Funds

Local Authorities in Zambia have been grappling with a plethora of problems, relating in large measure, to the delimitation of their fiscal jurisdiction and protection of their revenue rights. There has also been a severe erosion of their fiscal autonomy. These, combined with other institutional and structural problems, have rendered them functionally impotent in the areas of revenue generation and effective service delivery.

Undoubtedly, a well-functioning public sector that delivers quality public services consistent with citizen preferences and that fosters private market-led growth while managing fiscal resources prudently is considered critical. Many developing countries, however, continue to suffer from unsatisfactory and often dysfunctional local governance systems including rent seeking and malfeasance, inappropriate allocation of resources, inefficient revenue systems, and weak delivery of vital public services. Such poor governance leads to unwelcome outcomes for access to public services by the poor and other disadvantaged members of the society such as women, children, and minorities.

6.3.1 Financial effects

With the introduction of equalization funds, estimates of revenue and expenditure for Local Authorities have been rising. The study has shown that, between 2016 and 2017, Lusaka City Council increased its Budget by 1% and by 7% in 2018 while Chisamba increased its budget by 8% between 2016 and 2017 with a 46% increase in 2018. Similarly, Luangwa increased its Budget by 8% between 2016 and 2017 with another 8% in 2018. Luanshya on the Contrary reduced its budget by 49% between 2016 and 2017. The council then increased its Budget by 85% in 2018.

The study has revealed that revenue collection by Councils is very weak and still remains a challenge. Most service users do not pay charges or levies for the service they receive from the council or their agent. When respondents were asked on who should bear the cost of council services, 62.4% reported that the Local Authority should finance its operation and cost of service provision while 37.6% of the respondents said users of council services should bear the cost of service provision. What the residents do not know is that service provision

depends on the presence of effective demand and the willingness and patriotism of individuals to pay taxes.

Similar results were obtained in a survey in Tanzania and Uganda, which indicated that citizens have a general appreciation of the necessity of taxation to support local service provision, but chose non-compliance due to lack of confidence in local government. Based on survey data from 2003 and 2006, Fjeldstad *et al* (2009a), found that, people were much more positive towards the tax system in 2006 compared to three years earlier. This was partly due to improvements in service delivery, particularly education, health and law and order, and partly due to reforms which led to less oppressive revenue collection. Corruption, however, was perceived by citizens to be a major problem in both surveys, with implications for their mistrust in government and government officials and, thus, their unwillingness to pay taxes and fees. There was also an increasing demand by citizens for more information on revenues collected and how the revenues are spent.

Across the world, non-collection or non-payment of levies or taxes by service users adversely affects the capacity of local authorities to delivery services to the public because taxes constitute the major source of local government revenue. The essence of a tax is that local authorities demand a financial contribution towards the cost of its activities from a person or organization. There is no choice for the ratepayer and there is sometimes no relationship between the amount paid and the form of benefit received. Underlined here is that revenue collection, be it at national or local government level, should be guided by the general theory of tax design, namely that tax design and revenue collection should be based on principles of benefit-pay, economic efficiency, administrative convenience and equity (Bahigwa *et al*. 2004).

Additionally, study findings indicate that while Local Authorities in Zambia exercise varying taxing and expenditure powers in trying to create a buoyant self-financing base it is compromised by interlocking factors that include; continued central government grip, limited revenue base, failure to devise long range revenue optimizing strategies, political interference and, an institutionalized culture of rent seeking.

While property tax is a promising revenue source for Local Authorities in Zambia, it remains among the least tapped sources of tax revenue due to absence of fiscal cadastre information, lack of valuers, inaccurate valuations, and inept collection enforcement.

Almost without exception, governments across the world have also worsened the situation by assigning more expenditure functions to Local Authorities than can be financed from their own revenue sources. This is the case in Zambia. The result of this mismatching of functions and finances usually referred to as vertical imbalances is that Local Governments are generally dependent on transfers from higher levels of government. In addition, differences in local revenue bases and administrative capacities may create problems of equalization (horizontal imbalance) between local government authorities, in particular between rural and urban areas. The presence of such imbalances means that one cannot design an appropriate system of local government taxation without simultaneously designing an appropriate system of intergovernmental transfers (Bird, 2001).

In the process of fiscal equalization, World Bank (2003), reports that it is important to be aware of the risks for macroeconomic management and fiscal discipline. Substantial devolution of revenues and spending responsibilities to sub-national jurisdictions can affect the central government's ability to carry out stabilization and macroeconomic adjustment through the budget. The destabilizing potential of sub-national governments is greatest when they face no hard budget constraint. Expectations of bail out in case of financial trouble weaken the incentives to economise on costs, and may generate resource waste and rigidity within local authorities. These inefficiencies, in turn, may spill over into macroeconomic imbalances. It is feared that Local Authorities that are highly dependent on equalization transfers may increase their current expenditures above their capacity to fund them out of current revenues and then close the gap through borrowing. In light of the above, the Kenyan government has conditioned local government access to the Local Authorities Transfer Fund (LATF) on progressive debt reduction.

A common pattern is that this dependency on central government transfers affects the local councils' potential to implement their development plans. Evidently, the District Treasurers of Chisamba and Luangwa Town Council reported that;

“The disbursed equalisation was only sufficient to meet most of the recurrent expenditure while Directors of finance for Lusaka City and Luanshya Municipal

Councils reported that the equalisation funds received were not sufficient to meet even a quota of their expenditure, worse still it is always received late”.

The fiscal transfers are often highly volatile and delayed. In Tanzania, the national guidelines and budget ceilings, including information on grants, developed by the Ministry of Finance are often not received by the local government authorities until very late in the budgeting process (Fjeldstad *et al.*, 2010b). Consequently, to initiate the planning process, some LGAs use indicative budget figures from the previous fiscal year. According to Jibao (2009), there are cases when District Assemblies in Ghana receive their first quarter allocation of the Common Fund in the third or fourth quarter of the year, with the rest of the three quarters overlapping into the following fiscal year and so on.

A widely found feature is the huge number of revenue instruments used by Local Authorities (Boex, 2009). Local governments seem to raise whatever taxes, fees, and charges they are capable of raising, often without worrying excessively about the economic distortions and distribution effects that these instruments may create. Moreover, many local taxes have a distorting effect on resource allocation decisions, and, thus, an inhibiting effect on the start-up of new enterprises and the achievement of economic growth. These effects occur when effective rates vary greatly between different goods that are traded, or when license fees are set too high for start-up small-scale enterprises to survive.

In addition, the levels and types of local revenue instruments by themselves can result in the tax burden falling more on the poor than on the relatively better off in local communities. A recent study from Uganda shows that small informal, non-farm enterprises pay local taxes in a regressive way (Baretti *et al.*, 2000). While the majority of the micro enterprises in the Ugandan sample were poor enough to be exempted from the national business taxes (that is; the small business tax and VAT) they ended up paying a large share of their profits to local authorities - with the poorest paying the highest share of profits. This is mainly due to the basic design of the local revenue system and the way revenues are collected. Thus, a top-down drive toward more tax revenue from this sector through formalisation could be counterproductive, and would increase the vulnerability of this segment of informal enterprises. Firms often have to negotiate and provide similar information on their operations to several government bodies, imposing high compliance costs on the private sector. For instance, in Tanzania the City Service Levy, a major local revenue source in urban councils,

is levied as a fixed percentage on the firm's turnover (0.1% of turnover for the bank/financial sector, and 0.3% for the other sectors), requires the same data for tax assessment that the central government tax administration requires for corporate income tax. The duplication of databases also implies higher administrative costs on the public sector.

A recent study of the tax systems in Mozambique, Tanzania and Zambia, found that local taxation is still a major constraint on the commercialization of smallholder agriculture and formalization of the small and micro enterprises. Specifically, multiple taxes (including fees and charges) make it difficult to enter new businesses and markets. Levies are perceived as exorbitant, often charged upfront irrespective of the size and type of business (Bell and Bowman. 2006).

In terms of revenue composition, the study has shown that most council operations are largely financed by equalization funds. This is particularly true for Luangwa and Chisamba Councils where the revenue base is small or insignificant. Plot premiums account for a large portion of non-tax revenue for the two Councils while tax revenue is mainly from property tax though the collection efficiency is poor. The revenue effort of Lusaka City and Luanshya Municipal has been steadily rising, for instance, Lusaka councils budget is 51% funded by non-tax revenue, 14% through equalization transfers from central government and 35% from tax revenue. Within the non-tax revenue, a large proportion is generated through permits and user fees while in the tax revenue, a large proportion is from property rates, suffice to say that the valuation roll did not captured most of the recent infrastructure developments in the City. In the case of Luanshya Municipal, 56% of the Councils budget is financed by non-tax revenue, 25% by tax revenue and 19% by equalization funds. The Council generates most of its non-tax revenue from permits and user fees while tax revenue is largely generated from property taxes with mining companies accounting for a large share. Further, the Director of Finance reported that the Local Authority is able to meet most of its expenditure from tax and non-tax revenue generated from the local revenue base.

In a similar study by Boadway (2005), it is argued that most cities in developing countries depend mostly on central government transfers, with lesser revenues derived from property taxation and service charges. The more lucrative sources of revenue potentially suitable for financing urban areas, such as income taxes, sales taxes, and business taxes, continue to be controlled by the central governments. Where Local Authorities are able to derive revenues

from property taxes and service charges, meaningful tax increases are in most cases denied by Central governments for fear of corroding political support from citizens; or even rejected by councillors within Local Authorities for fear of political backlash from local taxpayers.

In determining the fiscal effort, the study has revealed that the fiscal effort of Lusaka and Luanshya Councils has been increasing from 2016 while for Chisamba and Luangwa Councils the effort has been decreasing. In the case of Lusaka City Council, out of its total budget, 78% was internally generated in 2016 with per capita collection of ZMW 116.00, in 2017, 88% was internally generated with per capita collection of ZMW 133.00 and 88.3% with per capita collection of ZMW143.00 in 2018. Luanshya, internally generated 88% of all council revenue with per capita collection of ZMW 375.80, however, fiscal effort declined in 2017 to 76% with per capita collection of ZMW 165.82 but rose again in 2018 to 80% with per capita collection of ZMW 318.02.

Further, Chisamba Town Council's fiscal effort in 2016 was 51% of the fiscal capacity with per capita collection of ZMW 62.19. The council's effort reduced to 44% with per capita collection of ZMW 58.42 in 2017 but increased in 2018 to 61% with per capita collection of ZMW 113.25. In the case of Luangwa Council, its fiscal effort in 2016 was 33% of the total revenue capacity with per capita collection of ZMW 149.65, however, this reduced to 30.98% with per capita collection of ZMW 140.89 in 2017. In 2018, the council improved its fiscal effort to reach 51% of all revenues with per capita collection of ZMW 254.24.

While the current potential for most Local authorities to raise substantial own revenues is limited, the potential for revenue enhancement in urban councils is better. However, one major administrative problem today for Lusaka City and Luanshya Municipal Council is their inability to collect the revenue due to them fully. There are huge gaps between reported and projected revenues. This is caused by poor administrative capacity to assess the revenue. The problem has been worsened by the inability of councils to enforce the payment of taxes and curb explicit and intentional tax evasion and resistance from taxpayers. Additional causes are corruption and external pressure on the local finance department to provide optimistic projections. Political pressure on the local tax administration to relax on revenue collection, especially during election periods is another cause.

In most Local authorities in Zambia, local sources are generally not sufficient to develop and supply adequate services for the fast-growing population. The reality is that most Local authorities will for a long time continue to be heavily dependent on equalisation transfers from central government. Only a few large urban governments located in rich areas like Lusaka City and Luanshya Municipal are able to finance a substantial share of their total expenditure with their own revenue sources. What makes the situation worse is that corruption has taken the central stage in most Councils and that most of the internally generated revenues do not go the local government account. It is viewed by patrons of ruling parties and their clients as political reward for 'faithfully enabling the party to win or remain in office.

The sources of these revenues are regarded as cash points for daily reimbursement of operators. At the end of the day, the Local Governments are worse off financially. Little wonder, they now depend on Central Governments for funds to at least, pay the monthly salaries and wages of their workers. It may not, off the mark to suggest, what most local governments do in recent is merely source for money to pay their workers' salaries and wages. All other developmental projects and programmes are put on hold 'until the financial condition of the council improves.

This is supported by findings of a Research by Bell (2011), which shows that the critical problem facing Local authorities is a fiscal one. It is caused by among others: dependence on statutory allocations from the state and federal governments, deliberate evasion by the local citizenry, and creation of nonviable local government areas, differences in the status of local governments in terms of rural-urban dimensions, and inadequate revenue and restricted fiscal jurisdiction.

It is against this background that Martinez *et al.* (2006), notes that for a viable and responsible fiscal future, cities in developing countries should make use of significant sources of tax revenues as well as non-tax revenues collected through user charges and fees. Sufficiency of own revenues is the key to a city's improved ability to deliver necessary goods and services and to better accountability of local officials to their constituents. Own revenues should be complemented by intergovernmental transfers to address differences in expenditure needs and fiscal capacity across cities; and also for cities to support the implementation of central government programmes.

In order to effectively address the challenge of mobilizing adequate financial resources, Local authorities should consider using mechanisms such as municipal bonds, bank loans, municipal development funds, funds from institutional investors (such as pension funds), corporate bonds, equity markets and public–private partnerships (PPP).

6.3.2 Horizontal and vertical fiscal imbalance

The finding of this research shows that there exist vertical fiscal gaps between Local and Central Government. This in part is as a result of a mismatch in the expenditure responsibility and revenue assignment to the two levels governments. No doubt, the revenue raising capacity of Central Government by far exceeds that of Local Authorities because most lucrative and productive taxes are collected and controlled by Central Government. On the contrary, Local Authorities have greater expenditure responsibilities and fewer revenue sources which are usually unproductive and costly to administer.

To close this gap, Central Government in the name of equalisation funds makes fiscal transfers to achieve vertical fiscal balance, that is, ensure that the revenues and expenditures of each level of government are approximately equal. However, these gaps are far from been closed as central government only transfers 5% of all national income taxes. Vertical fiscal gaps may in principle be closed in other ways by transferring revenue-raising power to local governments, by transferring responsibility for expenditures to the Central Government, or by reducing local expenditures or raising local revenues. In most countries, however, sufficient mismatch in the revenues and expenditures assigned to different levels of government remains for some balancing role to be assigned to intergovernmental fiscal transfers (Boadway & Hobson, 1993).

No matter what its stated purpose may be, any transfer from higher-level to lower-level governments will of course help close the fiscal gap. For many purposes, however, it is useful to think of vertical fiscal balance as being achieved when expenditures and revenues (including transfers) are balanced for the richest Local Government, measured in terms of its capacity to raise resources on its own (Bird, 2003).

The UK has a high level of vertical fiscal imbalance, with Local Authorities heavily dependent on central grant, and this has reduced local autonomy and accountability. Currently, about 75% of local government revenue expenditure is funded through the centre through grant and distributed non-domestic rates, and only 25% funded locally through council tax.

High levels of grant funding lead central government in the direction of attempting centralised micro-management, as witnessed under the current best value and comprehensive performance management systems. These systems suffer from the information problems that are inherent in central planning (Ahmad, 1996). High central funding also reduces the importance of local elections, contributing to poor turnout, and places the system of grant allocation and its assessment of needs under great strain as the system is responsible for the majority of the funding Local authorities receive.

Vertical fiscal imbalance can lead to a common pool problem as a result of services to local residents being paid for by non-residents through central transfers. A version of the prisoners' dilemma can occur where Local Authorities may prefer a system where finance is decentralised for all, but individually do not have an incentive to abstain from fishing in the common pool of central finance (Richard and Andrey, 2002).

The research further shows that horizontal fiscal imbalance is huge among the selected councils. Although they have the same expenditure responsibilities they have varying revenue base and capacities for instance Lusaka City Council can collect just from property rates ZMW 64million while Luanshya Municipal can collect ZMW 20million. Luangwa and Chisamba Town Councils can only collect ZMW 172 Thousand and ZMW 170 Thousand respectively. It should be acknowledged that horizontal fiscal balance, or equalization as it is usually called, is controversial both because different countries have very different preferences in this respect and because it is a concept with many different interpretations. For example, if horizontal fiscal balance is interpreted in the same gap-filling sense as vertical fiscal balance, what is implied is that sufficient transfers are needed to equalize revenues including transfers and the actual expenditures of each local government.

According to Rao and Chelliah (1991), such fiscal dentistry, makes no sense. Equalizing the actual outlays of local governments in per capita terms (raising all to the level of the richest

local government) in effect ignores differences in local preferences and hence one of the main rationales for decentralization in the first place. It also ignores local differences in needs, in costs, and in own revenue-raising capacity. Equalizing actual outlays would discourage both local revenue raising effort and local expenditure restraint, since under this system those with the highest expenditures and the lowest taxes get the largest transfers.

A grant system can thus create poor incentives for Local Governments to raise their own revenues. This effect is most obvious in a revenue-pooling system, such as that used in Germany, Russia, and other countries, in which a given share of locally collected taxes is distributed among all Local Governments. In such a system, Local Governments receive only a fraction of the revenue collected in their own jurisdictions, with the rest distributed to other governments, usually through an equalization formula of some sort. Since the cost of local taxation is higher than the benefit to the local treasury, the marginal cost of public funds appears artificially high to the Local Government. This disincentive effect is so clear that such revenue-pooling arrangements seem never to be used when Local Governments can influence the tax rate levied on shared bases. But problems can arise even when tax rates are set by the central government if the revenues are actually collected by Local Governments (Buettner, 2006).

It can be noted in Zambia, just like in Nigeria, the degree of decentralization of expenditure is higher than the degree of decentralization of revenue thereby causing a great divergence between sources of revenue and functional expenditure in the Local Authorities. This means that there is lack of the necessary symmetry, hence the problems of non-correspondence or vertical imbalance.

The research agrees with Ahmad (1996) position that for financially-independent local government to exist, responsibilities and functions must be allocated in accordance with their taxing power and ability to generate funds internally. Local government authority in Nigeria lacks the requisite financial autonomy desirable and necessary for effective management of their financial resources. The much touted local government autonomy envisaged by the theory and practice of fiscal federalism in Nigeria is more or less a political overtone and far removed from reality.

6.3.3 Technical and Administrative Effects

Administratively, the study has shown that Councils are now managed by qualified manpower. Generally, all directors and heads of departments in all selected councils have acquired degrees including middle managers. For instance, Lusaka City Council has 11 Civil Engineers, 4 Electrical Engineers, 3 Water Engineers, 14 Health Inspectors, 9 Physical Planner and 6 Socio-Economic Planners. At least, one engineer, Health inspector and physical planner services a constituency in Lusaka. In the case of Luanshya, the all city is serviced by 3 civil Engineers, 1 water Engineer, 4 Health Inspectors and 3 Physical Planners with 2 Socio-Economic Planners. Chisamba and Luangwa Town Council are serviced by 1 and 2 Civil Engineers respectively with no electrical Engineer, 1 water Engineer, One (1) Socio-Economic Planner and Two (2) Health Inspectors in each Town, Chisamba has Two (2) Physical Planners while Luangwa has one.

In spite of having qualified technical staff, the study has shown that public perception of the capacity of city planners and engineers is very poor; the public does not have trust that the council has capacity to deliver even a bare minimum of service standards. Undoubtedly, a vibrant local authority management team constitutes the bedrock for sound public administration and the promotion of bottom-up socioeconomic development. It enhances government responsiveness to local communities and also serves as the forum for robust and sustainable grassroots participation.

A study conducted by Aminuzzaman (2010) in Bangladesh revealed that some of the critical institutional challenges facing service delivery at the level of local authorities include limited manpower and resources. Considering the work load and responsibilities, Local Authorities are understaffed. Further, local authorities lack logistical support like computers and transport and that they also lack managerial capability and resources to design and run innovative service delivery in areas like employment generation, health and education.

The study further revealed that there is a problem of lack of coordination between local authorities and extension service delivery workers of the government at the field level. The author noted that there are no formal links even between the standing committees of the Local Authorities with the extension workers of the corresponding line ministries

of the government. Such isolation makes lots of the services of local authorities dysfunctional and ineffective. This also deprives the local authorities of getting technical assistance and other professional support from the government line agencies.

Other challenges faced by Councils as noted in Bucovetsky and Smart (2006) were; lack of appropriate rules and regulation, ineffective monitoring, lack of accountability and transparency, political manipulation, non-cooperation from central-government based bureaucracy. Limited and insecure revenue base, highly centralized project and programme design, poor relationship between administration and elected representatives are among the challenges of Councils.

A crucial responsibility of Local government is to deliver services that a society requires to maintain and improve its welfare. To do this, government institutions require organizational structures and suitably qualified people who must be supported to deliver the services they are responsible for. Besley and Ghatak (2007) argue that public services are a key determinant of quality of life that is not measured in per capita income. The authors stress that service delivery is an important feature of the poverty reduction strategy.

In many countries, developing countries in particular, the issue of service delivery is a challenge that needs to be addressed given the low quality of service provision and the pressing needs of the poor. Izabela (2012) supports this view when he states that local councils in Malaysia continue face pressure to improve their service delivery. The increased level of education of the population has led to a more vocal and more discerning citizenry that expects better services and accountability from its local government. Moreover, rapid industrialization and urbanization of countries have created a challenging environment for the local government. Ter-Minassian (1997) affirms that in Nepal, public service delivery has remained lower than what was targeted when Nepal announced delivery of public services to its people through a planned development effort. The fact that people still suffer from many hurdles when they have to get any government services is an indication of poor service delivery that needs to be addressed.

Similarly, the argument by Faguet (2001) argues that municipalities in South Africa face serious challenges in implementing service delivery options that will enhance existing structures in the sphere of Local government points towards the need for strategies to

improve service delivery. Thus, the problem of service delivery is not unique to Kenyan towns alone; it is a problem that is faced by many towns in the world, especially in Africa and other developing countries. Humphrey (1998) alluded to the fact that, delivery of services has a direct and immediate effect on the quality of the lives of the people in a given community. Poor services can make it difficult to attract business or industry to an area and it will also limit job opportunities for residents.

Besley and Ghatak (2007) contend that improving public service delivery is one of the biggest challenges worldwide. To date, there are limited studies that have formally investigated the causes of poor service delivery and the strategies that can be implemented to improve the service delivery in Local Authorities. Although the Rwandese Association of Local Government Authorities (RALGA) in 2010 reported on the factors affecting service delivery in Local Governments, it did not empirically examine the strategies that can be adopted to improve service delivery in Local Authorities. The need to consider the views of the service providers is substantiated by Miaja (2005) who argued that public services should be concerned with what the customers want rather than with what providers are prepared to give.

Improving service delivery is primarily about improving the effectiveness and efficiency of the way in which services are delivered. A report by the World Bank, (2003) stated that the current cities are faced with many urgent challenges which have necessitated the implementation of new intelligent service delivery systems to tackle those problems. The reason for this strategy is that, in the developed world, cities are increasingly becoming the driving forces of their national economies, for example Tokyo, Paris, Zurich, Prague and Oslo all produce about a third of their countries' GDPs.

In Kemp (2007) it is postulated that, the use of public values and institutions in contracting can actually improve service delivery. They insist that stakeholder preferences and democratic processes establish the values to be optimized in service delivery. Furthermore, public law and organizational arrangements determine the contracting tools available for balancing competing values; and the characteristics of service markets influence which contracting tools and vendors are best suited to achieve stakeholder values.

More so, a complex combination of strategies is needed to ensure that service employees are willing and able to deliver quality services and that they stay motivated to perform in customer-oriented, service-minded ways. Continuous motivation of employees to be customer-oriented will enhance service quality. In order to build a customer-oriented, service-minded workforce, organizations must hire the right people, develop people to deliver service quality, provide the needed support systems, and retain the best people. In 2003 the Economic Commission for Africa (ECA) states that the public sector plays a crucial role in national development. To remain viable, efficient and effective in responding to the dynamic needs of the citizen, it has to embrace strategies that can enhance improved productivity and the quality of services delivered.

At the centre of public perception is the recent international trend toward decentralization which has provoked a discourse about the capacity of Local Authorities to plan, finance and manage their new responsibilities. Assessing, improving, and accommodating varying degrees of local capacity has become more and more important as decentralization policies transfer larger responsibilities as well as budgets from national governments to local governments and communities. While one of the common rationales for decentralization proposes that Local Governments' proximity to their constituents will force them to be better than Central Governments at managing resources and matching their constituent's preferences, it is not at all clear that local governments and communities have the capacity to translate this information advantage into a efficiency advantage. Inexperienced, small local authorities may not have the technical capacity to implement and maintain projects and they may not have the training to effectively manage larger budgets (Bird and Rodriguez, 1999).

In analysing local government capacity for sustainable rural development in Nigeria and Zimbabwe, Bahl and Bird (2008), inveighed that, it is common knowledge that the Local Government has the weakest capacity to initiate and manage rural development programs. This, they said is attributable to the qualitative and quantitative dynamics of institutional capacities available at the local government level which is seriously insufficient. They further submitted that the officials are performing their functions without the relevant qualifications to perform effectively and as a result, available resources for accelerated and sustainable rural development are inefficiently utilized for the purposes intended and hence compromising the quality and quantity of services provided.

These two countries being former British colonies had their Local Governments dualised and differentiated to advance colonial interests. As such little attention was paid by the colonial system to developing the capacity of native Local Governments, a feature that was visible at the attainment of independence. In Zimbabwe, for instance, the Rural Councils were better capitalized and had the capacity to provide services efficiently than District Councils which were a local government structure for communal areas (former tribal trust lands) and purchase lands.

The debate over quantifying the measure of local capacity has been very controversial. In most instances, it has been motivated by political and technical considerations on the management of local authorities. Central Governments have used lack of capacity as the reason for refusing to transfer their authority, financial resources, and the accompanying privileges to local units, for example, Fiszbein (1997) found, in Colombia that what was being characterized by national agencies as poor planning in municipals was in fact a genuine disagreement between local and national priorities. The municipals were actually demonstrating considerable local capacity by turning down conditional matching grants from central agencies and borrowing funds locally at market rates in order implement their own priorities. For this reason, it is useful to set out some of the relevant issues in objectively measuring local capacity.

The traditional approach to decentralization has been to build capacity before transferring responsibilities or revenues. This cautious method was fuelled by worries about irresponsible spending, local corruption, regional inequities, and service collapse as well as many central governments' reluctance to devolve authority. Some authors have argued that the lack of local capacity, among other factors, made decentralization ineffective and even undesirable in developing countries. This is changing, as increasing evidence shows that the capacities of all levels increases as decentralized service systems mature. There is a growing appreciation that management is a performance art better learned by doing than just listening.

Rodden *et al.*, (2003), reports that Indonesia, Morocco, Thailand, and Pakistan's local government capacity increased slightly but perceptibly in the years following decentralization. Devolution in Papua New Guinea has increased popular participation in government and improved the planning, management, and coordination capacity of provincial administrators. In an on-going research in Bolivia, by Faguet shows, that Local governments'

education investments are more rational and more in line with local needs than the national government's expenditure. In general, much of the evidence indicates that decentralization has increased local participation and hence local government leverage in gaining access to national resources and encouraged the development of public and private planning and management skill.

Decentralization in and of itself can be the best way to build local capacity. Central support can be important to maintain equity in spending across jurisdictions and ensure proper attention to training. Tamrakar (2010), for example, points out that effective delivery of local services rests upon partnerships crossing levels of government and the public, private and civil sectors. Nevertheless, capacity-building should not be a supply-driven endeavour that provides the same support package to widely varying local jurisdictions. It is also not always clear that national capacity is greater than local capacity. Putnam's research, for example, shows that Italians rate local government effectiveness higher than national government capacity.

In terms of machinery necessary for service provision, Lusaka City Council has acquired most of the service equipment's for road maintenance and construction as well as for street lighting assembly and maintenance. However, the council has a maintenance schedule which they do not adhere to. Similarly, Luanshya Municipal Council has basic equipment's for construction and maintenance of roads but has no equipment for assembly and maintenance of street lights and do not have any existing maintenance schedule. Chisamba and Luangwa Town Councils only have a motor grader and dump trucks for service provision and do not have any maintenance schedule in place for this machinery. Further, the Dump Truck for Luangwa Town Council has been non-functional from 2017.

6.4 Chapter Summary

This section of the study interpreted and discussed the findings of the research. The findings were discussed according to the research questions. In discussing the utilisation of equalisation funds, the study has shown that Councils have been increasing their expenditure on personal emoluments from 2016. This increment is as a result of increased recruitment of personnel by the Local Government Service Commission and an increment of salaries and other conditions of services for council employees that were awarded in 2016 and 2017.

In determining the methods of Service delivery, the study has shown that, Lusaka City Council and Luanshya Municipal Council have employed various methods of service delivery among them is the use of local government enterprise, contracting out, franchise, Volunteers, self-help groups and in-house provision. On the other hand, Chisamba and Luangwa Town Council have employed in-house provision which is supplemented by local government enterprise and the use of volunteers and self-help groups. The employed methods of service delivery have proved to be very effective in the case of Chisamba and Luangwa owing to the small population in these areas. Even though Lusaka and Luanshya have tried to employ a number of alternative methods of service delivery, effectiveness of these methods is still below resident's service expectation.

To determine the effect of equalization transfers on service delivery, the study conducted regression analysis. The overall regression model was very significant. The analysis of variance test using $\alpha = 0.05$ shows; $F(1, 391) = 89.86, p < 0.001, R = 0.187$. Further, with the introduction of equalization funds, estimates of revenue and expenditure for Local Authorities have been rising.

In determining the fiscal effort, the study has revealed that the fiscal effort of Lusaka and Luanshya Councils has been increasing from 2016 while for Chisamba and Luangwa Councils the effort has been decreasing. The finding of this research shows that there exists worrying vertical fiscal gaps between Local and Central Government. This in part is as a result of a mismatch in the expenditure responsibility and revenue assignment to the two levels of governments. No doubt, the revenue raising capacity of Central government by far exceeds that of Local authorities because most lucrative and productive taxes are collected and controlled by Central government. On the contrary, Local Authorities have greater expenditure responsibilities and fewer revenue sources which are usually unproductive and costly to administer.

Administratively, the study has shown that Councils are now managed by qualified manpower. Generally, all directors and heads of departments in all selected councils have acquired degrees including middle managers.

In terms of machinery necessary for service provision, Lusaka and Luanshya Council have acquired most of the service equipment's for road maintenance and construction as well as for street lighting assembly and maintenance. However, all the selected councils have a maintenance schedule which they do not adhere to.

The following chapter will propound key conclusions of the study. It will highlight its contribution to the field of governance and leadership and make recommendation to improve the governance and service delivery by Local authorities.

CHAPTER SEVEN

CONCLUSION, CONTRIBUTION AND RECOMMENDATIONS

7.0 Introduction

This chapter presents the conclusion of the study findings on the effect of equalisation funds on service delivery. It will also present the contribution that the study has made to the broader field of governance and leadership. Further, it will advance the recommendations that have been made following the identification of inherent inadequacies in the service delivery mechanism and fiscal architecture of Local Authorities.

7.1 Conclusion

Local authorities in Zambia have been grappling with a glut of problems, relating in large measure to the non-collection of waste in residential and market areas which make the citizenry vulnerable to bacterial diseases like diarrhoea and cholera; non provision and maintenance of sanitary facilities, severe erosion of productive revenue sources, poorly maintained local roads and street lights. This tragedy manifests the inadequacies of local authorities to deliver services and renders them functionally impotent.

It is against this background that government established the Local Government Equalization Fund to which each year Parliament appropriate not less than five percent of the total amount projected to be collected as income taxes for the Republic for that financial year. The purpose of the fund is to provide a predictable and stable source of funds for councils and improve their capacity to deliver services as well as narrow the existing gaps in economic growth and development among Local Authorities. Despite this, inadequate public service and fiscal dependence of local authorities on central government's transfer have persisted. Unfortunately, this dependence on central government transfers is so significant that without them, most of the Local Authorities would not even provide essential services nor cover their recurrent expenditure.

The study has shown that apart from the year 2016, the selected Local authorities did not adhere to the prescribed guidelines for the utilisation of equalization funds. Generally, Local Authorities have been spending a large proportion of equalisation funds on personal emoluments and councillors allowances leaving little or nothing for capital improvements.

This in part is due to the recent mass recruitment of council employees by the local government service commission in the period 2016-2018 and increment of salaries and other conditions of services for council employees.

In determining the methods of Service delivery, the study has shown that, Lusaka City Council and Luanshya Municipal Council have employed various methods of service delivery among them is the use of local government enterprise, contracting out, franchise, Volunteers, self-help groups and in-house provision. On the other hand, Chisamba and Luangwa Town Council have employed in-house provision which is supplemented by local government enterprise and the use of volunteers and self-help groups.

The employed methods of service delivery have proved to be very effective in the case of Chisamba and Luangwa owing to the small population in these areas. Even though Lusaka and Luanshya have tried to employ a number of alternative methods of service delivery, effectiveness of these methods is still below resident's service expectation. This in part is due to the growth of Zambia's population which has outpaced Local authority's capacity for service delivery in terms of management, infrastructure, and financing. The problem has been compounded by the growing number of residents living in informal settlements.

The study has revealed that with the introduction of equalization funds, estimates of revenue and expenditure for Local authorities have been rising steadily; while councils have been increasing their expenditure their fiscal effort has been declining with the exception of Lusaka. This has been compounded by weak collection efficiency as most service users do not pay charges to the council. Essentially the link between local government revenue and Local government expenditure is broken. In the absence of such a link, demand for Local government goods and services is not, tempered by willingness to pay considerations. This has resulted in a level of demand which does not seem to be sustainable in the long-term.

The current situation is that most Councils' will for a long time continue to be heavily dependent on equalisation transfers from Central government. Only a few big Councils located along the line of rail will be able to finance a substantial share of their total expenditure with their own revenue sources. Consequently, there exists worrying vertical fiscal gaps between Local and Central government.

Administratively, the study has concluded that Councils are now managed by qualified manpower. Generally, all directors and heads of departments in all selected councils have acquired degrees including middle managers. In terms of machinery necessary for service provision, Lusaka City and Luanshya Municipal Council have acquired most of the service equipment's for road maintenance and construction as well as for street lighting assembly and maintenance. However, the councils have maintenance schedules which they do not adhere to. Chisamba and Luangwa Town Councils only have a motor grader and dump trucks for service provision and do not have any maintenance schedule in place.

7.2 Contribution

By analysing the effects of Local Government Equalization Fund on service delivery in selected Local authorities in Zambia, the study has contributed to the wealth of information on governance within Local Authorities. Good governance demands that the power and resources that are available to Local Authorities are cautiously and efficiently utilised. Regrettably, the study has revealed that Local authorities have no incentive to act and make fiscally responsible decisions. In their current form, Local Authorities lack direction and commitment to execute their mandate. There is absence of effective leadership which renders Local Authorities functionally impotent.

Through this analysis, the study has established the underlying causes of inadequate service delivery by Local Authorities in Zambia. It has provided relevant information on the expenditure composition of Local Authorities vis a vis the utilisation of equalisation transfers. Local Authorities have not been adhering to the guidelines on utilisation of equalisation funds as espoused by Central government. The study has revealed that Local Authorities would rather have state of the art personal to holder vehicles for the Mayors and Directors than have a functional dump truck to collect garbage. They choose to go on international trips that attract allowances than spend on drainage construction.

Good governance of Local Authorities will promote economic growth and enhance the legitimacy of Local Authorities to tax its residents and to exercise power over public resources. These powers must be applied to promote public interest and the common good of the nation. In light of this, the study has revealed important information on the state of Local Authorities and their capacity in terms of management, infrastructure, and financing, which is

very valuable in informing policy. Further, it has established the technical and administrative effects of increased central government transfers to Local Authorities on service delivery. Importantly, the research has made recommendations on how to make Local Authorities functionally and financially vibrant while simultaneously promoting good governance and effective leadership.

7.3 Recommendations

The research has identified inherent inadequacies in service delivery models used by Local Authorities in Zambia and the functional assignment of expenditure and revenue responsibility by Central government. Arising from these inadequacies, the following are the recommendations to make councils functionally and financially vibrant;

- 7.3.1 Central government should find remedial measures of crowding-out the local government tax base. Government has made numerous exemptions for payment of property rates in the Rating Act and has taken over the collection of productive taxes and user fees from councils.
- 7.3.2 Central Government and Local Authorities should redesign the current revenue structure and strengthen financial management. Local Authorities should enhance their collection efficiency and link collected revenue with expenditure.
- 7.3.3 Local Authorities should increase reliance on own revenues with meaningful discretion. This will strengthen the link between benefits and costs of local services, making local officials more accountable to taxpayers and more fiscally responsible.
- 7.3.4 Introduction of city service levy for all businesses and residents within council jurisdictions by all Local Authorities.
- 7.3.5 Central Government should develop and strengthen legal and regulatory frameworks for local authority borrowing. Rules regarding debt level and debt service ratios need not be overly restrictive, but central government need to enforce hard budget constraints and avoid bailouts. Monitoring of local borrowing is critical by Ministry of Finance, especially where private market discipline is not operational. Such

monitoring should cover not only regular debt but also floating debt or budgetary arrears with official institutions and private suppliers, and Local Government guarantees for municipal enterprises. Monitoring should be complemented with a credible system of penalties for lack of compliance.

REFERENCES

- Abend, Gabriel. (2008). "The Meaning of Theory." *Sociological Theory*. San Francisco, CA: Berrett-Koehler Publishers.
- Ahmad, E. (1996). *Financing decentralized expenditures: an international comparison of grants*. Cheltenham, UK: Edward Elgar.
- Aminuzzaman Salahuddin (2010). *Local Government and Development in Bangladesh. Lessons learned and challenges for improving service delivery of union parishad*. University of Dhaka.
- Bahiigwa, G., Ellis, F., Fjeldstad, O-H. & Iversen, V. (2004) 'Rural Taxation in Uganda: Implications for Growth, Income Distribution, Local Government Revenue and Poverty Reduction', *EPRC Research Series* No. 35 (January), (Kampala: Economic Policy Research Centre).
- Bahl, R. & Wallich, C. (1992) *Intergovernmental fiscal relations in China. Policy Research Department Working Papers* (Washington D.C.: World Bank).
- Bahl, R. & Bird, R. (2008) 'Subnational Taxes in Developing Countries: The Way Forward.' *Public Budgeting & Finance*, Vol. 28(4), pp. 1-25.
- Baretti, C., Huber, B., & Lichtblau, K. (2000). A tax on tax revenue. The incentive effects of equalizing transfers: evidence from Germany. Working Paper CESifo, University of Munich.
- Bell, M. E. & Bowman, J. H. (2006). 'Implementing a local property tax where there is no real estate market. The case of commonly owned land in rural South Africa.' Cambridge: Lincoln Institute of Land Policy.
- Bell, G. (2011). "Local Government Size and Efficiency in Capital- Intensive Services: What Evidence is there of Economies of Scale?" in Lago-Peñas, S. & Martinez Vazquez, J. (eds): *The Challenge of Local Government Size* (Cheltenham: Edward Elgar) pp. 148-170.
- Besley Timothy and Maitreesh Ghatak (2007). Retailing public goods; The economics of Corporate social responsibility. *Journal of public economics*, Vol. 91, 16-45
- Bird, R. M. (2000). Rethinking subnational taxes: a new look at tax assignment. *Tax Notes International*, 20(May 8), 2069–2096.
- Bird, R. M. (2001a). *Intergovernmental fiscal relations in Latin America: policy designs and policy outcomes*. Washington DC: Sustainable Development Department, Inter-American Development Bank.

- Bird, R. M. (2001b). Setting the stage: municipal finance and intergovernmental finance. M. E. Freire, & R. E. Stren (Eds.), *The challenge of urban governance*. Washington DC: World Bank Institute.
- Bird, R.M. (2003). *Fiscal Flows, Fiscal Balance and Fiscal Sustainability*. Working Paper 03-029 Atlanta: Georgia State University.
- Bird, R. M., Ebel, R. D., & Wallich, C. I. (1995). *Decentralization of the socialist state*. Washington DC: World Bank.
- Bird, R. M., & Vaillancourt, F. (1998). *Fiscal decentralization in developing countries*. Cambridge: Cambridge University Press.
- Bird, R. M., & Rodriguez, E. (1999). Decentralization and poverty alleviation. *Public Administration and Development*, 19, 199–219.
- Boadway, R. (1998). The Economics of Equalization: An Overview, in R. Boadway and P. Hobson (eds), *Equalization: Its Contribution to Canada's Economic and Fiscal Progress*. Kingston: John Deutsch Institute, 27-82.
- Boadway, R. (2005). The Vertical Fiscal Gap: Conceptions and Misconceptions', in H. Lazar (ed.), *Canadian Fiscal Arrangements: What Works, What Might Work Better*. Montreal: McGill-Queen's Press, 51-80.
- Boadway, R. W., & Hobson, P. (1993). *Intergovernmental finance in Canada*. Toronto: Canadian Tax Foundation.
- Boetti, L., Piacenza, M. and Turati, G. (2012). Decentralization and sub-national governments' Performance: How Does Fiscal Autonomy Affect Spending Efficiency? *FinanzArchiv: Public Finance Analysis*.
- Boex, J (2009). *Fiscal Decentralisation and Intergovernmental Finance Reform as an International Development Strategy*. IDG working paper No. 2009-06.
- Borge, L.E. (2011). *Local Equalization Grants: Purpose, Efficiency Effects, and Design*. IEB's Word Report on Fiscal Federalism.
- Bonett, D.G (2002). Sample Size requirement for Testing and Estimating Coefficient Alpha. *Journal of Educational and Behavioural Statistics*, 27(4) 335-340.
- Borge, L.E. and Ratts, J. (2003). Spending growth with vertical fiscal imbalance: decentralized government spending in Norway. *Economics and Politics*.
- Bucovetsky, S. and Smart, M. (2006). The Efficiency Consequences of Local Revenue Equalization: Tax Competition and Tax Distortions. *Journal of Public Economic Theory*.
- Buettner, T. (2006). The incentive effect of fiscal equalization transfers on tax policy.

Journal of Public Economics.

- Burgess, R. & Stern, N. (1993) 'Taxation and development.' *Journal of Economic Literature* Vol. 31: pp 762-830.
- Carlsen, F. (1998). Central regulation of local authorities. *Public Finance Review*, 26, 304–327.
- Castells, A. (2001). The role of intergovernmental finance in achieving diversity and cohesion: the case of Spain. *Local Government Journal*.
- Chernick, H. (2000). Federal grants and social welfare spending: do state responses matter. *National Tax Journal*, 53, 143–152.
- Chitembo, A. (2009) Fiscal Decentralisation: A Comparative Perspective. *Civil Society Representatives Sitting on the Zambian National Constitutional Conference (NCC)*. Lusaka.
- Creswell, J.W. (2008). *Educational research: Planning, conducting, and evaluating quantitative and qualitative research*. Upper Saddle River, NJ: Prentice Hall.
- Dafflon Bernard (2012). *Voluntary Amalgamation of Local Government; the Swiss Debate in the European context*, International centre for Public Policy Working Paper series, Andrew Young School of Policy Studies, Georgia State University.
- Dahlby, B. and Warren, N. (2003). Fiscal Incentive Effects of the Australian Equalisation System. *The Economic Record*, 79, 247, 434-445.
- Das, J and Hammer, J (2007). Money for Nothing; The Dire Straits of Medical Practice in Delhi, India, *Journal of development economics*, 83, pp 1-36.
- De Mello, L. & Lago-Peñas, S. (2011). "Local Government Cooperation for Joint Provision: the Experiences of Brazil and Spain with inter-municipal Consortia. In Lago-Peñas, S. & Martinez-Vazquez, J. (eds): *The Challenge of Local Government Size* (Cheltenham: Edward Elgar) pp. 221-241.
- Devas, N. & Kelly, R. (2001) 'Regulation or Revenues? An Analysis of Local Business Licences, with a Case Study of the Single Business Permit Reform in Kenya', *Public Administration and Development*, Vol. 21, pp. 381–391.
- Dillinger, W., Perry, G., & Webb, S. B. (2001). Developing hard budget constraints in decentralized democracies of Latin America. Paper presented at Conference on Public Finance in Developing and Transition Countries, International Studies Program, Andrew Young School of Policy Studies, Georgia State University, Atlanta.

- Ebel Robert and Yilmaz Serdar (2002). On the Measurement and Impact of Fiscal Decentralisation. *Journal of Public Economics*, 1,4,521.
- Eyraud, L. and Lusinyan, L. (2013). Vertical Fiscal Imbalances and Fiscal Performance in Advanced Economies. *Journal of Monetary Economics*, 60, 5, 571-587.
- Faguet, J. P. (2001). Does decentralization increase government responsiveness to local needs? Evidence from Bolivia. *World Bank Policy Research Working Paper No. 2516*, Washington DC: World Bank.
- Fiszbein, A. (1997). Emergence of local capacity: lessons from Colombia. *World Development*, 25, 1029–1043.
- Fjeldstad, O.,Katera L., Msami J., Ngalewa E (2010). Local government finance and Financial management in Tanzania: empirical evidence of trends 2000-2007. REPOA Special paper No. 10-2010. Research on poverty alleviation. Dar es alam.
- Friedman David (1999). *Price Theory*; South Western Publishing Company.
- Garcia, Serge and Alban Thomas (2001). “The Structure of Municipal Water Supply Costs: Application to a Panel of French Local Communities.” *Journal of Productivity Analysis* 16: 5-29.
- Giersch Thorsten (2007). *From Lindahls Garden to Global Warming: How Useful is the Lindahl Aproach in the Context of Global Public Goods*. Bristol: The Policy Press.
- Gosh, A and Gosh, C (2008). *Economics of the Public sector*, New Delhi: Pretence Hall of India Pvt Limited.
- Government of Zambia (2016). *Constitution (Amendment) Act No. 2*. Lusaka. Government Printers.
- Government of Zambia (1992). *Budget Speech*. Lusaka. Government Printers.
- Government of Zambia (1965). *Local Government Act*. Lusaka. Government Printers.
- Government of Zambia (1980). *Local Administration Act*. Lusaka. Government Printers.
- Government of Zambia (1991). *Local Government Act*. Lusaka. Government Printers.
- Government of Zambia (2019). *Local Government (Amendment) Act No. 2*. Lusaka.

- Government Printers.
- Government of Zambia (1997). Rating Act amendment No. 12. Lusaka. Government Printers.
- Government of Zambia (2000). Statutory Instrument No. 55. Lusaka. Government Printers.
- Government of Zambia (2014). Zambian Constitution (Amendment) Act No. 12.
Lusaka. Government Printers.
- Government of Zambia (2003). Decentralisation Policy. Lusaka. Government Printers.
- Henn, M., Weinstein, M and Foard, N (2006). A Short Introduction to Social Research.
London; Sage.
- Hola, A and Kremer, M (2009). Price and Access; Lessons from Randomised
Evaluation in Education and Health, Centre for Global Development,
Working paper No. 158.
- Howell, K. E. (2013) Introduction to the Philosophy of Methodology. London: Sage
Publications.
- Humphrey Peter (1998). Improving public service delivery. Institute of public
Administration. Vol 3, pp23.
- Ireland-Local Government Act of 2001.
- Izabela Karpowicz (2012). Narrowing vertical fiscal imbalances in four European
Countries. IMF working paper. WP/12/91.
- Jibao S, J (2009). Property Taxation in anglophone west Africa: Regional overview.
Working paper WP09AWA1. Lincoln institute of Land Policy: Cambridge, MA.
- Jha, R. (1999). Some notes on principles of central transfer. Unpublished paper for
Seminar on Issues before the Eleventh Finance Commission, New Delhi.
- Kara H (2012) Research and Evaluation for Busy Practitioners: A Time-Saving
Guide. Bristol: The Policy Press.
- Kemp, Roger L (2007) Forms of Local Government: A Handbook on City, County
and Regional Options, McFarland and Co.1 USA.
- Kombo Donald and Tromp Delno (2006). Proposal and Thesis Writing: An
Introduction. Pauline Publications Africa, Nairobi. Vol 5, 814-30.
- Kornai J, Maskin E and Roland G (2003). Understanding Soft Budget Constraint.
Journal of Economic literature. 41(4).
- Lockwood, B. (1999). Inter-Regional Insurance. Journal of Public Economics, 72, 1,

1-37.

- Lolajih Peter (2008) *Local Government Administration and Service Delivery in the Third Republic*. Lusaka; University of Zambia Press.
- Martinez-Vazquez, J., McLure, C. and Vaillancourt, F.(2006). Revenues and Expenditures in an Intergovernmental Framework, in Bird, R.M. and Vaillancourt, F. (eds), *Perspectives on Fiscal Federalism*. World Bank Publications, 15-34.
- McNeil, P and Chapman, S (2005). *Research Methods* (3rd Ed) New York; Routledge.
- Melkamu Bessie (2004). *Fiscal Decentralisation in Ethiopia. A review of problems of Fiscal Imbalance with reference to case of Benishangul-Gumuz Region*. Addis ababa University, Addis Ababa.
- Miaja M, (2005). *Fiscal Discipline in decentralised administration: The Spanish experience*. OECD Journal on budgeting, Vol 5 No. 2.
- Morse, J (2000). *Determining Sample Size*. *Qualitative Health Research*, 10(1), 3-5
- Oakland, W. H. (1994). *Fiscal equalization: an empty box*. *National Tax Journal*, 47, 199–209.
- Pisauro, G. (2001). *Intergovernmental relations and fiscal discipline between commons and soft budget constraints*. Working Paper WP/01/15, Washington DC: International Monetary Fund.
- Rao, S (2005). *Delivery of services in the Public Sector: Financing and Delivery of Healthcare Services in India*, National commission on macroeconomics and Health background papers, ministry of health and family welfare, Government of India, New Delhi.
- Rao, M. G., & Chelliah, R. J. (1991). *Survey of research on fiscal federalism*. New Delhi: National Institute of Public Finance and Policy.
- Richard M and Andrey V (2002). *Closing the Gap: Fiscal Imbalance and Intergovernmental Transfer in Developed Federations*. Working Paper No. 2-2. International Studies Program, Andrew Young School of Policy Studies, Georgia State University, Atlanta, Georgia.
- Robson, C (2002). *Real world Research; A Resource for Social Scientists and Practitioner Researchers* (2nd ed). Oxford; Blackwell.
- Rodden Jonathan, Gunnar, S, Eskeland and Jemie Litvack (2003). *Fiscal Decentralisation and the Challenge of Hard Budget Constraint*. The MIT Press, 476.

- Samuelson, Paul (2012). *Diagrammatic Exposition of a Theory of Public Expenditure*. University of California. Santa Barbara.
- Shah, A. (1994). *The reform of intergovernmental fiscal relations in developing and emerging market economies*. Policy and Research Series No. 23, Washington DC: World Bank.
- Shah, A., & Qureshi, Z. (1994). *Intergovernmental fiscal relations in Indonesia*. Discussion Paper No. 239, Washington DC: World Bank. In National Bureau of Economic.
- Shankar, R., & Shah, A. (2003). *Regional development policies in India: helping regions or building transfer dependencies?* Processed (in draft). Washington, DC: The World Bank.
- Sharma, C. K. (2012). *Beyond gaps and imbalances: re-structuring the debate on intergovernmental fiscal relations*. *Public Administration*, 90, 99-128.
- Smart, M. (1998). *Taxation and deadweight loss in a system of intergovernmental transfers*. *Canadian Journal of Economics*, 31, 189–206.
- Smart, M. (2001). *Redistribution, risk, and incentives in equalization: a comparison of RTS and macro approaches*. Paper presented to Conference on Equalization, Institute of Intergovernmental Affairs, School of Policy Studies, Queen's University, Kingston, Canada.
- Smart, M. (2007). *The Incentive Effects of Grants*. In Boadway, R. and Shah, A (eds). *Intergovernmental fiscal transfers: principles and practice*. Washington, D.C.: The World Bank.
- Stauss Bernd (2005). *Customer frustration in Loyalty programs*. *International Journal of service delivery industry management*, Vol. 16 No. 3, pp 229-252.
- Tamrakar Rojina (2010). *Impact of Citizen Charter in Service Delivery*. A case of District administration , Kathmandu.
- Ter-Minassian, T. (1997). *Fiscal federalism in theory and practice*. Washington DC: International Monetary Fund.
- United Nation Development Programme 2005 annual report
- United Nation Development Programme 2007 annual report
- Von Hagen, J., & Hepp, R. (2000). *Regional risk sharing and redistribution in the German Federation*. Working Paper, ZEI, University of Bonn.
- Von Hagen, J. (2000). *Monetary union and fiscal federalism*. Working Paper, ZEI, University of Bonn.

- Wilcox, R. R (2010). Fundamentals of Modern Statistical Methods; Substantially Improving Power of Accuracy (2nd ed) London. Springer.
- Worldridge, J. M (2002). Econometric Analysis of Cross Section and Panel Data. Cambridge. MIT Press.
- World Bank Report of 2003, Sustainable Development in a Dynamic World- Transforming institutions, growth and Quality of Life.
- Yilmaz S (2009). Decentralisation in Ghana; Local Government Discretion and Accountability. Regional Development Studies 13; 62-83.

APPENDICES

Appendix I

INTERVIEW SCHEDULE FOR COUNCIL OFFICIALS AND COUNCILORS

My name is Hanson Chishimba; I am a PhD student at the University of Lusaka. I am conducting a comparative study on the effect of equalisation funds on service delivery in selected Local Authorities. You have been randomly selected to participate in the study. I believe you have the information that will help me answer some of my research questions. I assure you that the information you will provide will be dealt with high confidentiality and used for academic purposes. Therefore, I will appreciate if you spared sometime to answer the following questions.

Section A: Background Information

1. What is your gender?
(a) Male (b) Female
2. What is your occupation?.....
3. For how long have you worked for the council?.....
4. What is the highest level of education you have attained?
(a) Grade 12/ GCSE Certificate
(b) College Certificate/Diploma
(c) University Degree

Section B: Main Questions

1. What was the council's budget for the last fiscal year?
.....
2. Of the Total Budget, how much was locally generated from the local tax base?
.....
3. How much does your council receive as monthly equalization funds?
.....
4. How much of the total monthly equalization funds does your council spend on service provision?.....
5. How much does your council spend on capital projects?.....
6. On average how much do you spend on personal emoluments annually?
.....
7. What is the minimum qualification of heads of departments in your council?
.....
8. What is the current staff establishment of the council?.....
9. How many Engineers do you have in your council?
10. How many Physical, Environmental and Socio-Economic planners do you have on your establishment?
11. How much does the council spend on waste collection annually?
.....
12. Have you contracted out any service provision?
.....

13. Does the council have any existing Public Private Partnership in service provision?

YES	NO
1	2

14. Does the council have any functional sporting facility or play park?

YES	NO
1	2

15. Is there a maintenance/rehabilitation schedule in place for the roads and other public facilities?

YES	NO
1	2

16. If your answer to Q15 is yes, do you adhere to the schedule?

YES	NO
1	2

17. What machinery do you use to provide services such as road construction, street light Maintenance?.....

18. When did you acquire these Machinery referred to in Q17?.....

19. Does the council run any commercial enterprise?.....

20. If the answer to Q19 is Yes, what service sector does the enterprise operate in?
.....

Thank you so much for your time

Appendix II

INTERVIEW SCHEDULE FOR RESIDENTS

My name is Hanson Chishimba; I am a PhD student from the University of Lusaka. I am conducting a comparative study on the effect of equalisation funds on service delivery in selected Local Authorities. You have been randomly selected to participate in the study. I believe you have the information that will help me answer some of my research questions. I assure you that the information you will provide will be dealt with high confidentiality and used for academic purposes. Therefore, I will appreciate if you spared sometime to answer the following questions.

Section A: Demographic characteristics

- 1. What is your gender? (a) Male (b) Female
2. What is your occupation?
3. How many are you in your household?
4. What is the highest level of education you have attained? (a) Primary School Certificate (b) Secondary school Certificate (b) College Certificate/Diploma (d) University Degree

Section B: Main Questions

- 1. Does the council collect cabbage from your area?

Table with 2 columns: YES, NO and 2 rows: 1, 2

- 2. If your answer to Q1 is Yes, How many times does the Council collect cabbage in a month?
3. Do you pay any taxes, levies or charges to the council?
4. If your answer to Q3 is Yes, How often do you pay the charges referred to in Q
5. If your answer to Q3 is No, Why don't you pay any taxes, levies or charges to the council?

- 6. In your opinion, who should pay the cost of council services in your area?

- 7. Do you experience flooding in your area?

Table with 2 columns: YES, NO and 2 rows: 1, 2

- 8. Does the council clean storm water drainages in your area?

Table with 2 columns: YES, NO and 2 rows: 1, 2

9. Are their functional street lights in your area?.....

10. Have you submitted any building plans in the last 6 months to the council for scrutiny/approval?

YES	NO
1	2

11. If your answer to Q10 is Yes, how long did it take before you received an approved plan?
.....

12. Are the streets in your area predominately tarred?

YES	NO
1	2

13. Does the council respond quickly to damages by repairing damaged roads or bridges quickly in your area?

YES	NO
1	2

14. Have you or a member of your household made use of a council sports field, play park or swimming pool in the last 3 months?

YES	NO
1	2

15. How can you describe the state of the road network in your area?
.....

16. In your opinion do you think the council provides adequate services in your area?
.....

17. Please rate the following by ticking in the box;

	Poor	Very Good	Good	Fair	
Refuse collection	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Capability of City Planners	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Capability of City Engineers	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Provision and maintenance of sanitary Facilities	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Provision and Maintenance of Play park, Sports field and Swimming pool	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Public Library Services	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

18. In your opinion, has the council improved service delivery in the last three (3) years?
.....

DESCRIPTION	COST OF RESEARCH			SOURCE	
	YEAR COST [K]			SPONSOR	SELF
	YEAR 1	YEAR 2	YEAR 3		
ADMINISTRATIVE COSTS					
PRINTER	2,500				X
LAPTOP	6,000				X
REAMS OF PAPER	400	400	400		X
TONNER	1,500	3,000	3,000		X
INTERNET COST	3,000	3,000	2,000		X
RESEARCH COSTS					
BOOKS\RESEARCH METHODOLOGY	3,000				X
PILOT SURVEY	16,500			X	
DATA COLLECTION PREPARATION	3,000	3,000		X	
RESEARCH ASSISTANCE ALLOWANCE=3,500/ASSISTANT	42,000	42,000	21,000	X	
RESEARCHERS ACCOMDATION DURING DATA COLLECTION	10,500	10,500	5,250	X	
TRAINING COSTS					
TUITION FEES	32,750	26,250	20,000	X	
SEMINAR PARTICIPATION FEES=1500/SEMINAR	6,000	6,000	6,000	X	
TRAVEL COSTS					
RESIDENTIAL SCHOOL FUEL=FUEL FORMULA=[1.1 X 14 X350 X 2]/5	4,312	4,312	4,312	X	
PHD SEMINARS=FUEL FORMULA=[1.1 X 14 X350 X 2]/5	8,624	8,624	8,624	X	
FIELD WORK FUEL	18,480	18,480	12,320	X	
SUB TOTAL	158,566	125,566	82,906		
TOTAL				338,838	28,200

Appendix IV

RESEARCH ACTIVITIES

	January-June 2018	July-December 2018	January-June 2019	July-December 2019
ACTIVITY				
Proposal writing, presentation, correction and submission				
Questionnaire Development and Testing				
Data collection				
Data cleaning, analysis and interpretation				
Thesis compilation				
Thesis presentation, corrections and submission				

Appendix V

INFORMED CONSENT FORM

Research Title: Local Government Financing: A comparative study of the effects of equalisation funds on service delivery in selected Local Authorities in Zambia
Researcher: Hanson Chishimba
Research Supervisors: Professor Eustarckio Kazonga, PhD Professor Everisto Nsenduluka, PhD

- | Yes | No | |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | I have read and understood the research information. |
| <input type="checkbox"/> | <input type="checkbox"/> | I have been given the opportunity to ask questions about the research project. |
| <input type="checkbox"/> | <input type="checkbox"/> | I understand that my words may be quoted in publication, reports, web pages and other research output. |
| <input type="checkbox"/> | <input type="checkbox"/> | I understand that my participation is voluntary and that I am free to withdraw at any time, without giving a reason or my legal rights being affected. |
| <input type="checkbox"/> | <input type="checkbox"/> | I understand that the research data, which will be anonymised (not linked to me), may be shared with others. |
| <input type="checkbox"/> | <input type="checkbox"/> | I understand that my personal data, which link me to the research data, will be kept securely in accordance with data protection guidelines and only available to the immediate research team. |

I have marked the above boxes myself and I agree to take part in the study

SIGNATURE OF PARTICIPANT	
Signature:.....	
Initials:	Date:.....

SIGNATURE OF WITNESS	
Signature:.....	
Date:.....	

Appendix VI

Assignment of functions to Local Authorities in Lesotho, section 5 of the Local Government Act 1977

Schedule	Functions	Competent Council
1	<ul style="list-style-type: none">• Control of natural resources• Public health• Physical planning• Land/site allocation• Minor roads• Grazing control• Water supply in the village• Markets• Promotion of economic development• Streets and public places• Burial grounds• Parks and gardens• Control of building permits• Fire• Education• Recreation and culture• Roads and traffic• Water resources• Fencing• Local administration of central regulations and licences• Care of mothers, young children, the aged and integration of people with disabilities• Laundries• Omnibus terminals• Mortuaries and burial of destitute persons and unclaimed bodies	<ul style="list-style-type: none">• Every local authority within its jurisdiction

- Public decency and offences against public order
 - Agriculture: services for improvement of agriculture
 - Forestry: preservation improving and control of designated forests in the local authority area
- 2
- Control of natural resources (e.g. sand, stones) and environmental protection (e.g. dongas, pollution)
 - Land/site allocation
 - Minor roads (also bridle paths)
 - Water supply in villages (maintenance)
 - Markets (provision and regulation)
 - Burial grounds
- Community councils

Source: Schedules to the Local Government Act, No 6 of 1997 (as amended)