



**FUNDING MECHANISMS FOR LOCAL AUTHORITIES IN MALAWI –
BLANTYRE CITY COUNCIL**

BY

TOWERA INNOCENTIA MVULA

**SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS
FOR THE DEGREE OF**

MPHIL IN DEVELOPMENT FINANCE

IN THE

FACULTY OF BUSINESS AND ECONOMIC SCIENCES

AT THE

NELSON MANDELA UNIVERSITY

SUPERVISOR: A. BARA

APRIL 2019

NELSON MANDELA UNIVERSITY

DECLARATION


NAME: Towera Innocentia Mvula

STUDENT NUMBER: 217359450

QUALIFICATION: MPhil In Development Finance

TITLE OF PROJECT: FUNDING MECHANISMS FOR LOCAL AUTHORITIES IN
MALAWI –BLANTYRE CITY COUNCIL

In accordance with Rule G5.6.3, I hereby declare that the above-mentioned thesis is my own work and that it has not previously been submitted for assessment to another University or for another qualification.

.....


SIGNATURE

.....
26 November 2018

DATE

DEDICATION

To my mother: for the sacrifices you made so that I could read and write, I am
immensely grateful.

And to the memory of my grandmother and my sister Jacqueline.

ACKNOWLEDGEMENTS

I would like to thank my supervisor, Dr Alex Bara for his support, patience, valuable feedback and comments. I am truly grateful.

I am also thankful to my employer, O&M Development Consulting Limited, especially to the Managing consultant, Mr. Marc Maleta, for allowing me the time and space to do my studies.

I am grateful for the support I received from Fannie Msimuko and some of the staff from local government who provided the information that I needed for me to complete this study.

Finally, I would like to thank my sisters Julia, Chikondi, Wezi and Chimwemwe whose love, prayers and encouragement gave me the strength to carry on. I am truly grateful to each one of you.

ABSTRACT

Funding for local government is crucial so that the local governments can continue delivering on their mandate. The trend around the world is that local governments are underfunded and highly dependent on central government transfers, which limits their autonomy. This study on funding mechanisms for local councils in Malawi took Blantyre City Council as its case study. The study aims to evaluate the funding mechanisms of local councils in Malawi and find alternative sources, or ways to optimize the current funding mechanisms. Literature on local government funding was reviewed and challenges facing local government funding were identified.

A purposive sampling method was used to select study participants that were drawn from the financial sector, NGO's and from local government. Data collection was done through structured in-depth interviews and document study. Data analysis was done through framework analysis. The study found that the main revenue sources for local councils in Malawi are transfers from central government, that on average make up more than 80% of their total revenues. A large chunk of these central transfers come in as conditional grants, which means that the councils spend most of their efforts implementing central government priorities. Revenue from own sources is very low even in councils that have wider tax resource bases. Some of the urban councils are able to generate a substantial amounts from own sources; however, most of these funds go towards meeting the recurrent expenditure budgets. As a result, all of the councils still rely on central government to finance their capital expenditure budgets.

The study found that more can be done to fully exploit revenue abilities of local sources through addressing current bottlenecks. Amongst others, local councils currently face the following challenges that negatively affect their revenues: legal limitations, political interference, outdated revenue management systems, theft, weak legislation, financial mismanagement, outdated and complicated processes, lack of human and technical expertise and weak oversight. To boost current revenues, the study amongst others, recommends strengthening the current legal framework, processes review and improvements, capacitation of personnel, introduction of new levies and exploring external financing.

TABLE OF CONTENTS

DECLARATION	i
DEDICATION	ii
ACKNOWLEDGEMENTS	iii
ABSTRACT.....	iv
LIST OF ANNEXURES	ix
LIST OF FIGURES.....	x
LIST OF TABLES	xi
ABBREVIATIONS AND ACRONYMS	xii

CHAPTER 1

INTRODUCTION AND BACKGROUND

1.1 INTRODUCTION	1
1.2 BACKGROUND TO THE STUDY	2
1.2.1 History of local government and decentralisation in Malawi	2
1.3.2 Local government and financing	4
1.3 THE RESEARCH PROBLEM	6
1.3.1 Research Objectives	6
1.3.2 Research questions	7
1.4 IMPORTANCE OF THE STUDY.....	7
1.5 RESEARCH SCOPE	8
1.6 ETHICAL CONSIDERATIONS	8
1.7 STRUCTURE OF THIS STUDY	9
1.8 CHAPTER SUMMARY AND CONCLUSION	9

CHAPTER 2

LITERATURE REVIEW

2.1	INTRODUCTION	11
2.2	LOCAL GOVERNMENT DEFINITIONS AND CONCEPTS	11
2.3	FUNCTIONS OF LOCAL GOVERNMENT.....	12
2.3.1	The efficiency perspective.....	12
2.3.2	The development perspective	13
2.3.3	Participatory democracy perspective	13
2.4	HISTORY AND FUNCTIONS OF LOCAL GOVERNMENT IN MALAWI.....	14
2.4.1	Financial oversight institution for local government in Malawi	15
2.4.2	Local authorities' composition and structure	17
2.4.3	Legal framework governing local government.....	20
2.5	LOCAL GOVERNMENT AND FINANCING	22
2.5.1	Sources of funding for local authorities	24
2.5.2	Alternative financing sources and strategies.....	26
2.6	CHALLENGES OF LOCAL GOVERNMENT FINANCING.....	27
2.7	LOCAL GOVERNMENT FINANCING IN MALAWI	30
2.7.1	Sources of local government finance in Malawi	31
2.8	EMPIRICAL LITERATURE ON LOCAL GOVERNMENT FINANCING IN MALAWI.....	36
2.9	GAPS IN REVIEWED LITERATURE	39
2.10	CONCLUSION	39

CHAPTER 3

RESEARCH METHODOLOGY

3.1	INTRODUCTION	40
3.2	RESEARCH PROCESS	40

3.2.1	Research philosophy.....	41
3.2.2	Research approach.....	42
3.2.3	Research Method.....	43
3.3	STUDY METHODOLOGY	43
3.4	POPULATION.....	44
3.5	SAMPLING	45
3.6	DATA COLLECTION AND ANALYSIS	46
3.6.1	Primary data.....	46
3.6.2	Secondary data	47
3.6.3	Data analysis.....	47
3.7	VALIDITY AND RELIABILITY	48
3.8	ETHICS.....	49
3.9	CHAPTER SUMMARY	49

CHAPTER 4

PRESENTATION OF FINDINGS, DATA ANALYSIS, AND INTERPRETATION

4.1	INTRODUCTION	50
4.2	DESCRIPTION OF SAMPLE	50
4.3	SOURCES AND LEVELS OF FUNDING.....	52
4.4	EVALUATION OF FUNDING SOURCES	53
4.4.1	Central Government Transfers.....	53
4.4.2	Locally Generated Funds	58
4.4.3	Borrowing.....	64
4.5	REVENUE PERFORMANCE AND STRATEGIES FOR IMPROVEMENT. ...	65
4.5.1	Revenue performance.....	65
4.5.2	Issues and strategies	67
4.6	CHAPTER CONCLUSIONS	73

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1	INTRODUCTION	75
5.2	SUMMARY FINDINGS	75
5.2.1	Sources and levels of funding	76
5.2.2	Adequacy and challenges and strategies.....	76
5.3	CONCLUSIONS	77
5.4	RECOMMENDATIONS.....	79
5.4.1	Optimisation of current processes and mechanisms.....	79
5.4.2	Explore new options.....	82
5.5	LIMITATION OF THE STUDY	83
5.6	AREA FOR FURTHER RESEARCH.....	83
REFERENCES.....		85

LIST OF ANNEXURES

ANNEXURE 1: INTRODUCTION LETTER	92
ANNEXURE 2: THE INTERVIEW GUIDE	93
ANNEXURE 3: ETHICS FORM E	95
ANNEXURE 4: LETTER FROM PROFESSIONAL LANGUAGE EDITOR	97

LIST OF FIGURES

Figure 2.1: The structure and relationships within local government in Malawi	19
Figure 3.1: The Research Onion	41
Figure 4.1: Trends of total central government transfers	53
Figure 4.2: Funding figures for 2013/2014 to 2016/2017 Financial year	54
Figure 4.3: National trends of the comparison between all central government and all local councils' own revenues	59
Figure 4.4: Revenue composition for the Blantyre Council.....	60
Figure 4.5: Composition of the locally generated revenues for Blantyre City Council (2013-2017).....	61
Figure 4.6: Expenditure and revenue trends for 2013/2014 to 2016/2017 fiscal years	65
Figure 4.7: Revenue utilization between capital and recurrent budget	66
Figure 4.8: Revenue utilisation for Blantyre City Council.....	67

LIST OF TABLES

Table 2.1: Distribution of local councils per region	18
Table 3.1: Sample Respondents	46
Table 4.1: A summary of the business sector.....	50
Table 4.2: Length of service	51
Table 4.3: Level of understanding	51
Table 4.4: Revenue sources for local council	52

ABBREVIATIONS AND ACRONYMS

ADC	-	Area Development Committee
AEC	-	Area Executive Committee
CDF	-	Constituency Development Fund
LDF	-	Local Development Fund
MoLGRD	-	Ministry of Local Government and Rural Development
MPs	-	Members of Parliament
NLGFC	-	National Local Government Finance Committee
NGO	-	Non-Governmental Organisation
TA	-	Traditional Authority
VDC	-	Village Development Committee

CHAPTER 1

INTRODUCTION AND BACKGROUND

1.1 INTRODUCTION

Sound local government financing is becoming more important in developing countries because of the reforms that many of these countries are undertaking. Local governments are increasingly taking over roles of public service delivery and infrastructure development from central governments through a decentralisation process (World Bank, 2014). In literature, decentralisation has been broadly defined as the transfer of public authority, resources, and personnel from the national level to sub-national jurisdictions (Chukwuemeka, Ugwuanyi, Ndubuisi-okolo & Onuoha, 2014; Ebel & Yilmaz, 2002). For decentralisation to be successful, proponents of the concept advocate that the transfer of responsibilities should be matched with comparative financial resources (Boex, 2015). However, many local governments have been given responsibilities for service delivery without the corresponding fiscal resources. As a result, most local governments are unable to deliver quality public services due to inadequate fiscal resources.

Typically, fiscal sources for local government are provided for in the regulatory frameworks setting up the local governments. The sources usually fall into three broad categories: a) locally generated sources; (b) transfers from other levels of government and/or donors and (c) capital financing. The breadth and depth within each source vary from one country to another. Despite this array of sources, the fiscal health of most local governments in the developing countries is undesirable. Most local governments over-rely on central government transfers, leaving other sources underutilized.

The overdependence on central government transfers is also common to local authorities in Malawi. On average, locally generated revenues are able to finance only 5% of the total local government budgets, with the balance of 95% coming from central government transfers (Chiweza, 2015). However, these central government transfers are highly erratic and unpredictable. Over the last few years, central government has been unable to transfer the mandated 5% of the national total net revenues to local authorities because of inadequate resources (Hussein, 2017; Chiweza, 2015). As a result, most local authorities in the country have service delivery and infrastructure

development responsibilities that remain unfulfilled. Coupled with other factors such as fraud, limited accountability over generated resources, human capacity challenges, ineffective accounting procedures and general fiscal laziness to mobilize local resources, the gap between fiscal resources and service delivery continues to widen (Chiweza, 2015).

This study evaluates the various sources of funds available to local government in Malawi with the view to offer recommendations for alternative funding mechanisms and/or how current sources can be optimised.

1.2 BACKGROUND TO THE STUDY

The importance of local authorities in public service delivery has become more pronounced in the last few decades, as more governments have reformed their political governance structures by decentralizing central government powers to local authorities (UN Habitat, 2015). Decentralisation has placed local governments at the frontline of service delivery and most act as channels through which government policies and development programmes are executed due to their proximity to the people (United Nations, 2015; Chukwuemeka et al., 2014). In Africa, decentralisation gained ground in the early 1990's as it was believed to be the panacea for alleviating public service delivery challenges that faced most governments on the continent (Chukwuemeka et al., 2014;

1.2.1 History of local government and decentralisation in Malawi

For Malawi, efforts to decentralise dates back to the early 1900s, when the colonial government established local governments that comprised local area chiefs headed by a district commissioner, who was a central government representative (Chiweza, 2010; Malawi Government, 2006. Later in 1953, this form of local government was replaced by a more democratic one that had members of the council elected by the local people within its jurisdiction (Chiweza, 2010; Malawi Government, 2006. The chiefs and the district commissioner became ex-officio members, and one of the elected officials instead became the chairperson of the council. The district commissioners were assigned roles as heads of the council secretariat that now supported and implemented the decisions of the council. This form of local government changed again when Malawi became independent in 1964 and the new one-party

government took over. Party leaders took over the responsibility of choosing members of the council and most service delivery responsibilities were taken over by central government through sector ministries (Chiweza, 2010; Malawi Government, 2006). Furthermore, central government took over hiring of council secretariat officials and revenue collection responsibilities (Chiweza, 2010; Malawi Government, 2006).

Decentralisation of central government powers to local authorities was reconsidered again in the mid-1990s, after the adoption of multiparty politics, now as a tool to fight poverty. Country assessment reports by both the World Bank and United Nations, recommended a participatory approach by all stakeholders in the fight against poverty (Chiweza, 2010; Malawi Government, 2006). In order to allow for this participation, government embarked on the decentralisation process in earnest. In 1994, the government carried out constitutional reforms that saw the creation of local authorities and central government transferring some of its powers to them (Hussein, 2017; Chiweza, 2015). Later in 1998, the Local Government Act was enacted, and its attendant Decentralisation Policy was formulated, which made decentralisation a reality (Chiweza, 2010). Apart from a poverty alleviation goal for creating local authorities, it was believed that local authorities would be integral building blocks of the new democracy, service delivery and economic development (Chiweza, 2010).

Literature that supports local government defends its establishment on the basis of efficiency, accountability, manageability, and autonomy. One such proponent was Stigler (1957) (cited in World Bank, 2006) who through his theory on Jurisdiction Design, advocated that the closer the government is to the people it has jurisdiction over, the more efficiently it is able to allocate the resources to the needs of the particular area. Similarly, Oates (1972) (cited in World Bank, 2006) backed up the establishment of a local authority through his Decentralisation Theorem suggesting that efficient provision of services is better done by a jurisdiction that is closest to the citizens of the particular geographic area. However, studies on the ability of local government to efficiently provide services suggest that decentralisation of central government authority to local government on its own does not automatically translate to efficiency, rather further government wide reforms are necessary in order to reap the benefits of decentralisation (Chukwuemeka et al., 2014)

1.3.2 Local government and financing

The legislation and decentralisation policy of 1998 assign the following functions and responsibilities to the local authorities:

- Primary school education services and distance learning centres
- Medical and health services
- Water development
- Environmental and sanitation services
- Construction, rehabilitation and maintenance of roads that are not under central government
- Emergency services
- Public Amenities
- Building standards and housing estates
- Business regulation and licensing
- Agriculture and irrigation
- Transport and public works
- Land surveying and physical planning.

Fulfilment and delivery of these roles depend on availability of financial resources. The regulatory frameworks have provided sources of financing, which include locally generated funds, central government transfers, and/or ceded revenues (Malawi Government, 1998). Local authorities are also allowed by the regulation, to borrow and receive assistance from donors or non-governmental organisations (Malawi Government, 1998).

Strengthening financial capacity of local authorities is one of the key reforms that would enable the local authorities to efficiently deliver on their mandate (Boex, 2015; Islam;2015; Ulla, 2010). Local authorities are facing an ever-widening gap between fiscal resources and service delivery needs due to rapid urbanisation and migration, which have pushed up local authorities' populations (United Nations, 2015). The increase in population has placed increased pressure on local authorities to meet new demand for education, housing, sewerage removal and treatment, waste management, public transport, recreation facilities and overall infrastructure amongst others (United Nations, 2015). Current mechanisms for financing these responsibilities

have become inadequate, requiring that local authorities design and implement innovative approaches to revenue generation. For most local authorities, financing comes through inter-governmental transfers, local sources, donors and capital financing (United Nations, 2015).

Through decentralisation, local governments around the world have been empowered to be more involved in locally generated fiscal resources through the devolution of taxing and spending powers (World Bank, 2006). Even though governments have embraced decentralisation, most of them still decide on sources and rates that local authorities can utilise and levy in order to generate local revenue (Islam, 2015; Ulla, 2010). With this partial decentralisation of fiscal resources, strengthening capacity of local governments to fully utilise what is in their power to access, is therefore critical

The trend in developed countries shows a tendency of overreliance by local authorities on central government transfers and donor funds. The transfers are usually insufficient to meet the local authorities' responsibilities and usually end up covering staff costs only leaving out public service delivery needs (Islam, 2015; Chiweza, 2015). On average, central government transfers and donor funds to local governments contribute around 80% of their total revenues.

In Malawi, central government covers over 75% of local authorities' budgets and only 5% is covered by internally generated revenues (Hussein, 2017; Chiweza, 2015). Despite there being other financing sources within the regulatory frameworks, local authorities continue to rely on the central government transfers. Authorities' failure to utilise the other sources has been attributed to government's continued control of key taxable revenue sources, weak incentives for own revenue mobilisation, insufficient technical capacity to mobilise revenue, tax evasion tendencies amongst councils' residents, corruption, fraud and tax bases that prove hard to collect (Hussein, 2017; Chiweza, 2015). Presently, taxable revenues from business, motor vehicles, business licenses and customs are in the hands of the central government, which takes away revenue bases that could boost local authorities' revenues. As a result, local governments are unable to meet their service delivery and infrastructure development needs. Thus, there is a need to evaluate the various sources of funds available to local government in Malawi and find alternative funding mechanisms to enhance service delivery.

1.3 THE RESEARCH PROBLEM

Most local governments around the world are facing the challenge of the increasing gap between fiscal resources and the service delivery spending needs (United Nations, 2015). One of the main reasons for this increasing fiscal gap is the rapid growth of urban populations which has created an increased demand on the available public services (United Nations, 2015). These challenges have not spared local authorities in Malawi. The main source of funding for local authorities in Malawi comes from transfers from central government. Apart from this, the authorities are mandated by regulation to collect revenues from internal sources, borrow or receive funding from non-governmental organisations (Malawi Government, 1998).

To a large extent, the government budget is donor supported and more recently, the donor community is either withdrawing funding or setting tighter conditions for their funds before they can release new funds. This has had a negative impact on resources available for transfer from central government to local authorities. The central government has consistently failed to fulfill its statutory obligations towards local authorities, as its transfers have been below the mandated 5% of national revenues (Chiweza, 2015). This being the case, the central government continues to control key sources of local government taxable resources and as a result, local authorities are unable to maintain existing services and are unable to deliver public services effectively. The overreliance on central government grants and donor support has left local authorities highly vulnerable to funding shocks and often failing to provide services. It is therefore imperative to evaluate the funding sources for local authorities in order to explore and identify ways of optimising current sources and identify alternative mechanisms for funding public service delivery.

1.3.1 Research Objectives

The aim of this research is to evaluate the existing funding mechanisms available to local authorities in Malawi and explore alternative mechanisms for funding local authorities and/or offer recommendations for optimising the existing sources. The objectives of this research are:

- i. To examine the current state of funding mechanisms for Local Authorities in Malawi;

- ii. To evaluate the adequacy of the current financing options for local authorities in Malawi;
- iii. To come up with strategies for optimising financing options for local authorities in Malawi;
- iv. To make recommendations on alternative funding mechanisms that the local authorities could utilise.

1.3.2 Research questions

The research questions for this study are:

- i. What are the current sources of revenues for Local Authorities in Malawi?
- ii. What levels of funding does each source currently generate and contribute towards service delivery?
- iii. What strategies can the local authorities implement in order to fully optimise the current revenue sources?
- iv. What alternative sources of funding are available for local authorities to explore within their current legal frameworks?

1.4 IMPORTANCE OF THE STUDY

The study will be able to uncover and identify effective measures and strategies aimed at assisting local authorities to mobilise revenue and prudently use their current sources to allow them to deliver services to the public. It is envisioned that through the feedback from the study, participants and literature analysis, insights will be generated that would enhance funding mechanisms for local authorities.

The findings will also be useful to government and policy makers as they will reveal information on current funding weaknesses and the alternative options that can be optimised and implemented.

The findings in this study could also be used as further research inputs for other academic writers to explore methods of implementing the identified recommendations.

1.5 RESEARCH SCOPE

This study focuses on funding mechanisms for Local Authorities in Malawi only. An evaluation of the current sources of funding for local authorities in Malawi was done and strategies to optimise these sources and/or identify alternative financing mechanisms that local authorities can adopt will be identified and recommended.

The study uses a case study approach and focuses on Blantyre City Council in Malawi. Malawi is situated in the south eastern part of Africa, bordering Tanzania to the north, Mozambique to the south, east and west and Zambia to the northwest. The country covers 118,484 square kilometers, a third of which is occupied by Lake Malawi.

Blantyre City Council is the oldest and second largest local authority in Malawi, founded in the late 1800s by a missionary from Scotland. It is the administrative centre for the Southern Region of Malawi and also the commercial capital of Malawi. The city is home to the manufacturing and service industry, including the University of Malawi College of medicine and the polytechnic. It covers an area of 228 square Kilometers and has an estimated population of 850,000 with a population of about 661,00 (NSO, 2008). Over 60% of these residents live in slums and the unemployment rate hovers around 8% (UN-HABITAT, 2015). Like the rest of Malawian local governments, governance of the city is through a council of elected representatives that is headed by a mayor. Currently, the city is divided into eight parliamentary constituencies and 23 wards.

1.6 ETHICAL CONSIDERATIONS

Ethical considerations are one of the most important aspects of a research study. According to Fouka and Mantzorou (2011), research ethics refer to a set of standards and values that regulate a research study. An ethically sound research study ensures that: participants have given informed consent; participants' right to withdraw their participation in the research process at any time is guaranteed; truthfulness in conducting of the research process is maintained; participants' risk of harm is kept to a minimum (Saunders, Lewis & Thornhill, 2009; Beauchamp & Childress, 2012).

For this research, university ethics clearance, which details guidelines on ethical conduct and practice of the research, was obtained before embarking on data collection. Thereafter, study participants' consent was sought, and their confidentiality

guaranteed, which has been protected throughout the research study. Additionally, necessary permission was sought from each of the institutions that data was collected from, before carrying out the research.

1.7 STRUCTURE OF THIS STUDY

This study is structured into five chapters with the current chapter having introduced the research. This chapter has also provided the rationale and background to the study, the research aims and objectives and the research design and methodology and a survey of the literature that is relevant to the study.

Chapter 2 builds on the literature survey presented in the first chapter. The chapter addresses and covers literature on theories of local government, structure of local government in Malawi, legal framework for local government and the institutional arrangements, local government financing and financing mechanisms for local government, factors that affect local government finances, and reviews previous studies on local government finance.

Chapter 3 presents the research process used in this study. The chapter discusses the research process by using the research onion model by Saunders, Lewis and Thornhill (2009). The chapter also presents the data collection and analysis methods used

Chapter 4 presents the findings of the assessment of sources of local government finance in Malawi, adequacy of financing mechanisms, challenges that local governments are meeting, and strategies that the councils can utilise. The study analysed national data and data for the chosen case study council, Blantyre City Council

Finally, chapter 5 presents the study's conclusions and recommendations. The recommendations have been divided into two: improvements to current mechanisms and alternatives that councils can consider in order to improve their revenues.

1.8 CHAPTER SUMMARY AND CONCLUSION

This study aims at evaluating the funding sources for local assemblies in order to explore and identify ways of optimising current sources and identifying alternative

mechanisms for funding public service delivery. Local governments play a critical role in public service delivery and as such, adequate and sound financing is one of the key factors that would enable them to deliver on their mandate. In most developing countries, local governments over-rely on central government's transfers as their source of funding despite this source being erratic and mostly unreliable (Hussein, 2017; Chiweza, 2015). The over dependence on central government transfers has left most local governments' fiscal health in an undesirable state. Government's continued control of key taxable bases, fraud, and lack of capacity to mobilise resources are some of the factors that local government authorities cite as causes of this trend (Hussein, 2017; Chiweza, 2015). There is generally a growing gap between public service delivery and infrastructure development responsibilities, and fiscal resources. Strengthening local authorities' revenue generating abilities has therefore become more crucial.

This chapter presented the background and context to the research, the problem statement, and objectives of the study, significance of the study and the scope of the research. The next chapter presents a review of theoretical and empirical literature on the local government and funding mechanisms for local authorities.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews literature on local government financing. The chapter is organised as follows: Section 2.1 contains definitions of local government and related concepts; Section 2.2 discusses the functions of local governments; Section 2.3 talks about history of local government in Malawi; Section 2.4 discusses local government financing; Section 2.5 reviews challenges of local government financing; 2.6 reviews literature on empirical studies on local government financing in Malawi.

2.2 LOCAL GOVERNMENT DEFINITIONS AND CONCEPTS

Leemans (1970) (cited in Chukwuemeka et al., 2014), defines local government as governance and administration based on local community organs. Koma (2010) further articulates that local government is a government located within communities and is well-placed to respond to local needs, interests and expectations. Similarly, Nweke (2013) describes local government as the level of government below the central or regional government which has legal authority to provide public services. Finally, Koma (2010) describes local government as a public institution that is mandated to run and manage the affairs of an area under its jurisdiction. In summary, these scholars seem to agree that local government is premised on being a government that is close to the people and is tasked with provision of public services to them.

Local government has been adopted by most governments around the world as a governance strategy for people at grassroots (UCLG, 2008). Through a decentralisation process, central government transfers some of its powers to the local bodies commonly referred to as a local government, or authority, and/or council (Sikander, 2015). According to local government scholars, decentralisation can take various forms:

- **Devolution** happens when central government transfers some of its powers to a legally established local governance unit (Sikander, 2015; Haque, 2012).

- **Administrative Decentralisation or Deconcentration**, happens when central government shifts its agencies from central to field offices as its representatives (Sikander, 2015; Haque, 2012)
- **Fiscal Decentralisation** happens when central government transfers budgetary and taxing authority from central government to lower levels of government (Sikander, 2015; Haque, 2012).
- **Privatisation occurs** when government transfers production of goods or services to private bodies (Sikander, 2015; Haque, 2012).

2.3 FUNCTIONS OF LOCAL GOVERNMENT

In their defense of the existence of local government, scholars' arguments fall within three schools of thought: efficiency, development and political participation perspectives.

2.3.1 The efficiency perspective

The main argument for the efficiency school perspective is that local government exists to deliver public services efficiently to its people, therefore all its resources should be directed towards meeting this objective (Chukwuemeka et al., 2010). One of the pioneering works for this school is that of Stigler (1957) (cited in World Bank, 2006) who, in his theory on Jurisdiction Design, argued that the closer the government is to the people it has authority over, the more efficiently it can allocate the resources for their needs. Similarly, Oates (1972) (cited in World Bank, 2006) through his decentralisation theorem, argued that efficient provision of services is better carried out by a government that is near the people it represents.

Scholars for this perspective contend that it is the nature of local governments' proximity to where service is required that allows it to match local needs with resources and hence, achieve allocative efficiency (Hussein, 2017; Sikander, 2015; World Bank, 2006). Oates (1972) (cited in Sikander, 2015) observed that since local government officials are usually domiciled within the areas they represent, they are able to use their local knowledge to understand the local needs and provide solutions for them more efficiently than would a central government (Chukwuemeka et al., 2014; Chandra, 2012).

Literature further posits that the decentralisation process itself creates the opportunity and allows local authorities to operate independently and use approaches towards services delivery that suit their local areas (Smoke, 2003). These varied approaches can be a source of innovation and learning for other authorities to emulate and refine their own processes using methods and lessons learnt from other councils (Chukwuemeka et al., 2014; Chandra, 2012; Smoke, 2003). However, not all public services can efficiently be provided by local government. In some instances, central government can achieve efficiency by taking advantage of economies of scale that accrue from operating at a larger scale. (Smoke, 2003). Again, for services whose benefit goes across jurisdictions, central governments are better placed service providers (Chandra, 2012).

2.3.2 The development perspective

Proponents of this perspective argue that local governments exist to promote social and economic development and act as coordinators of local actors' efforts towards development (Hussein, 2017; Smoke, 2003). Local authorities are empowered by regulatory frameworks to deliver services, generate resources, develop and coordinate their area development plans (Sow & Razafimahefa, 2015; Smoke, 2003). Using both external and internal resources, local authorities make infrastructure investments that act as catalysts for economic activities that encourage development. Again, local government can use their authority to influence an enabling business environment through business-friendly policies and by-laws (Sow & Razafimahefa, 2015; Smoke, 2003).

2.3.3 Participatory democracy perspective

Scholars from this perspective argue that local authorities exist to allow people at grassroots level to participate in the political administration process, act as training grounds for those aspiring for political office and to entrench the practice of democracy within a country (Hussein, 2017; Chukwuemeka et al., 2014). According to Chukwuemeka et al. (2014), participation in the political administration process happens during participation in local government elections and in demanding accountability from those elected. The electoral process itself also entrenches the practice of democracy and accountability (UN-HABITAT 2015). Again, Smoke (2003) contends that those elected for council positions gain political administration

experience at a lower level before they participate in national offices. In conclusion, with proper institutional, financial and legal frameworks, local governments can fulfil these roles for the wellbeing of their country (UN-HABITAT 2015)

2.4 HISTORY AND FUNCTIONS OF LOCAL GOVERNMENT IN MALAWI

For Malawi, the move towards local government was primarily to meet poverty alleviation and political participation goals (Chiweza, 2015; Tambulasi, 2009). Efforts to decentralise date back to the early 1900s when the colonial government established local governments that comprised local area chiefs headed by a district commissioner, who was a central government representative (Chiweza, 2010). Later in 1953, this form of local government was replaced by a more democratic one that had members of the council elected by the people within the jurisdiction. The chiefs and the district commissioner became ex-officio members and one of the elected officials would become the chairperson of the council (Chiweza, 2015; Tambulasi, 2009). The district commissioners were assigned roles as heads of the council secretariat that now supported and implemented the decisions of the councils.

This form of local government changed again when Malawi became independent in 1964 and the new one-party government took over. Party leaders took over the responsibility of choosing members of the council and most service delivery responsibilities were taken over by central government through sector ministries (Chiweza, 2015; Tambulasi, 2009; Chiweza, 2010). Furthermore, central government took over hiring of council secretariat officials and revenue collection responsibilities.

Decentralisation of central government powers to local authorities was reconsidered in the mid-1990s after the adoption of multiparty politics. Country assessment reports by both World Bank and United Nations recommended a participatory approach by all stakeholders in the fight against poverty (Chiweza, 2015).

To allow for this participation, government embarked on the decentralisation process in earnest. In 1994, the government carried out constitutional reforms that saw the creation of local authorities and central government transferring some of its powers to these authorities (Hussein, 2017; Chiweza, 2015). Later in 1998, the Local Government Act was enacted, and its attendant Decentralisation Policy was

formulated making local authorities a reality. Apart from the poverty alleviation goal, it was envisioned that local authorities would entrench the practice of democracy, deliver public service efficiently and be vehicles of social economic development (Chiweza, 2010).

2.4.1 Financial oversight institution for local government in Malawi

There are various institutions that have been given authority to look into the financial affairs of the local authorities. The main ones are: Ministry of Local Government, National Local Governance Finance Committee, and the Council. The following sections will outline various responsibilities that have been given to these institutions.

a) Ministry of Local Government and Rural Development(MLGRD)

All local councils in Malawi fall under the Ministry of Local Government and Rural Development(MLGRD).The current organisation of the ministry came into being in 2004 as a result of a merger of three departments that were formerly under the office of the President and Cabinet(OPC), which were: Department of Local Government, Department of Rural Development and Department of District Administration(MLGRD, 2006)

- i. The 1998 local government Act and The Malawi Constitution give the Ministry some of the following responsibilities:
- ii. To provides policy direction and guidance for local governments
- iii. To promote an effective system of local governance and development
- iv. To coordinating the decentralisation process
- v. To provide technical guidance and support to local councils
- vi. To oversee the distribution of grants from central government to local councils
- vii. To coordinate with other ministries and stakeholders in matters related to local governance
- viii. To receive local councils' audit reports from the National Audit office and institute enquiry into audit findings where necessary
- ix. To ensure sustainability of local authorities' structures.

b) The National Local Government Finance Committee (NLGFC)

Section 149 of the Constitution sets up the NLGFC. Its mandate is to ensure that councils effectively use the financial resources made available to them and in a transparent manner. Despite the constitutional provision being made in 1998, the secretariat was formally set up in 2001. Section 152 of the Constitution stipulates the composition of the members of the committee to be as follows:

- i. One member elected by a duly constituted meeting of all local governments in Malawi
- ii. Principal Secretary for the MLGRD
- iii. A professional accountant appointed by the National Assembly's Public Accounts Committee
- iv. Civil Service Commission chair or a delegated representative
- v. A member from the Electoral Commission
- vi. Principal Secretary for Ministry of Finance or a delegated represented.

The Constitution and the Local Government Act assign some of the following responsibilities to the committee:

- i. To examine and supervise accounts of local government authorities in line with prevailing regulatory frameworks that govern government institutions.
- ii. To make recommendations to central government on grants distribution to councils in accordance with agreed upon procedures and processes
- iii. To prepare consolidated detailed expenditure and revenue estimates and budgets for all local authorities for presentation to Parliament
- iv. To support councils with their accounting and financial management functions
- v. To manage the funds transfers process to local councils
- vi. To provide guidance to councils on financial and accounting policies
- vii. To provide support to councils in their revenue mobilisation endeavours
- viii. To ensure that local councils resolve and implement audit queries
- ix. To make application to the Minister of local government for additional funds when required.

c) *The finance committee of the Local Council*

The Local Government Act and the Malawi Constitution give the elected body of councilors financial oversight powers at local level. This body, delegates some of its financial oversight functions to a finance management committee. According to the Guide for Public Expenditure Tracking for Local Councils in Malawi (2015), the following are some of the specific financial oversight responsibilities for councils that it delegates to the finance management committee:

- i. To ensure that financial reports are produced according to set standards and periods
- ii. To formulate financial policy and provide guidance on implementation of the policy
- iii. To ensure that councils' detailed expenditure and revenue budgets are formulated and approved
- iv. To ensure efficient use of financial resources in accordance with relevant public finance management policies and laws
- v. To receive and review audit reports and ensure that audit findings are responded to in an appropriate manner
- vi. To report any fraudulent activities to relevant authorities for further action
- vii. To ensure that financial resources are managed in a transparent manner that keeps councils accountable to their constituents.

2.4.2 Local authorities' composition and structure

Malawi has two spheres of government which are national and local government. Administratively Malawi is divided into three regions; namely, north, centre and south. Local authorities have political and administrative structures with distinct roles and responsibilities. The political arm of the council is headed by a mayor or chairperson. This arm is the main decision-making body of the council and comprises the elected officials and ex officio members (Malawi Government, 1998). The administrative arm is headed by a District Commissioner or Chief Executive Officer and is responsible for the implementation of the decisions of the council.

After the Local Government Act was amended of 2010, there are 35 local authorities from the previous 40 that were created in 1998. Membership of the council comprise

the elected councilors, Members of Parliament and the ex-officio member, who are the Traditional Authorities, and five members chosen by elected officials to represent certain interest groups.

Out of the 35 councils, 28 are District Assemblies, four are City Councils, two are Municipal Councils and one is a Town Council; however, they all are operating on the same tier (Commonwealth, 2015).

Table 2.1: Distribution of local councils per region

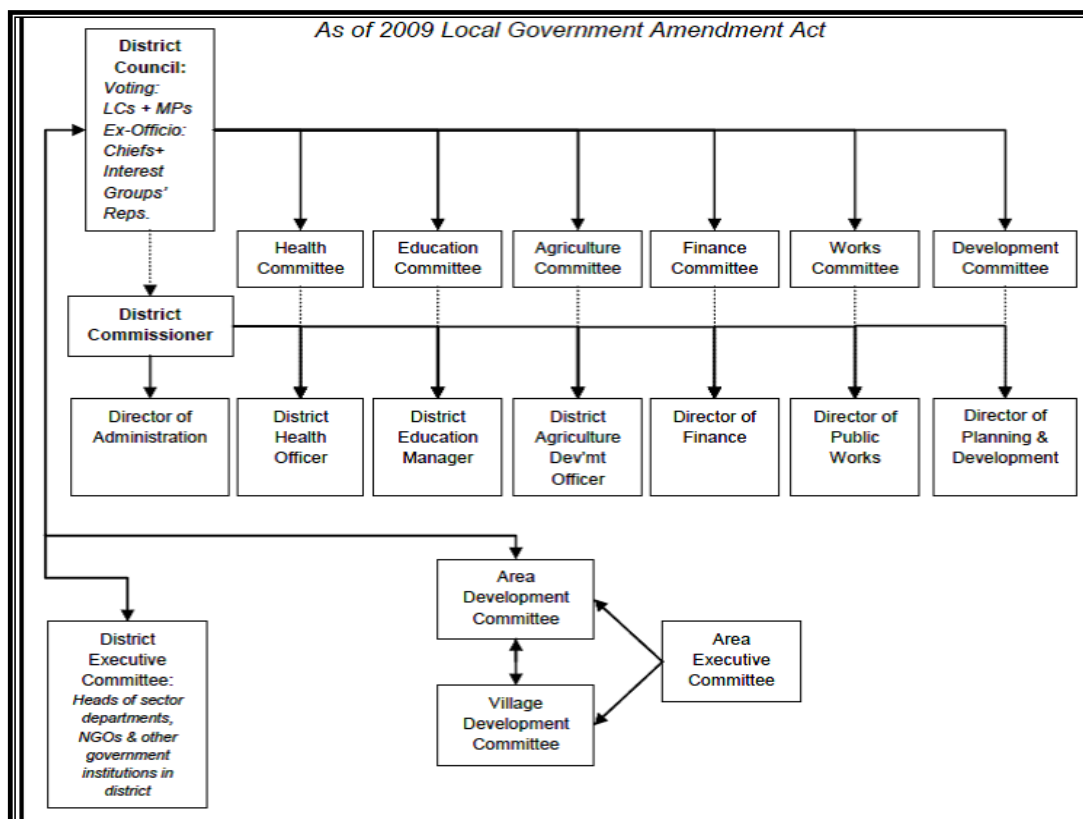
Region	Local Authorities			
	District councils	City Councils	Municipal Councils	Town Councils
Northern	6	1	0	0
Central	9	1	1	0
Southern	12	2	1	1
Total	28	4	2	1

Source: 2015/ 2016 Commonwealth local government handbook

The law does not differentiate the three types of councils and discretion to elevate or demote a council's status lies with either the Minister of Local Government, and the President in the case of elevation to city status (Malawi Government, 1998). The head of the district council secretariat is referred to as district commissioner, while for the other council types, they are called Chief Executive Officers. Similarly, the head of the political arm of the district council is referred to as a chairperson, while for the town or municipality councils, the head is referred to as mayor (Malawi Government, 1998). Generally, town, city and municipalities have wider access to revenues through property and business taxes, unlike the district councils that are mostly rural and have a very limited base from which to generate funds (Kelly, Montes, Maseya, Nkankha and Tombere, 2001).

Structure of the local councils

Figure 2.1 below shows the structure and relationships within local government in Malawi



Source: ODI 2014 report

Figure 2.1: The structure and relationships within local government in Malawi

Section 14 of the Local Government Act allows the councils to set up service committees to assist them fulfill their responsibilities. These committee are directly responsible for the devolved functions from central government to the local government. The main committees include some of the following: health, agriculture, education and other support functions of the council (O'Neil, Cammack, Kanyongolo, Mkandawire, Mwalyambire, Welham & Wild, 2015; Chiweza, 2010). Membership to the committees is drawn from the councilors and technical employees from the secretariat. A councilor is required to head each of the committees, while technical staff provide guidance and support to the committees (Chiweza, 2010).

Apart from service committees, councils have committees within their structures that allow constituents to participate in governance of their areas. The commonly

recognized ones are the Area Development Committee (ADC), Village Development Committee (VDC) and Area Executive Committee (AEC).

Area Development Committees (ADC) and Village Development Committees (VDC) are formed at grassroots. Their main role is to identify and plan development needs of their areas. These needs are then incorporated into the main council development plan (O'Neil et al., 2014; Chiweza, 2010). The committees are also tasked with the responsibility to monitor projects and mobilise community members to participate in development activities of their areas (Chiweza, 2010). Committee members are drawn from ward councilors, representatives of faith based groups, youth groups, women's groups, and community representatives from the communities (Chiweza, 2010).

Another committee that is recognized within the council structure is the Area Executive Committee (AEC). Membership for the committee is drawn from representatives of the extension's workers operating within the council, NGOs, and representatives from other government departments (O'Neil et al., 2014; Chiweza, 2010). Their main role is to provide advice to councils from the fields that they represent (Chiweza, 2010).

2.4.3 Legal framework governing local government

Amendments to section 146 of Malawi's Constitution in the early 1990s gave birth to local government. The amendment provided for creation of local authorities that would be champions of local policy (Malawi Government, 1995). Later in 1998, the cabinet approved a decentralisation policy and the Local Government Act was promulgated within the same year making local authorities a reality in Malawi (Malawi Government, 1998; O'Neil et al., 2014). The Decentralisation Policy contains details for local authorities' structure, financing, roles, responsibilities, composition and powers. The Local Government Act, on the other hand, provides the legal basis for the local authorities (Malawi Government, 1998).

Both the Local Government Act and the Decentralisation Policy (1998) stipulate local government's objectives as being:

- i. To create a democratic environment and institutions in Malawi for governance and development at the local level that will facilitate the participation of grassroots decision-making;

- ii. To eliminate dual administration at the district level with the aim of making public services more efficient, more economic, and cost-effective;
- iii. To promote accountability and good governance at the local level in order to help government reduce poverty; and
- iv. To mobilise the masses for socio-economic development at the local level;
- v. To establish strong local institutions that embrace participatory democracy;
- vi. To strengthen and deepen democracy by bringing the services and decision-making closer to the public, and to improve governance by achieving accountability and transparency;
- vii. The promotion of infrastructural and economic development, through the formulation and execution of local development plans and the encouragement of business enterprises;
- viii. The presentation to central government authorities of local development plans and the promotion of the awareness of local issues to national government;
- ix. Such other functions, including the registration of births and deaths and participation in the delivery of essential and local services, as may be prescribed by any Act of Parliament.

They further assign the following functions and responsibilities to the Local Authorities:

- Primary school education services and distance learning centers
- Medical and health services
- Water development
- Environmental and sanitation services
- Construction, rehabilitation and maintenance of roads that are not under central government
- Emergency services
- Public amenities
- Building standards and housing estates
- Business regulation and licensing
- Agriculture and irrigation
- Transport and public works
- Land surveying and physical planning

2.5 LOCAL GOVERNMENT AND FINANCING

Clear divisions of functional responsibilities amongst different levels of government are important in assignment of revenue instruments for the different government spheres (Dillinger & Fay, 1999). According to the theory of public finance by Musgrave (1959) (cited in McLure & Martinez-Vazquez, 2000), functions of government can be divided into three areas: micro-economic stabilisation; income redistribution; and resource allocation.

In the stabilisation function, scholars argue that the public sectors' role is to ensure economic stability by keeping prices and jobs stable (McLure & Martinez-Vazquez, 2000). Central government is better placed to carry out this role, because mostly authority for fiscal and monetary policies is vested with the central government (Boex, 2015). Through manipulation of the policies, central government is able to effect changes in the macro-economic environment to stimulate growth that would positively impact employment rates and control inflation (Rao and Singh, 1998).

In the redistribution role, scholars argue that government exists to ensure equitable distribution of resources through taxation and central government transfers (McLure & Martinez-Vazquez, 2000). Rao and Singh (1998) argue that freedom of mobility by economic players across subnational government jurisdictions limits local authorities' efforts to carry out this function effectively. For example, attempts by local government at the redistribution role through levying of progressive tax on wealthier constituents may induce competition amongst local authorities that would lead to wealthier constituents leaving the area in search of better tax regimes (Chandra, 2012; McLure & Martinez-Vazquez, 2000.) Therefore, public finance practitioners suggest that this role be given to central government.

In the allocation function, government exists to ensure efficient allocation of resources (McLure & Martinez-Vazquez, 2000). Scholars argue that local governments would effectively carry out this role mainly because of their proximity to the people who require the services. Various scholars back up this notion arguing that local governments' location within their constituents enables them to efficiently allocate the resources through use of local knowledge. This knowledge enables them to tailor make service delivery that suits local needs (Hussein, 2017; Sikander, 2015; World Bank,

2006). Furthermore, decentralisation of the allocation function to local governments creates multiple independent service providers that can share knowledge and learn from each other and thereby improve the service delivery process and create efficiency (Chukwuemeka et al., 2014; Chandra, 2012; Smoke, 2003)

One of the key principles that ensures success of the decentralisation process is that revenue assignment should follow the decentralised functions (Dillinger & Fay, 1999). However most central government transfer of responsibilities to lower levels, has not been matched by necessary fiscal resources and as result many councils are unable to deliver on their mandates (Boex, 2015). Central to fiscal decentralisation, is the argument that expenditure functions should be allocated to a jurisdiction that is near the place of consumption so that costs and benefits of public goods and service delivery can be matched effectively (Martinez-Vazquez & Smoke, 2011).

Advocates of fiscal decentralisation argue that use of local knowledge and historical circumstances enables local government to allocate resources to needs more efficiently than would a jurisdiction that is separate from the constituents (Sow & Razafimahefa, 2015; Martinez-Vazquez & Smoke, 2011). Furthermore, accountability for usage of resources is enhanced because constituents are close to the government and can demand accountability for use of resources and through exercising of their voting rights to take out a non-performing local council (Sow & Razafimahefa, 2015) It is this power that constituents have that places pressure on local governments to efficiently utilise resources.

However, fiscal decentralisation is not the cure-all answers for the local government financial challenges. Some of the challenges are rooted in inadequate and weak institutional financial practices (Martinez-Vazquez & Smoke, 2011). Capacitating such local authorities with requisite skills and infrastructure will go a long way to improving fiscal health of these councils (Chiweza, 2015). For some goods, expenditure responsibility should remain with central government in order to benefit from economies of scale that accrue from operating at a larger scale (Islam, 2015). In some instances, national goals of equalisation should be considered ahead of local goals in order to promote and ensure equitable distribution of development across the nation (Boex, 2015)

2.5.1 Sources of funding for local authorities

Regulatory frameworks setting up local authorities usually provide for financial resources that local authorities can utilise. Revenues can either be from local or external sources:

Local sources

These are revenues generated internally from within the council's own jurisdiction and whose determination and collection is done by the local government itself (Nweke 2013). In practice however, most local authorities' powers to determine revenue rates is still subject to central government to approval.

Local revenue sources have significant benefits over external sources. Some of the benefits include some of the following: internal sources are more predictable, unlike external revenue sources that are dependent on decisions of the transferring entity (Boex, 2015; Islam, 2015); Since locally generated revenue comes from people within the area, they usually demand more accountability for its usage and might work at enhancing responsible spending on the part of the council officials (Sow & Razafimahefa, 2015). Internally generated resources allow the councils to vary and match public service delivery with available resources and specific preferences (UN-HABITAT, 2015).

However, local sources have the disadvantage of encouraging inequalities in cases where local authorities are endowed with resources differently, with those with higher endowment exceeding the poorly resources councils in development and quality of public service delivery (Nweke, 2013). Secondly, usually most local government skills and infrastructure capacity is inadequate, impacting their ability at financial management (Chiweza, 2015; Nweke, 2013). Additionally, central government revenue collection agencies take advantage of economies of scale because of their position and do better on efficiency than would a local government agent (Nweke, 2013). However, the benefits of internal revenue sources far outweigh those of external sources, so local councils should be encouraged and empowered to fully utilise this source

Common examples of local revenue sources are user charges and taxation.

Taxation

These are levies charged on residents and businesses. There are a variety of forms of taxation available to local governments, some of which include: sales, property, market fees, local income, business licensing taxes. Despite taxation being the most stable and reliable source of revenue for local government, most central governments still control, determine and collect them (Smoke, 2003). Again, even when the central government has decentralised taxation to local government, most are reluctant to use the tool due to its sensitivity with people and the risk of losing political popularity (UN-HABITAT, 2015).

User charges

These are charges for use of public goods and services (Nweke, 2013). These can be charged on some of the following public services: sewerage removals, water, waste management, parks, street parking, airport usage, electricity, museums, sporting facilities (UN-HABITAT, 2015). User charges help local councils recover costs, sustain usage and ensure sustainability of running the public service (Chiweza, 2015). However, user charges can be discriminatory to those who are unable to pay (UN-HABITAT, 2015).

External Sources

Government Transfers

These are transfers that the central government makes available to local councils. The transfers may come in as conditional grants, non-conditional grants and as a form of national tax sharing. For most local authorities, central government transfers form a large percentage of their total funding (Boex, 2015). Despite this being the case, central government funds are unreliable and take away local authorities' independence. (Chiweza, 2015).

Capital Financing

These are loans accessed by local governments to finance some of their local infrastructure projects. Most local authorities are authorised by regulation to raise funds

through borrowing especially for large infrastructure projects that require big financial outlays. Some of the common development projects that loans have been accessed for include roads, schools, hospital projects, agricultural equipment and projects. This source of financing comes with the risk of overburdening the government if it is left unchecked by the central government (Boex, 2015)

2.5.2 Alternative financing sources and strategies

Results of various studies by scholars in the field of local government finance suggest various options, policy directions, improvements and regulatory changes that councils can pursue in order to enhance their revenue capacities.

New sources

These are sources of revenues that councils can utilise and can either be within the current regulatory framework or might require changes to the legislation. In a qualitative research study of various local councils in Rwanda, ARD (2004) revealed new revenue opportunities that they could pursue within Rwanda's current legal framework. The study advocated for the introduction of fees and charges that councils were not charging, for councils to maximise their local revenues. For example, the study revealed the opportunity to charge yearly user fees for use of sewer facilities.

Public Private Partnerships (PPPs)

Another option for financing local government infrastructure needs is through PPP arrangements. This is where a public entity enters into an agreement with a private entity to provide a public service. More recently, use of PPP agreements has become more common in both developed and developing countries at both central and local government level. PPPs have allowed government to make investments in infrastructure for which public entities would have taken longer to generate resources.

For example, in a study by Vera and Kim (2003), PPP allowed the Korean local councils to construct road infrastructure that would have taken a longer period to generate revenues for, had they not partnered with private entities. However, PPPs bring financial distress to local government finance because most of the projects that attract PPP agreement have high project costs.

Efficiency improvements

Efficiency improvements encompass efforts to reduce costs and improve current revenue sources through initiatives that would lead to efficient use of revenues and/or facilities. In a study of the English local governments by Schlachter, Coleman and Anway (2013), the study made recommendations for councils to come together and utilise joint purchasing or contracting which could allow more local governmental entities to purchase equipment or supplies, which in turn can result in increased cost savings due to the creation of economies of scale. Examples would be jointly purchasing sewerage removal vehicles, firefighting equipment, bulldozers and some of the equipment that is occasionally used. Additionally, Sandford (2016) suggested efficiency savings generation strategies that included: staff numbers rationalisation, outsourcing service provision, reviewing service offerings, costs reductions in administrative processes, cogeneration, sale of non-productive assets.

2.6 CHALLENGES OF LOCAL GOVERNMENT FINANCING

The state of local government revenues is less desirable. Some of the common challenges that local governments face in their generating revenues are: assignment of revenues, narrow profitable revenue resources base, poor financial management infrastructure and skills and limited accountability.

Relationship with central government

Most developing countries are facing increasing degrees of recentralisation efforts by central governments through legislation, directives and policies that limit revenue generation capabilities of local authorities (Bolaito and Ibrahim, 2014; UCLG, 2009). In some countries, despite legislation clearly stipulating revenue sources for councils, in practice the power to determine rates and levies remains with the central government (UCLG, 2009).

In Cameroon, for instance, despite that country's local government regulations assigning a variety of revenue sources to local authorities, central government retains the power to vary, alter, determine applicable rates (UCLG, 2008). Similarly, in many African governments, the central government retains power to effect legislative and

policy changes through the national assembly without necessarily consulting local authorities (Fjeldstad, Katera, Msami & Ngalewa, 2010a). For instance, in Tanzania, the national assembly effected changes to the legislation that saw significant reductions in revenue sources for local authorities (Fjeldstad et al., 2010b)

In some instances, central government interference is subtle and can be through political manipulation of the local councils' processes through powerplays. In Nigeria, powerful central government actors would directly influence some of the local authorities' recruitment processes and procurement process, which led to abuse of council resources as those recruited or given business use public resources to repay their masters (Coker & Adams, 2012).

Strengthening of legislation that deters political interference, developing accountability roles for both constituents and Civil Society Organisations through targeted education and awareness programmes, is thus necessary (Coker & Adams, 2012; Fjeldstad et al., 2010a).

Limited accountability

Literature on local government suggests that holding local governments accountable improves service delivery efficiency. Accountability can take various forms such as planned audits by auditing bodies, regular interactions with constituents through platforms like reports, newsletters, meetings and/or through feedback sessions (Fjeldstad et al., 2010b). Literature on decentralisation supports the need for regular interactions between constituents and their representatives in order to afford councils and constituents an opportunity to give and provide feedback on council activities and budgets (Hussein, 2017; Sikander, 2015; World Bank, 2006).

However, many local councils in sub-Saharan Africa specifically, have weak accountability mechanisms and do not interact with their constituents (Chiweza, 2015; Fjeldstad et al., 2011). Most of their reports, both financial and development plans, are inaccessible to local masses or are in a language and format that constituents cannot access and or understand (Chiweza, 2015). Again, meetings are few and apart from denying the grassroots opportunity to participate in the council governance process, this affects service delivery as councils plan without having gotten the constituents'

needs in place (Chiweza, 2015). To address these challenges, awareness and capacity building for CSOs and constituents to be able to demand accountability, training of council staff in local governance processes, publication of local government plans in a language and place that are easily accessible to the public, need to be entrenched (Chinsinga, 2015; Chiweza, 2015; Fjeldstad et al., 2011).

Financial management capacity

Many local councils face financial management challenges resulting from poor accounting infrastructure, weak legislation and lack of financial management skills that negatively affect local government finances (Chinsinga, 2015; Fjeldstad et al., 2010a). These factors fuel fraud, inefficiencies, corruption and abuse of local government assets which lead to loss of revenue. Evidence from a research study by Chiweza (2015) found that most local councils in Malawi did not have the appropriate skills and equipment to manage finances. In another study on Nigerian local councils by Bolatito and Ibrahim (2015), evidence revealed a similar trend where council staff experienced high levels of skills shortages for critical positions.

Strengthening weak oversight systems and procedures, provision of sufficient infrastructure, and upskilling and recruitment of qualified accountants are some of interventions and initiatives recommended to address these challenges (Chiweza, 2015; Chinsinga, 2010)

Corruption and Fraud

Fraud and corruption are another prevalent vice for most local councils in developing countries. This vice is at times exacerbated by weak regulatory frameworks and their implementation, and as a result, revenue that could have funded service delivery is lost (Chiweza, 2015; Bolatito and Ibrahim, 2014). Additionally, most of the procurement decisions carried out by the councils are in contravention of existing regulations that govern public finance and procurement. For example, in Nigerian councils, Bolatito and Ibrahim (2014) observed that corruption was so prevalent and manifested through overpayments, overestimation of project costs, nonexistent worker payments, payments to political figures as gifts and payment for services that were not delivered.

Over-reliance on central transfers

Central government transfers form a bulk of most local authorities' revenues in the development economies (UCLG, 2008). However, a larger proportion of the transfers are conditional grants coming with specific expenditure instructions that may not necessarily local priorities (Fjeldstad et al 2010a). Again, for most countries, central government transfers are unreliable and erratic and insufficient to cover council's development needs (Chiweza, 2015). For instance, the central government in Malawi has consistently failed to transfer the legislated amounts to councils due to inadequate resources (Hussein, 2017; Chiweza, 2015). Central government of most

Therefore, councils should be incentivized to intensify their efforts to mobilize revenues from local sources in order to maintain independence and improve service delivery. Own revenue sources enable local authorities to priorities own programs that meets local preferences unlike when the program is being championed from the central government (Chiweza, 2015).

Access to credit

Another challenge that most local authorities in developing countries meet is access to credit. Most financial markets in the developing world are underdeveloped and therefore unable to provide financing requirements for high value investment projects for councils (Martinez-Vazquez and Smoke, 2011). Where the markets are developed, factors internal to councils such as failure to meet lending requirements or weak legislation with regard to public institutions' lending, preclude most local councils from accessing credit (World Bank, 2016; UCLG,2009). Central government should strengthen the legal environment that encourages financing institutions to allow councils access borrowing responsibility (UN-Habitat, 2009).

2.7 LOCAL GOVERNMENT FINANCING IN MALAWI

The following sections will explain the available sources of funding for local government.

2.7.1 Sources of local government finance in Malawi

For Malawi, both the 1998 Local Government Act and Section 10 of the Decentralisation Policy provide revenue sources for running local assemblies. The sources can broadly be divided into the following: central government grants, locally generated revenues and ceded revenues, donor support and loans.

The following sections provide more detail on some of the revenue sources.

a) Central government sources

Central government transfers make up approximately more than 80% of total revenues for local councils in Malawi (Chiweza, 2015). These grants are transferred either as conditional and/or unconditional transfers. Conditional transfers refer to grants that are transferred with specific expenditure instructions, while unconditional grants give local authorities discretion over spending decision (UN Habitat, 2015; Zhou & Chilunjika, 2013). Conditional transfers receive utmost scrutiny from the line ministry and the NLGFC and future disbursement is highly dependent on correct usage (World Bank, 2016).

According to both the 1998 Local Government Act and the Decentralisation Policy, at least 5% of total national revenues are supposed to be transferred to local authorities as unconditional grants in the form of GRF, to enable them to fulfil their service delivery mandate. Furthermore, the National Assembly passed a resolution to transfer an additional 24% from the total national revenues to support local councils in developing the health and education sectors (Chiweza, 2015).

Since the onset of the implementation of the decentralisation reforms in the late 1990's, government has been unable to comply with the above provision. In an earlier study by Chiweza (2015), the results revealed that government transfers for a period between 2001 to 2014 averaged less than 1% of total net national revenues. Central government has attributed this failure to a shortage of resources, as most of the donors that provide budgetary support have withdrawn their support in part or entirely (Chiweza, 2015; Kutengule, Kampanje, Chiweza & Chunga, 2014; O'Neil et al., 2014).

The following sections will examine some of the main central government grants to local authorities:

Sector transfers

These are funds that central government transfers to councils to support programmes and activities for the devolved sectors. These funds are transferred as conditional grants; therefore, councils are required to use the funds as per the expenditure conditions (Chiweza, 2010). District councils receive a larger share of these funds as they have responsibility over more sectors than their urban counterparts (World Bank, 2016; Kutengule et al., 2014). A large chunk of these funds is channeled towards the support of the health, education and agriculture sectors. The main challenge with sector funds is inadequate funds that are unable to support the running of the sectors' programmes and activities (O'Neil et al., 2014).

Constituency Development Fund (CDF)

CDF was established during the 2006/2007 fiscal year with the purpose of supporting the implementation of the community based short term projects (O'Neil et al., 2014; Chiweza, 2013). CDF was established to ensure equal distribution of development resources, even amongst opposition MPs who were usually being sidelined by governing parties (O'Neil et al., 2014). The total amount that a council receives depends on the number of MPs within its jurisdiction (O'Neil et al., 2014). The National Assembly decides yearly on allocations towards CDF and currently the amount stands at MK9 Million.

Usage of the funds is guided by expenditure guidelines that were jointly developed by the Ministry of Finance, NLGFC and Ministry of local Government (MLGRD, 2006). According to the Fund guidelines, identification of projects for CDF funding should be done through a consultation process by the MP with the community members. Projects that qualify for funding under CDF are usually emergency projects such as repair of damaged small-scale school infrastructure projects or other short term community based projects such low cost community bridges (MoLGRD, 2006).

Since its establishment, CDF has experienced various challenges, mainly those centering on bypassing of procedures and procurements that are in contravention of existing public finance management (Kutengule et al., 2014)

General Resource Fund (GRF)

Section 10 of the 1998 Decentralisation Policy obliges the central government to transfer 5% of the national net revenues as a general resource fund for the running of the councils. This is an unconditional grant based on population size, and the poverty rate. GRF is one of the grants that councils use discretionally, to spend on locally prioritised activities.

Local Development Fund (LDF)

LDF was established by the central government to mobilise and finance local development projects in a coordinated manner (Malawi Government, 2009). The fund pools together resources from government and its development cooperation partners towards implementation of various local level projects. This replaces an earlier development financing for local councils, referred to as the District Development Fund whose resource base was narrower (O'Neil et al., 2014). In order to expand the resources base, the Malawi government decided to abolish the DDF and replace it with the LDF whose resources were broader and with more sponsors (Kutengule et al., 2014). The current donors for the fund are: the Malawi government, The World Bank, The African Development Bank and the German Government (Malawi Government, 2009).

The LDF was set up to encourage participatory local governance by involving communities in development projects of their areas (Malawi Government, 2009). The fund aims to finance medium to larger community projects that are labour intensive, such as classrooms, teachers' houses, intensive public works and sanitation projects (Malawi Government, 2009).

According to the LDF Operational Manual (2009), there are four financing windows available to local councils, which are:

- **Community window** funds small scale community level projects that are directly managed by constituents with the goal to reduce poverty and build community members' capacity to manage and sustain projects.
- **Local Authority window** funds investment projects and labour intensive public works programmes that would encourage and spur economic activity in urban areas.
- **Urban window** is available to urban councils to finance infrastructure investments that are labour and capital intensive in order to spur economic activity amongst the low income urban population.
- **Performance window** provides funding for initiatives aimed at building capacity and strengthening performance management for local councils.

The main challenge experienced with LDF funding has been abuse of resources by both community members, contractors and fund managers (O'Neil et al., 2014). Additionally, the projects funded were supposed to have been identified by local communities; however, most of the funded projects have been directed by the central government (Chiweza, 2013).

b) Borrowing

Both the 1998 LG Act and the Decentralisation Policy allow local authorities to seek financing from external commercial sources. Apart from commercial sources, local authorities can access financing from the Development Fund for Local Authorities. The institution exists with the sole mandate of providing development financing for local councils in Malawi (Kelly, Montes, Maseya, Nkankha & Tombere, 2001). Set up in the middle 2000's, this fund became inactive as a result of capital depletion due to non-repayment of loans by the councils (World Bank, 2015). The fund has recently been revived.

c) Ceded revenues

Section 10 of the 1998 Decentralisation Policy lists some of the revenues that central government will cede to local councils, which include the following: toll fees, gambling and casino fees, part of the fuel levy, motor vehicle registration fees, and industrial registration fees. However, government has not ceded any of these revenues since

implementation of the decentralisation reforms began in the early 2000's (Chiweza, 2015; World Bank, 2016).

d) NGO/donor assistance:

The Decentralisation Policy also allows councils to receive assistance from donors. Common donor assistance towards local councils in Malawi has been financial support towards capacity building initiatives for performance financial management (O'Neil et al., 2015).

e) Internal sources

These are funds that authorities raise from local sources. The main sources include property rates; ground rent; fees and licenses; commercial undertakings; and service charges.

Property Tax

Section 63 of the 1998 Local Government Act gives powers to all local authorities to levy tax on all land within their jurisdiction with a few exceptions on some of the following: streets, cemeteries, roads and railway transit lines. Currently only nine out of the 35 councils can collect property revenues due to legal procedures that the other councils are yet to complete. (World Bank, 2016; Kutengule et al., 2014).

Councils are only allowed to collect rates on property that has been valued through a property valuer as specified in section 67 of the Local Government Act. Additionally, property can only be valued using individual valuation methods. Further, councils can collect levies on areas that have been declared rateable by the Minister of Local Government. Because of these provisions, the valuation process is a lengthy and costly process.

Business licensing

Business licensing is another significant revenue source for local government. Licenses are issued to ensure that businesses operating within the council's jurisdiction comply with existing regulatory frameworks (Kelly et al., 2001). Examples

of licences are those that are given to businesses, such as restaurants, liquor stores, abattoirs.

User charges

These include fees charged for usage of local authorities' facilities and include some of the following: market fees, parking fees, and they cater for service provision to the facilities (Malawi Government, 1998). User charges help councils recover and share costs of running the facility or service (UCLG, 2009).

Commercial Undertakings

The Local Government Act allows councils to engage in commercial activities in order to generate revenue. Some of the business initiatives that councils are allowed to venture into, include some of the following: bars, restaurants, lodges, market stalls, shopping malls, parks and dwelling houses (Malawi Government, 1998).

2.8 EMPIRICAL LITERATURE ON LOCAL GOVERNMENT FINANCING IN MALAWI

The main source of revenue for local councils in Malawi is from central government transfers. In a qualitative study carried out by Chiweza (2015) on six case study councils, the results revealed that on average, councils received more than 80% of their revenues from central government. These findings were corroborated by findings of another mixed methods study conducted by the World Bank (2016) that found that largely, Malawian local councils depended on central transfers and marginally financed their programmes from own revenues. Further analysis by both studies revealed that this trend was more in the district councils than in urban councils. District councils were found to have a more limited tax resource base than their urban counterparts who had wider property and business licensing bases.

Despite this over reliance on central government transfers, studies have found that allocations to councils are generally erratic and often unpredictable. In a qualitative study by Chiweza (2010) on the analysis of central government funding trends, the results revealed that for the ten year period since the decentralisation reforms began, average transfers had remained below the mandated 5%, averaging less than 1% for

the whole period. Amongst other reasons, funding cuts and growing needs due to rapid population growth were cited as the reason for the insufficient transfers. Therefore, over-reliance on central transfers was identified as putting local authorities' programmes at risk of failure.

In another study on the review of the decentralisation reforms in Malawi by Chiweza (2013) and Kutengule et al. (2014), both studies found that central government transfers were being allocated to councils based on political patronage, rather than on objective factors. This is contrary to the stipulation of the 1998 Local Government Act and Section 10 of the Decentralisation Policy that stipulates that allocation to councils be based on poverty and population levels, with a view to redistributing development fairly and evenly throughout the country. The study recommended capacitation of civil society organisations in budgeting, allocation and expenditure tracking so as to hold central government to account. Further, the studies recommended the review and development of a clear allocation formula by responsible institutions to curtail the current use of subjective factors in resource allocation.

Most of the transfers from central government are conditional grants earmarked for specific programmes; as such councils cannot spend the funds on their own programmes. In a qualitative study by the World Bank (2016), the analysis revealed that almost 90% of the transfers from the central government were transferred with conditions and were for the support of decentralised sectors and/ or for specific infrastructure investments, with only a small portion going towards the unconditional GRF grant. Thus, the study found that most of the local councils were mere implementation agencies for the central government projects, rather than local development authorities in their own right.

Various studies have looked into reasons for low own revenues and over-reliance on central government transfers by local councils. Hussein (2017), in his study employing document research and interviews, identified the following as being amongst the reasons for the low own revenues and the resulting overdependence on central transfers: abuse of commercial facilities that were set up to generate revenues by council personnel and politicians, theft of the generated revenues, corruption, poor accounting infrastructure and general financial mismanagement. The study concluded

that these factors have reduced the availability of own funds; hence the overdependence on central transfers.

Chiweza (2015) in her qualitative study on “Political Economy of Local Governance in Malawi,” found that weak financial oversight systems and procedures, weak regulatory environment and inadequate accounting and auditing staff led to revenue losses through theft and corruption. The study recommended strengthening of the regulatory frameworks and systems, protecting people who report corruption, strengthening the audit function and financial management skills for oversight committees, as being some of the strategies that councils could pursue in order to counteract these vices.

In another qualitative study, Chinsinga (2010) found that financial management skills were lacking amongst finance management committees of the council. Most of the elected representatives were unable to read financial reports, or budgets and did not understand their role as councilors. This weakened the accountability role of the committee and as such financial irregularities were left unchecked. The studies recommended the strengthening of the oversight systems and procedures through provision of external skills support for the committees, provision of sufficient infrastructure, upskilling and recruitment of qualified accountants as some of the interventions and initiatives recommended to address these challenges.

In some instances, local councils’ revenue mobilisation efforts have been limited by regulatory factors. In a study by Kelly et al. (2001) and World Bank (2016), results from both studies found that legal challenges greatly hindered council’s ability to fully exploit revenues from property rates. The study found that property rates were too high for property owners to pay because of valuation methods used. According to Sections 67 and 68 of the Local Government Act, valuation is to be carried out by registered land economy surveyors and through individual valuation methods. Currently, these skills are in short supply, and payment for the valuation services is based on property value (World Bank, 2016). This places temptation on valuers to inflate the property price to maximise their returns. The studies recommended a review of the Act to allow use of mass valuation methods to maintain and update current property registers. A pilot study for the implementation of mass valuation methods in one of the Urban councils, Mzuzu City Council, by Fish (2015), the results obtained produced a marked reduction in costs and time and boosted revenues from property rates by more than 50%.

Legal challenges also affect district council's ability to generate revenues from property rates. In the same studies by Kelly et al. (2001) and World Bank (2016), the lengthy process of gazetting ratable areas was found to have stalled district councils' revenue mobilisation efforts as they await the completion of the process. Despite the 2001 amendment that gave permission to all councils to collect property taxes, district councils are yet to start collecting property rates. The study recommended a review and amendment of the Act to simplify property rates collection and incorporate the findings from the Mzuzu City Council study.

2.9 GAPS IN REVIEWED LITERATURE

Most of the studies conducted on local government in Malawi clearly articulate the issues that surround local government financing and the challenges that the local councils are experiencing without seeking to look into alternative options. This study seeks to look into option for filling this funding gap.

2.10 CONCLUSION

Sound local government financing is critical to local councils' ability to deliver on their mandate (UCGL, 2008). Literature on local government financing suggests that responsibility assignment should follow expenditure assignment (Dillinger & Fay, 1999). However, most local governments have responsibilities for service delivery without the requisite fiscal resources. Again, studies on local government financing have revealed institutional and regulatory challenges that negatively impact on financial health in the councils (Fjeldstad et al., 2011). There are various options that councils can utilise to improve their revenue sources, some of which require changes to legislation while others require optimisation of current processes and systems, as well as procedures.

CHAPTER 3

RESEARCH METHODOLOGY

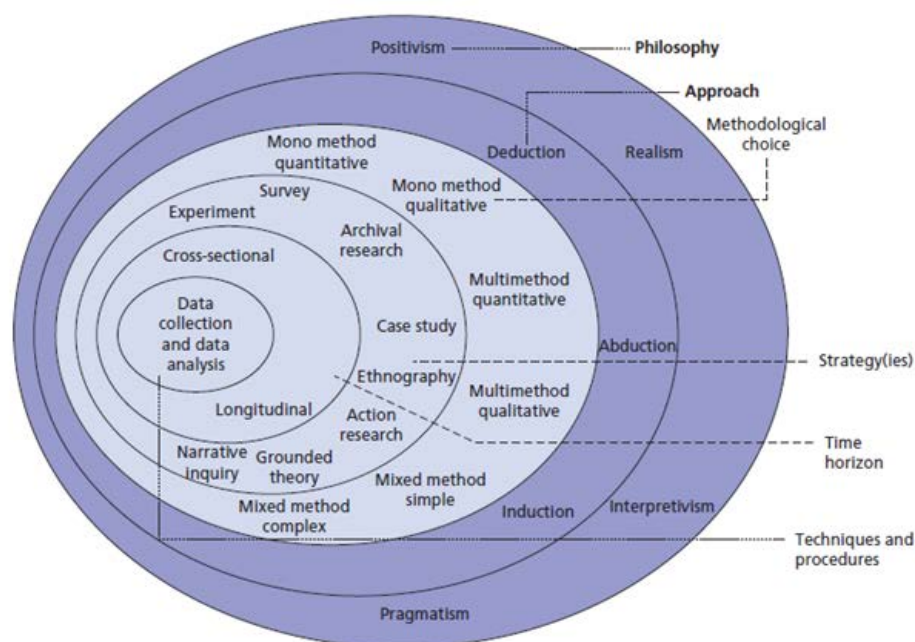
3.1 INTRODUCTION

Research has been defined as an organised and rigorous process for discovering, developing and verifying appropriate information on a specific subject (Pandey & Pandey, 2015). The objective is usually to find solutions to problems through application of scientific techniques (Kothari, 2004). The techniques are referred to as research methods. Research methodology, on the other hand, is wider in its scope. It is described as the systematic approach towards finding solutions for the research problem and justification for the techniques and methods used in a study (Kothari, 2004). Generally, research methodology describes the purpose of the research and its justification; defines the research problem; outlines study questions; details data collection and analysis techniques and their justification; and addresses other research process issues related to the study (Kothari, 2004).

This chapter seeks to present the research methodology for this study and covers: research process, study population, sampling and sampling techniques, data collection methods and analysis, validity and reliability of the research and the ethical considerations.

3.2 RESEARCH PROCESS

A research process can be defined as a series of steps and the sequencing to be taken by a researcher in order to complete a research study effectively (Pandey & Pandey, 2015). Saunders, Lewis and Thornhill (2009) suggest that this process can be illustrated through use of a research onion diagram, presented below in **Figure 3.1**.



Source: Saunders, Lewis and Thornhill (2009)

Figure 3.1: The Research Onion

The layers represent various issues that a researcher should consider before collecting and analysing study data. These issues are philosophy, approach, method, strategies, time horizon and data collection and analysis techniques.

3.2.1 Research philosophy

The outermost layer represents the research philosophy which refers to beliefs and assumptions about collection, interpretation and analysis of data (Saunders et al., 2009). These beliefs frame the researcher's interpretation of the world and conduct of the research study.

Saunders et al (2009) suggest that there are three major assumptions and beliefs that distinguish research philosophies, which are ontology, epistemology and axiology. Ontological beliefs refer to the researcher's view of the world and assumptions about the nature of reality (Saunders et al., 2009). Epistemological beliefs deal with what constitutes acceptable knowledge and how such knowledge can be investigated and communicated (Saunders et al., 2009). Axiology deals with beliefs and assumptions about the role of values for both participants and researchers in a research study (Saunders et al., 2009). Out of the philosophical views outlined in the research onion,

positivism and interpretivism are the most common standpoints for social science research (Kumar,2011).

Positivism deals with the belief that reality is stable and is independent of the researcher's beliefs or actions (Saunders et al., 2009). The focus of research is on obtaining measurable or observable results from relatively larger samples and the study results can be generalised to wider populations (Saunders et al., 2009). In contrast, interpretivism believes that there are multiple realities, meanings and interpretations constructed by people through their own perceptions (Kumar, 2011). The researchers are believed to be part of the research process and their actions directly affect research outcomes (Pandey & Pandey,2015). Usually study samples are smaller, and the focus is to generate in-depth insights from the research participants.

Interpretivism is the philosophical view for this study. The aim of this study was to gather in-depth insights into local government funding for Malawian local governments.

3.2.2 Research approach

The second layer of the research onion is the research approach. Deductive and inductive approaches are the major research approaches.

In a deductive approach, a researcher uses existing theory and/or patterns to develop a research hypothesis and the strategy to investigate it (Noble and Smith 2015; Saunders et al., 2009). In this approach, the researcher conducts a literature study, identifies theories, develops hypotheses and carries out a research study to test the veracity of identified theories (Saunders et al., 2009).

In contrast, in an inductive study approach, the researcher begins with observations from which meaning is generated from the patterns and relationships that develop through data analysis (Struwig & Stead, 2013; Saunders et al., 2009). In this approach, the researcher collects data and develops theories from the results of data analysis (Saunders et al., 2009).

The study approach utilised in this study was the inductive approach, as data was initially collected and the analysed results formed the basis of the alternative financing recommendations for the local authorities.

3.2.3 Research Method

This study adopted a qualitative research method. Qualitative research provides researchers with the opportunity to dive deep into issues and generate insights and in-depth understanding of the issues under study (Patton, 2002). Usually, the focus of qualitative techniques is to generate meaning that individuals assign to social phenomena, rather than quantify issues arising from the data (Creswell, 2013; Patton and Cochran, 2002). Again, due to the in-depth nature of the qualitative research methods, the research uses smaller samples in order to be cost and time effective (Kumar, 2011). Data for the research process is collected in the study respondent's environment (Creswell, 2013).

In contrast, quantitative research seeks to measure and or quantify the prevalence of a study phenomenon, and then use the study results to create generalisations about the sample population (Patton & Cochran, 2002). Quantitative studies usually take systematic approaches and utilise larger samples, from which data generated is usually numerical (Kumar, 2011). In this research method, relationships amongst variables are tested in order to test theories (Creswell, 2013).

For this study, the qualitative research method was chosen because of the in-depth information and deeper insights that were required in order to gain understanding about funding mechanisms for local councils in Malawi. Again, due to time and cost constraints, a smaller sample in terms of both number of councils and study respondents, was chosen which could not have been the case if quantitative methods were chosen.

3.3 STUDY METHODOLOGY

A case study approach was employed in this study. A case study approach amongst others, deals with the study of individuals or individual units which could be towns, cities or groups or episodes (Kumar, 2011). For it to qualify as a case study, Kumar (2011) argues that the chosen study entity should be considered as a single entity. The case study method is advantageous in that the findings from the case study can provide insights into other related cases, as the case is assumed to be typical of the other related units (Struwig & Stead, 2013). Blantyre City Council is similar in many respects to other councils in Malawi. Specifically, all councils in Malawi are established

under the same legal and regulatory frameworks, are governed by similar oversight bodies, operate within similar structures and a large percentage of their funding sources are similar. Therefore, the findings from the study on councils can be applicable and be generalised with higher degrees of confidence.

For this study, interviews were used as the primary data collection approach from the case study, supported by secondary data through a review of documents and reports. For the interview, an interview guide with a set of predetermined questions was utilised. The interview guide was created through the use of insights generated from a literature review on local government financing. Some of the questions in the guide were tailored to the respondents' field of expertise. According to Kothari (2004), interview guides help researchers focus and guide the discussion, thereby limiting the discussions to the subject under study. However, when interview guides are used inflexibly, researchers might miss insights on other relevant areas that are outside the interview guide (Pandey & Pandey, 2015).

3.4 POPULATION

A population is described as the combined aggregate of all the elements or items or members from which information is being sought (Struwig & Stead, 2013). Pandey and Pandey (2015:40), describe a study population as being the parent group from which a study sample is drawn, while Banerjee and Chaudhury (2010) refer to a population as the totality of all subjects that meet a set criterion for a research study.

This study focused on funding mechanisms for Local Authorities in Malawi. It sought to evaluate and analyse current sources of funding for local authorities in Malawi and suggest options and strategies for optimisation of these sources and/or identification of alternative financing mechanisms that local authorities can adopt. Therefore, the study population has been limited to public finance experts, who are concerned with local government financing from both private and public sectors within Malawi, particularly the Blantyre City Council.

3.5 SAMPLING

A sample is described as a subset of the population chosen to represent the entire population in a research study (Struwig & Stead, 2013). The process through which a portion of the population is selected to represent the whole population is referred to as sampling (Kothari, 2004). Sampling helps the researcher overcome time and cost constraints that a whole population study would present (Pandey & Pandey, 2015). However, depending on sampling techniques employed, a chosen sample might not truly be representative of the entire study population; hence faulty generalisations might be concluded from a study (Struwig & Stead, 2013).

Sampling methods are usually divided into two categories: probability sampling and non-probability sampling. Probability sampling accords each element in a population an equal opportunity of being picked; hence it ensures fair population representation (Pandey & Pandey, 2015). Results from probability sampling can be generalised with a greater degree of confidence, and due to the use of scientific methods, researcher selection bias is reduced (Struwig & Stead, 2013). Some of the techniques commonly employed in probability sampling include: random sampling, stratified sampling and/or cluster sampling.

In contrast, non-probability sampling involves the researcher selecting a sample based on own opinion or purpose (Pandey & Pandey, 2015). Results from the study are not usually generalisable and population members do not have an equal chance of being chosen (Struwig & Stead, 2013). Again, the risk of researcher selection bias for the sample is high (Pandey & Pandey, 2015). Examples of non-probability sampling include: incidental, judgement, quota, purposive and snowball sampling.

Non-probability sampling and specifically, the personal judgement technique, was used to purposely choose the study participants who were thought to possess insight into local government financing in Malawi. According to Pandey and Pandey (2015), judgement sampling concerns itself with choosing those participants who in the researcher's judgement, have the relevant information related to the study. This sampling technique provides economic benefits in terms of time and cost (Struwig & Stead, 2013; Kothari, 2004). However, this type of sampling is highly prone to bias so

for this study, an effort was made to widen the sample to include members from outside the Case study council only.

A total of nineteen interviews were conducted spread out as per **Table 3.1** below.

Table 3.1: Sample Respondents

Institution	Number of interviewees
Blantyre Council –Secretariat	5
Blantyre Council- the council leadership	3
Privatization Commission Specialist	2
Local Government Ministry	2
Bank and financing	5
NGOs/donors	2

3.6 DATA COLLECTION AND ANALYSIS

Both primary and secondary data were collected in this study. According to Struwig and Stead (2013), primary data is that which has been collected anew and is original in nature while on the other hand, secondary data is that which was previously collected. The study used semi-structured interviews and a document study to collect data.

3.6.1 Primary data

Interviews were conducted with several experts drawn from the field of public sector financing to generate in-depth and quality information. Most of the interviews were conducted face-to-face and a few were done over the phone due to non-availability of respondents for face-to-face interviews.

According to various scholars, interviews as data collection instruments are beneficial in qualitative research design for some of the following reasons: enables the researcher to collect in-depth information; allows questions and responses to be clarified; allows the research to observe respondents' nonverbal cues which add meaning to data (Struwig & Stead, 2013; Kothari, 2004) However, interviews are easily

prone to both interviewer and respondents bias and can be expensive to administer when respondents are spread widely (Kothari, 2004).

3.6.2 Secondary data

Secondary data refers to already existing data that was collected by others for other purposes (Struwig & Stead, 2013). This data is cheap to collect as it relies on previous efforts of others; however, data integrity of data is highly questionable, and as such, the researcher should make efforts to validate the data (Kumar, 2011).

The study's secondary data was collected from documents directly relevant to the study area:

- **Policies:** The focus here was on policies related to local government funding, decentralisation in general, and fiscal decentralisation in particular. Again, policies on oversight and governance arrangements were reviewed.
- **Legal documents:** The focus here was on legal documents that govern local government in Malawi. Some of the legal documents that were reviewed included the following: Local Government Act, Public Finance Management Act, Public Procurement Act, Public Audit Act and Constitution of the republic of Malawi.
- **Financial reports and budgets:** The focus was on local government financial statements and budgets and the national budget.
- **Published articles and studies on local government:** The focus here was on both published studies and those that were commissioned by institutions concerned with local government financing in Malawi.

3.6.3 Data analysis

Data analysis is described as the process of bringing order, structure, and meaning to the mass of collected data by reducing data into manageable proportions, thereby making it easier to comprehend and work with (Pandey & Pandey, 2015).

Various qualitative data analysis techniques exist and the most commonly used ones can be grouped into two broad categories: thematic analysis and the grounded theory approach. The thematic analysis approach involves the systematic iterative search within collected data of emerging relationships and patterns that are grouped into

themes the researcher can use to interpret the study findings (Smith & Firth 2011; Lacey & Luff, 2007). The emerging themes can result from a prior understanding of the study area through a literature review or they can be developed as the researcher interacts with data (Srivastava & Thomson, 2009).

On the other hand, the grounded theory approach focuses on generating theory from the data analysis process (Lacey & Luff, 2007). The researcher engages in a systematic and structured process of data analysis with the view to generate theory that can be generalised across similar settings (Lacey & Luff, 2007).

For this study, framework analysis was used. Data gathered from interviews was transcribed and the transcribed and preliminary observations on main issues were recorded. Through an iterative process, data recorded during the interviews was transcribed and analysed for emerging themes. Further comparison with information from document reviews was done to establish the emerging themes. Similarly, information from secondary data sources was analysed and emerging themes were compared with results from interviews. Data was then coded and grouped into themes which were then further grouped into overarching categories. Research findings were then compiled, and descriptive statistical tools were also been employed to present some of the financial elements of the study results.

3.7 VALIDITY AND RELIABILITY

Major criticism leveled against qualitative research is that the methods are prone to subjectivity, which researchers argue affects the reliability and validity of research results (Struwig & Stead, 2013; Patton, 2002).

Kothari (2011) defines qualitative research validity as the extent to which the research tool measures what was intended to be measured. On the other hand, reliability has been described as the degree of consistency, stability and reliability displayed by research instruments (Noble & Smith, 2015).

Constant data comparison and triangulation are some of the strategies that have been employed by qualitative researchers to ensure reliability and validity of the studies (Noble & Smith, 2015; Golafshani, 2003). For this study, responses from various

respondents were compared to other respondents to check for repeated themes. Additionally, the interviews were recorded, and were repeatedly revisited to ensure that true participants' accounts were being transcribed. Lastly, data from interviews was compared with the document study data to compare and verify accuracy of the information generated.

3.8 ETHICS

Ethics clearance was initially sought from the University to ensure compliance with the University's set ethics guidelines. Participants' verbal consent to participate in the study was also sought and their right to privacy has been guaranteed and maintained throughout the study. All personal details and names have not been used in this study in order to protect their privacy.

3.9 CHAPTER SUMMARY

This chapter has presented the description of the research methodology that has guided this research study. The Saunders, Lewis and Thornhill (2009) research onion's various layers have been explored and their application to the study explained. A case study approach was used to evaluate the current funding mechanisms of local government in Malawi and to explore alternative funding mechanisms that can be made available to local councils. National level data was also analysed to compare trends at national and the case study council level. Data was collected through semi-structured interviews with experts drawn from across sectors of those concerned with local government financing. Additionally, relevant documents were studied which included some of the following: policy, legal, reports, previous studies and budgets. Data was analysed through use of a thematic approach analysis, where themes were generated from both existing literature and drawn from the collected data. The research finding will be presented in the following chapter.

CHAPTER 4

PRESENTATION OF FINDINGS, DATA ANALYSIS, AND INTERPRETATION

4.1 INTRODUCTION

This chapter presents the study findings, whose purpose was to evaluate existing funding mechanisms for local authorities in Malawi. The study objectives were: firstly, to examine the current state of funding mechanisms for Local Authorities; secondly, to evaluate the adequacy of the current financing options for local authorities and identify strategies for optimising them; and lastly to make recommendations on alternative funding mechanisms that the local authorities could utilise.

The results for the study have been presented based on these study objectives and from themes generated from the research questions. Section 4.2 describes the sample characteristics, Section 4.3 discusses sources of funding for local authorities in Malawi; Section 4.4 discusses the adequacy of funding mechanisms and finally, section 4.5 discusses challenges and strategies for improving local government funding in Malawi

4.2 DESCRIPTION OF SAMPLE

The study sought to find out which sector the respondents were working in, length of service in the sector and level of understanding of local government and its funding.

Table 4.1: A summary of the business sector

Factor	Sector	Frequency	Percentage
Sector	Local government	10	53
	Banking	5	20
	Donors/NGO	4	20

A large percent of the respondents were employed directly within the local government system, either at local council level or from other oversight institutions that deal with local government funding within the central government. The other 40% came from institutions whose work is concerned with providing financing mechanisms for local councils. This mix of respondents provided depth and different perspectives, both

internal and external that was beneficial for the study. For the internal participants, their daily interaction with the funding mechanisms provided a wealth of practical information on funding status. For external participants, their perspective of available options of alternative funding options was greatly beneficial.

Table 4.2: Length of service

Factor	Duration	Frequency	Percentage
Length of service	0-2 years		
	2-5 years		
	5-10 years	19	100
	Above 10 years		

All the respondents had been working in their sector for more than five years. Local government funding and the fiscal decentralisation process are a complex process and field, therefore respondents needed to have been in the local or public funding system longer in order to understanding the process and provide rich information on the subject. The fact that all participants had been within the field for more than five years means it is a long enough period for one to have gained solid and practical experience.

Additionally, for financing experts from the banking sector, in-depth experience dealing with public sector financing was enriching as the participants gave their insight on what has actually worked and how the challenges with public sector financing have been overcome.

Table 4.3: Level of understanding

Factor	Level	Frequency	Percentage
Level of understanding	Basic		
	Moderate	10	52
	Advanced	9	48
	Professional		

All of the respondents indicated that their level of understanding for local government financing is above basic. As a result, almost all the participants demonstrated great ease at articulating issues surrounding funding of local government.

4.3 SOURCES AND LEVELS OF FUNDING

Section 44 of the 1998 Local Government Act and Section 10 of the Decentralisation Policy list funding sources for running local government to be: central government transfers, locally generated revenues, ceded revenues, borrowing and donor funds. With each source, there are a variety of instruments that councils are allowed to exploit and use to generate revenues. Table 4.4 below indicates the sources of revenues that are currently being fully utilised by the councils.

Table 4.4: Revenue sources for local council

Source	Mechanisms
Central government sources	Constituency Development Fund
	General Resource Fund
	Rehabilitation of City Roads
	Sector Funds
	Infrastructure Development Fund
Local sources	Property rates
	Market fees
	Service charges and fees
	Business licenses and permits
	Commercial undertakings

The subsequent sections will examine and evaluate each of these funding sources using national figures and comparing them with Blantyre City Councils'. The data review for funding sources concentrates on the years between 2013/2014 to 2016/2017 due to difficulties in obtaining financial data for periods beyond these.

4.4 EVALUATION OF FUNDING SOURCES

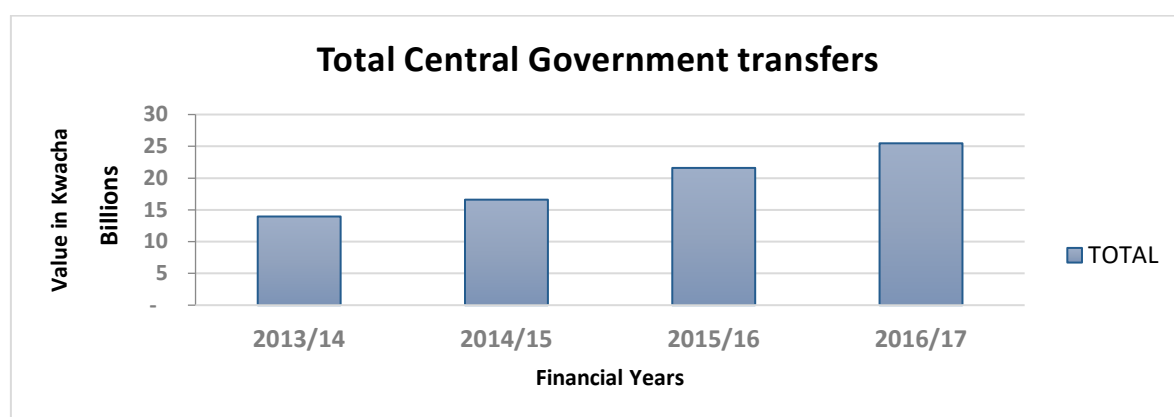
4.4.1 Central Government Transfers

Between 2013/2014 to 2016/2017 financial years, central government transfers to all local councils in Malawi made up more than 90% of all councils' revenues. The transfers were in the form of the Constituency Development Fund (CDF), General Resource Fund (GRF), Infrastructure Development Fund (IDF), Rehabilitation of City Roads Grant, Sector grants and a development grant for construction of boreholes. A large percentage of these funds were transferred as conditional grants which meant that councils did not have spending discretion over the funds.

Over the four-year period, central government transfers to councils reached a total of MK78 billion, of which 95% were conditional grants for the implementation of various central government initiatives. This therefore meant that councils were free to utilise only 5% of the funds to support the implementation of own programmes that did not coincide with central government initiatives.

Of the MK78 billion, Blantyre City council received a total of MK4.8 billion towards a maintenance of roads grant at 76%, followed by an Infrastructure Development grant at 9%, sector funds at 9%, GRF at 4% and finally CDF at 2% of all transfers.

Figure 4.1 presents trends of total central government transfers to all local governments in Malawi for the 2013/14 to 2016/17 financial periods.



Source: own compilation from National Local Government Finance Committee (NLGFC) consolidated statements

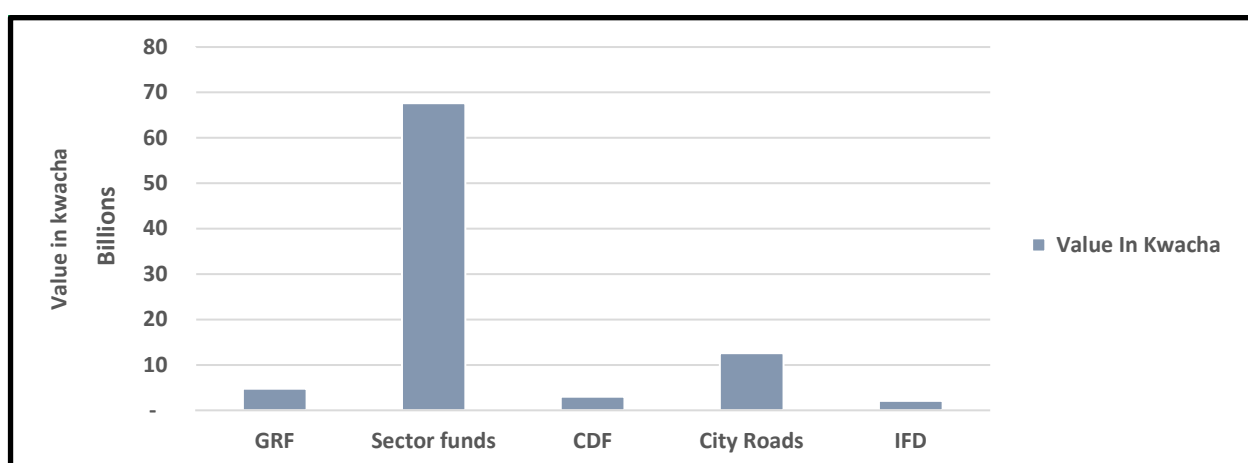
Figure 4.1: Trends of total central government transfers

Figure 4.1 reveals a steady growth in central government transfers at approximately 20% per year. The yearly growth is mainly attributed to the increase in sector transfers and the introduction of a new grant in the form of rehabilitation of city roads in the 2014/2015 financial year.

Despite central government funds making up a large proportion of total revenues, the transfers still remained below the legislated 5% of total national net revenues that councils are supposed to receive from the central government. The study found that transfers within the review period averaged 0.9% of total national revenues. These findings were also obtained in other previous studies by Chiweza in 2010 and Hussein (2017). Both studies found that since the onset of decentralisation reforms, transfers from central government have consistently fallen below 5% and averaged around 1% of the total net national revenues.

One of the key respondents observed:

“...with the withdrawal of budgetary support by key donors, funding for local councils has been a challenge and largely erratic as various sectors compete for these resources...”



Source: own compilation from National Local Government Finance Committee (NLGFC) consolidated statements

Figure 4.2: Funding figures for 2013/2014 to 2016/2017 Financial year

Sector transfers

One of the significant conditional grants was in the form of sector transfers. Of the MK78 billion that was transferred to councils between 2013/2014 to 2016/2017 financial years, MK56.6 billion was transferred as sector specific grants of which MK446 million went to Blantyre City Council. Sector transfers are conditional grants that are only spent according to expenditure instructions from central government.

More than 80% of sector transfers went towards supporting sectors that have devolved to district councils. Currently, district councils have responsibility over more than 14 sectors, which is in sharp contrast with the fewer than five sectors that urban councils have.

A further analysis of sectors transfers reveal that a large percentage of these funds were directed towards the health sector, followed by education, as these are national priority spending areas (Malawi Government, 2017). Both primary health care and primary education are free in Malawi. The HIV/AIDS pandemic has increased the cost of health care delivery; hence the high health care budget (Malawi Government, 2017). Furthermore, the study found that health care sector transfers were also highest towards support of hospitals within district councils. An estimated 84% of Malawians live in rural areas, where both the population and disease burden are also high; hence the high expenditure budget within both the education and health care sectors (Malawi Government, 2017).

Because sector grants are conditional transfers, the study found that most respondents within the finance departments of the council did not consider these as being part of their resource envelope; as such they did not rely on them. One of the key respondents put it this way:

“...sector grants are not really our funds...we are just managers of the funds and cannot use them for any council related programs that are outside their earmarked purpose...even when there are surplus funds from these accounts and we have legitimate shortfalls somewhere we are not allowed to use these funds...”

Constituency Development Fund (CDF)

Another significant transfer was in the form of a Constituency Development Fund. A total of MK2.6 billion was transferred to councils as CDF between 2013/2014 to 2016/2017 financial years. This represented 3% of all central government transfers to the councils for this period. An analysis of the CDF shows that the grant has been growing at an average of 5% per year. The increase was as a result of upward adjustment of the allocation per constituency per year that moved from MK7 million in 2014 to MK9 million per year by 2017 financial year.

For Blantyre City Council, as a proportion of all central government transfers to the council, CDF made up 9%. There are eight constituencies within Blantyre City Council's jurisdiction with its revenues from CDF moving from MK56 million in 2013/2014 financial year to MK72 million by 2016/2017 financial years.

The study found that the increase has not translated into any meaningful development projects, as most Members of Parliament have spent this money on welfare activities other than development projects. These findings are consistent with earlier findings obtained by O'Neil et al. (2014) where national expenditure trends for CDF revealed that MPs were spending CDF grants on welfare needs other than development projects as contained in Council development plans. Mainly, MPs were motivated to spend this particular money in order to buy political goodwill from the constituents. Key respondents corroborated these findings and put it this way:

".... mostly MPs use these funds to finance immediate welfare needs of their constituents in order to appease their supporters and score political points"

Another one observed:

"...MPs have used these funds for welfare needs such as buying of coffins and or cash handouts to their political supporters and not on projects that benefit wider population"

Another respondent also agreed:

"...when it comes to CDF, MPs think it's their money and most of them are really powerful and connected so councils have no say in how this money is spent ..."

Audit findings for the councils for three past financial years also agree with these findings. The audit reports revealed gross abuse of the CDF by the MPs through flouting of procurement procedures and guidelines that contravene the laws that govern public finance expenditure.

General Recurrent Fund (GRF)

Between 2013 to 2017 financial years, government transferred about MK4.2 billion as GRF to councils, which represents about 5% of all central government transfers. Further analysis of the GRF transfers show that GRF transfers grew by a marginal 1% per year. However, as a percentage of total national revenues, GRF averaged 0.08% per year which is way below the required 5% that government committed to transfer to councils in the 1998 Local Government Act.

Earlier studies on local government finances by Chiweza (2015) and Kutengule et al. (2014), attributed these trends to a general lack of commitment by central government to fully decentralise spending powers to local government for fear of losing political power especially where opposition political party members were in the majority in the local governments. Apart from loss of power, O'Neil et al. (2014) attributed this to inadequate central government funds as most of the donors have withdrawn budgetary support, demanding more accountability in the face of recent financial scandals in the public sector.

Despite the dismal growth, GRF is one of the few unconditional grants that councils receive that would enable them to implement their own programmes and cover recurrent expenses without direct control from the central government. However, because of insufficient amounts that councils receive as GRF, recurrent costs are barely covered, and gaps are financed by revenues from local sources that would otherwise have been used to fund infrastructure investments. One of the key informants put it this way:

“.....usually this money barely covers running costs of the secretariat and really nothing much on development or investment.....”

Rehabilitation of City Roads

Another significant transfer from central government went towards rehabilitation of city roads. About 16% of all central government transfers went towards rehabilitation of roads for the four urban councils: Mzuzu, Zomba, Lilongwe and Blantyre.

An analysis of the transfers for the review periods show a rapid growth of more than 1000 times, rising from MK600 million in 2014/2015 financial year to MK8 billion in 2016/2017 financial years. Moreover, for Blantyre City Council, the grant moved from MK150 million in 2014/2015 financial years to MK2.5 billion in 2016/2017 financial years.

The sharp increase was necessitated by the rising road construction costs that are generally high and quoted in foreign currency. The study found that road works were being stopped due to insufficient funds and additional funds had to be provided in the successive budgets to complete abandoned work and start new projects.

One of the participants observed:

“...road construction costs keep rising because contractors quote in dollars, and mostly by the end of construction period the locally denominated budget is exhausted...”

Respondents were of the view that this grant has eased the council's budgets and enabled them to upgrade and construct new roads within the cities.

One respondent observed:

“...the roads grant has greatly helped the city improve its road network and has freed up other resources for other service delivery required within the city”

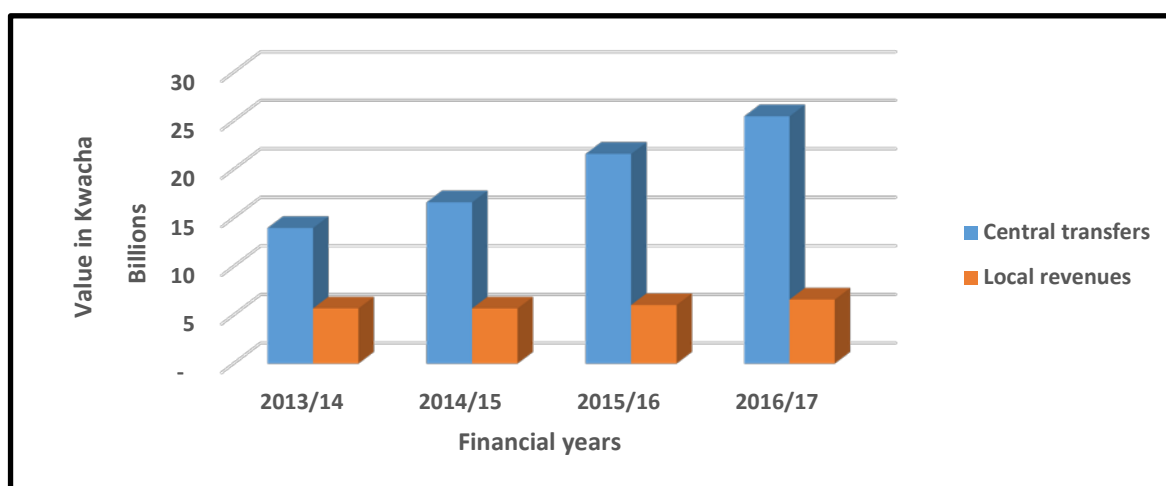
4.4.2 Locally Generated Funds

The Local Government Act authorizes local governments to mobilise revenues from property rates, business licensing fees, service charges and commercial undertakings. Despite this wide of array of tax sources, local councils' own contribution to total revenues remain dismal. Most of the lucrative tax resources were with the central

government and as a result, local councils over-relied on property and service charges to generate revenues, as a key respondent observed:

“...the revenue base for councils is really narrow mostly revenue comes from property levies and market fees...”

On average, district councils are able to contribute 20% towards total revenues from own sources, while urban councils contribute a little over 60% on average. The differences in contribution between urban and district councils have been attributed amongst other reasons, to tax base width and allocation base by central government. The study found that urban councils had a generally wider tax base than district councils and hence larger share coming from own sources. Secondly, according to policy, central government transfers are based on population and poverty rates. According to Manda (2015), poverty rates in urban areas are lower than district councils with approximately 8% of urban residents being poor compared to their district counterparts, where on average more than 50% are considered to be poor. Therefore, the proportionate central government grants is higher in district councils than it is in urban councils.

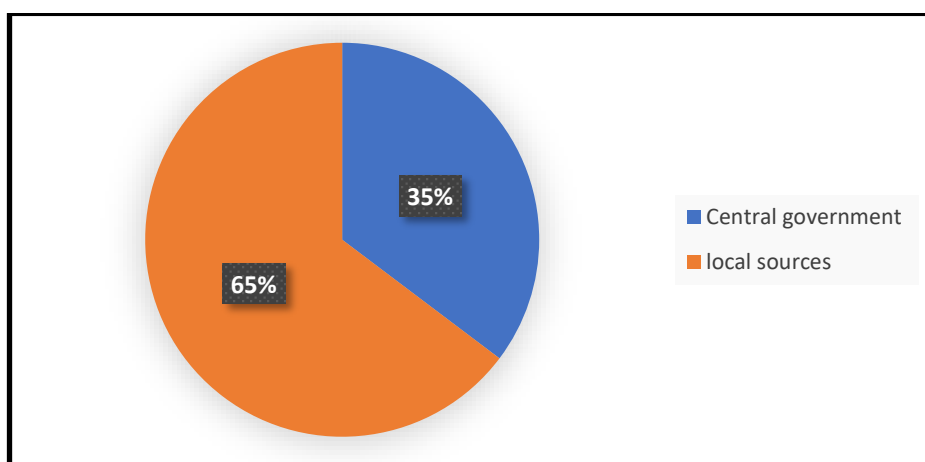


Source: own compilation from National Local Government Finance Committee (NLGFC) consolidated statements

Figure 4.3: National trends of the comparison between all central government and all local councils' own revenues

Figure 4.3 above compares locally generated revenues to central government transfers for all councils. For the periods between 2013/2014 to 2016/2017 financial years, central government transfers continued to steadily increase while locally generated revenues remained fairly constant averaging around 24% per year.

Like most of the urban councils in Malawi, Blantyre City Council receives limited central government transfers which are largely conditional transfers, therefore local revenues are of critical importance. **Figure 4.4** below shows the revenue composition for the Blantyre Council.

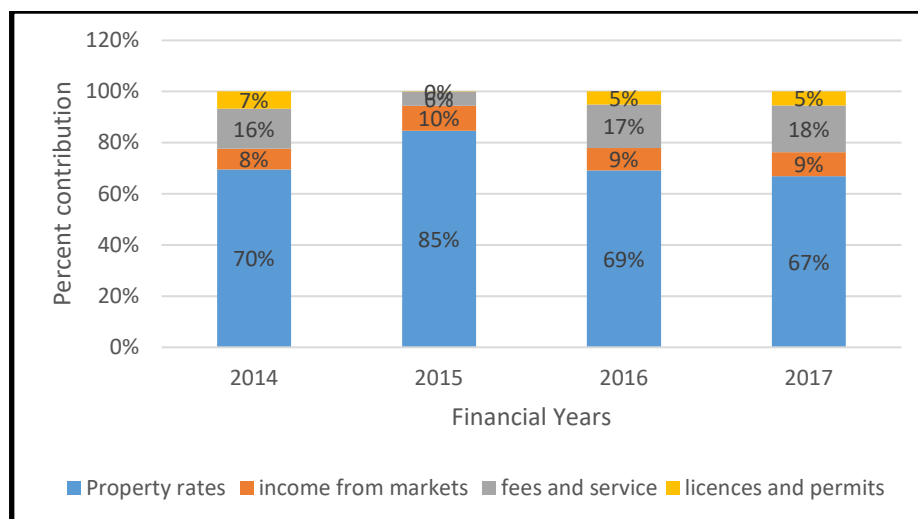


Source: own compilation from National Local Government Finance Committee (NLGFC) consolidated statements

Figure 4.4: Revenue composition for the Blantyre Council

Between 2013 to 2017, the council generated a total of MK10 billion from own sources which represented about 67% of total revenues for the period. Most of this locally generated revenue came from property rates, business licensing fees and service charges.

Figure 4.5 below shows the composition of the locally generated revenues for Blantyre City Council between 2013/2014 financial years to 2016/2017 financial years.



Source: own compilation from National Local Government Finance Committee (NLGFC) consolidated statements

Figure 4.5: Composition of the locally generated revenues for Blantyre City Council (2013-2017)

Property rates

Property rates' contribution averaged 75% for the four year period making it the most significant revenue source for the council. This revenue was collected from a small proportion of properties within the current property roll of the council. However, this property roll is heavily understated. In an earlier study by World Bank (2016), it was estimated that the current property register contains only a third of all total taxable properties within the city. Chiweza (2015) observed that the current register was last updated in 2005 and therefore, all new properties or property improvements have not been included in the current property roll. One of the key informants observed:

".... property records are not up to date. The roll does not have all properties especially from newly built up areas ..."

Apart from outdated registers, the study found that the council was running with high property tax arrears and hence losing prospective revenues. Some respondents revealed that high property rates deterred property owners from paying, as the rates were genuinely above the means of most property owners. Additionally, no dispute resolution mechanisms were in place in case of disagreements in values, and as a result, most of the property owners have no place to lodge their dispute and or have

the values reassessed; hence the buildup of the rates year on year. One of the key participants observed:

“...most of the property values do not match properties and owners are genuinely unable to pay because the amounts are beyond their abilities...it’s doubtful that such figures will be realised as council funds one day....”

These findings corroborate an earlier study by World Bank (2016) that found that property rates were higher than actual property values due to prevailing valuation methods. Additionally, the study discovered that the billing system would automatically add a penalty fee of 4% on an invoice that was not yet due. As a result, the property rates invoices were highly inflated, and most property owners were unable to pay and with no place to lodge a dispute, property arrears built up.

Another challenge that affects property revenue collection is the existing legal framework that governs local authorities and other related institutions. An earlier study by the World Bank (2016) found that in some instances, councils have been unable to collect property taxes due to a lengthy process of gazetting ratable areas for property tax within their jurisdiction.

User fees

Another significant source of revenue for the Council came from user fees. These are charges for use and access to markets, bus terminals and street parking. A total of MK1.1 billion was realised from service fees for the period 2015 to 2018, which contributed approximately 23% to total local revenues. However, there is an opportunity for the city council to collect more than the current rate. Respondents observed that most revenue from market fees and service charges was lost through theft and general unwillingness of market users to pay the tax.

One respondent observed:

“...most of the fees collected in markets is stolen by revenue collectors through issuance of fake receipts ...sometimes officers do not issue receipts and in return receive the lesser amount and pocket it”

Another respondent observed:

“... conditions in the markets are unpleasant...the facilities lack basic amenities and just generally filthy as such most market users refuse to pay fees on the account of poor service availability”

The study also found that most of the local councils are generally unmotivated to aggressively mobilise local revenues for fear of becoming politically unpopular, thus such revenue mobilisation is left to secretariat staff only. The elected ward councilors are not actively involved in revenue mobilisation programmes. One respondent observed:

“...there is lack of political willpower especially from elected representatives to get involved in revenue mobilisation for fear of becoming unpopular with their voters ...”

Another challenge contributing to low revenues was general resistance by companies to pay user fees and business licensing fees. The study found that revenue collectors were facing resistance from taxpayers especially from market and business licensing sections due to the poor state of public facilities. The study also found that the recent wave of mismanagement of public funds has also brought about general resistance from the people to pay taxes.

One respondent put it this way:

“...state of public facilities is poor, as a result people are refusing to pay rates ...newspaper reports of misuse of councils funds has also made matters worse”

These findings agree with findings in a study by Chiweza (2015) that found that most market users refused to pay market fees because of the poor state of public facilities within markets. Most markets were found to be without basic public amenities such as toilets, water and lighting and users justified their refusal by claiming to use the money to procure the services from private service providers.

Business licensing fees

Another significant source of revenues for the council came from business licensing. Between 2013 to 2017 financial years, fees from business licensing amounted to

MK469 million, which represented about a 5% contribution to total local revenues. Respondents observed that most of the revenue from business licensing was being lost at point of collection through collusion and corruption because of the current revenue collection process. Apart from losses at the point of collection, revenue was affected by inadequate accounting skills and systems, which affect the level of tax collected.

One key informant put it this way:

“...revenue theft and collusion are quite high; revenue collection and management systems leave a lot to be desired...”

Another one put it this way:

“...most of revenue collectors connive with business owners and pay less in exchange of a fake license and sometimes money collected is not banked”

Another challenge affecting revenue collection from businesses licenses is the complicated licensing schedule that necessitates issuance of multiple licenses to business owners. This increases the rate of default and increases costs of compliance by councils' compliance teams.

Regulatory challenges have also impacted levels of revenues generated from business licensing. According to a study by Kelly et al. (2001), the Business Licensing Act allows the central government to collect licensing fees from foreign owned businesses despite this having been devolved to local councils in the Local Government Act.

4.4.3 Borrowing

Section 44 of the 1998 Local Government Act gives freedom to councils to access outside financing to finance their programmes and activities. However, this freedom is subject to other legal frameworks that govern public financing. So far councils have not pursued borrowing, mainly because their fiscal health is not attractive to external financing institutions (World Bank, 2016). The few that have managed to access credit have been through short term products accessed to finance temporary financial needs.

Key respondents from financial institutions were of the view that credit facilities would be easily extended towards projects that would make enough money to finance own repayments.

One key informant put it this way:

“...public institution are risky borrowers, but we would not hesitate to extend credit for economically viable business ideas or projects that would make enough funds to service the loan...”

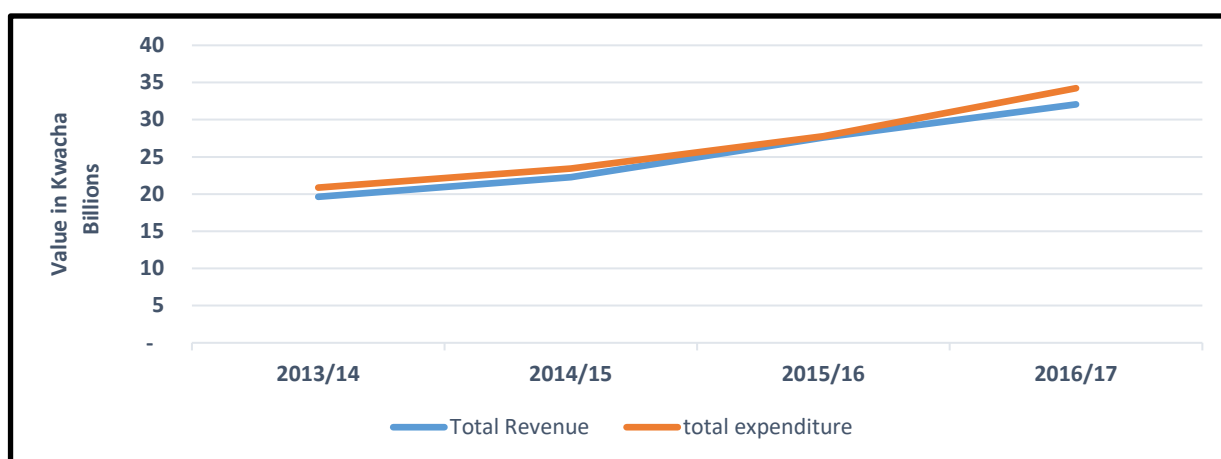
4.5 REVENUE PERFORMANCE AND STRATEGIES FOR IMPROVEMENT.

The study sought to evaluate the adequacy of the current revenues for local government and then to find strategies for optimising them. This section presents revenue performance challenges and strategies for revenue improvement.

4.5.1 Revenue performance

The study found that current revenues are not adequate and that councils mainly use their existing revenues to cover the recurrent expenditure budget.

Below is the presentation of the revenue performance for councils in meeting both recurrent costs and capital expenditure.

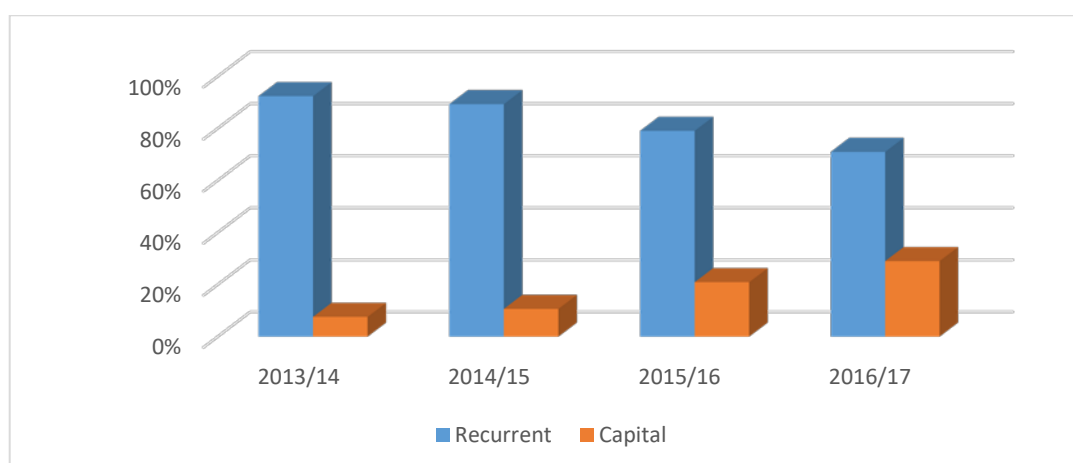


Source: own compilation from National Local Government Finance Committee (NLGFC) consolidated statements

Figure 4.6: Expenditure and revenue trends for 2013/2014 to 2016/2017 fiscal years

Data analysis for national expenditure and revenue trends for local government reveal that council's resources are highly constrained. Between 2013/2014 and 2016/2017 financial years, total detailed expenditure budgets for local councils stood at MK156 billion, while total revenues that were finally realised were MK101 billion. Out of the total revenues realised, over 95% came in as conditional funds from central government and only 5% were discretionary funds from both government and own sources.

Councils spent over MK90 billion on recurrent expenses and only MK10 billion was spent on capital investments. Most councils run high recurrent costs due to high staff and equipment costs, as most of them are directly involved in production and supply of public services that are labour intensive. The study found that most of the capital expenditure that was done happened due to conditional grants; otherwise if the amounts came from unconditional grants, most councils would have spent the funds towards shortfalls in recurrent budgets. The study found that mostly capital expenditure items that were implemented from the Council Development Plan were those that were aligned to central government priorities such as school blocks and roads and received direct conditional funding from central government.

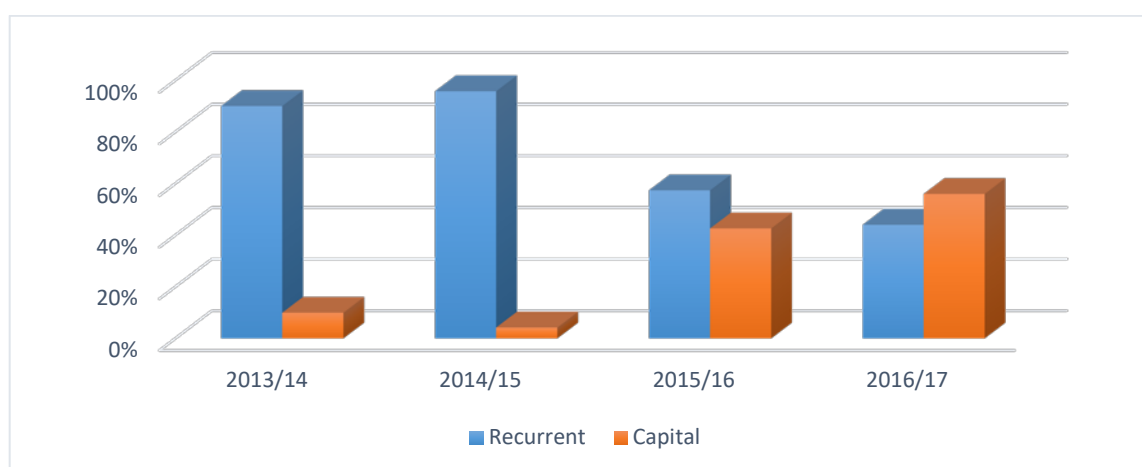


Source: own compilation from National Local Government Finance Committee (NLGFC) consolidated statements

Figure 4.7: Revenue utilization between capital and recurrent budget

Figure 4.7 above shows national trends on revenue usage by councils. On average, councils allocated most of their funds towards recurrent expenditure, rather than on capital investment expenditure. The improvement in capital expenditure experience

between 2014/15 to 2016/17 financial years, was as a result of a conditional road maintenance grant for urban councils for rehabilitation of city road networks.



Source: own compilation from National Local Government Finance Committee (NLGFC) consolidated statements

Figure 4.8: Revenue utilisation for Blantyre City Council

Figure 4.8 shows Blantyre City Council trends over the four year period. The council's total revenue estimates for the four year period was MK20 billion; however only MK15.1 billion was made available to the council. Projected capital and recurrent costs were split at 50% each for both capital and recurrent costs. However, a large chunk of the available revenues was spent on recurrent costs rather than on capital items.

The growth in capital expenditure experienced between 2015 to 2017 financial years was as a result of the conditional grants from the central government earmarked for the rehabilitation of its roads.

4.5.2 Issues and strategies

The study sought to find the main challenges affecting funding in councils and strategies to overcome the challenges and ways to optimise the current revenue sources. The major finding is that generally, local governments own revenues are insufficient to meet its service delivery requirements. For district councils, only about 20% of their revenues come from local sources while more than 80% from the central government. The situation is slightly different for urban councils who generate approximately over 60% from own sources.

Low levels of own revenues affect local governments' ability to meet service delivery responsibilities and since most of the grants from central government are conditional, councils are unable to use the resources provided for other priority areas that fall outside earmarked purposes. The following sections now presents some of the factors that negatively affect revenue mobilisation for local councils and the strategies that councils can use to increase their level of revenues.

Financial management processes

The study found that most of the current revenue collection methods expose revenue to loss through theft, corruption or evasion by taxpayers. This finding is consistent with findings of an earlier study by Chiweza (2015) that found that more than 50% of revenue from locally generated sources, was being stolen between the point collection and receipting due to revenue management systems. This trend continues and mainly affects business licences, market fees and user charges where manual collection by revenue officers is still in practice.

Respondents revealed that most of the revenue collectors do not issue receipts and instead pocket the money collected from rate payers. At times, fake receipts are issued in place of genuine ones and in some instance's revenue collectors under- declare collections. The study found that frequently supervisors are involved; thereby weakening the whole accountability system.

The respondents observed:

"...most of the revenue collectors under-declare revenues and unfortunately sometimes this happens with the full blessings of their supervisors...."

Another key informant observed:

"...with manual collections, it's difficult to trace revenues, especially from markets and street parkingsome of the officers' issue fake receipts"

Councils should consider investing in electronic payment and payment platforms to reduce the revenue leaks. Implementation of electronic payment platform in Uganda improved revenue collections in some of the local councils. In a study commissioned by the Ugandan government and carried out by Interface Consulting (2012), study

results revealed marked improvements in revenue collection rates and marked down compliance costs after the introduction of mobile payment platforms and one-stop payment kiosks. Before the introduction of the payment reforms, Ugandan councils had high rates of revenue theft, fraud and non-payment of services provided by the councils.

In another similar study by Oduor, Sevilla, Wanyoike and Mutua (2016) on Kenyan local councils, the introduction of mobile electronic payments reduced revenue pilferage because of the ability to instantly update records, issue receipts and bank payments immediately, without physical cash transfers. However, electronic payment systems are limited; nevertheless, an electronic payment system helps to solve part of the problem and should be introduced in addition to other administrative reforms, for them to make significant differences as not all pilferage is as a result of physical cash handling only.

Property tax administration

The study participants revealed that the current property database limits revenue collection because the registers are outdated and do not contain sufficient details for taxation purposes. In another earlier study, Kelly (2001), estimated that more than two thirds of the Blantyre City properties are not included in the existing Blantyre City Council property register that was drawn up in 2005.

Sections of the Local Government legislation contain provisions that limit the persons who are allowed to update property rolls. According to section 67 of the 1998 Local Government Act, property rolls can only be updated by certain specified valuers and through individual property valuation methods. These requirements have cost and time implication due to scarcity of the prescribed skills and costing of services adopted by the valuers. Valuation fees are charged as a percent of the determined property value which casts doubts on objectivity of the valuation process (Chiweza, 2015). The Act is also silent on dispute resolution mechanisms which leaves property owners with no place to complain in case of disagreements in values.

To improve on the property tax administration, a review of the current Local Government Act is critical in order to change to mass valuation methods and allow

other valuers to value properties and update records. A pilot study conducted by Fish (2015) in one of the urban councils in Malawi on property rates administration, found that mass valuations yielded faster and cheaper results for the councils and also improved revenue mobilisation from property taxes by the council. The revenues for the city council doubled and more properties were included in the business register than had been the case before the implementation the pilot study. However, since the study concluded, the recommendations are yet to be legislated and rolled out to other councils throughout the country. However, mass valuation methods will be a challenge in areas where properties are of not uniform build and value and hence disputes on rates charged will likely arise.

The current Local Government Act contains clear provisions in cases of default on payments for property taxes, however implementation has been a challenge due to lack of political will power (Kelly et al., 2001). Additionally, the remedies as contained in the Act are administratively cumbersome for the councils to implement (World Bank, 2016). To enforce payment without resorting to harsher remedies, councils should be allowed to place charges on properties that have arrears so that owners do not sell or use them as collateral with financial institutions, with the hope of forcing them to pay the arrears first in case of a sale.

Locally generated revenues mobilisation

Presently local councils in Malawi rely on central funding for their major capital investment projects. The amounts of own generated revenues are generally low, thus as a result, councils over-rely on central government transfers to finance their programmes and activities. This dependence affects council's autonomy as most of the funding from the central government comes with conditions.

This study found that on average, council's own revenues contribute about 30% towards total revenues which means that the centre controls 70% of local authorities' programmes and activities. The situation is different for urban councils such as Blantyre City Council, that manage to contribute more than 50% towards total revenues. Despite the higher rates, most of these funds go towards financing recurrent expenditures, with capital expenditure budget mainly being funded through central government grants.

Study respondents believe the councils can do better and generate more revenue from local sources. However, the council faces various challenges that hinder its revenue mobilisation efforts, some of which are discussed in the paragraphs below.

Most taxpayers lack information on their tax obligations, payment systems and the direct benefits of what their taxes bring about. As a result, most of them evade or resist paying taxes, which in turn affects revenue levels. The decline in service delivery especially within market centres, compounds the challenge of fees collection. One respondent observed:

“...taxpayer resist paying taxes especially with the breakdown of service delivery especially in visible places that councils are supposed to provide services ...and enforcement is a nightmare as they basically refuse to pay...”

Low local revenues have also been attributed to lack of political willpower demonstrated through lack of involvement in revenue generation efforts by councilors. Instead most councilors do not get involved in revenue mobilisation efforts and at times interfere when secretariat staff impose penalties on taxpayers in order to collect rates. A key informant observed:

“..councilors are most invisible in revenue generation efforts for fear of losing political popularity and at times interfere by waiving sanctions imposed by secretariat staff in their efforts to collect rates from defaulting residents...”

Again, the inadequate financial management capacity of secretariat staff in revenue management and collection has been cited as another challenge that affects local revenue mobilisation. Apart from staff capacity, lack of proper reward systems for revenue collectors affects collection rates

“..all revenue collectors receive the same amount despite the collection efforts which discourages those who would want to work hard and collect more...”

Enforcement mechanisms leave a lot to be desired. Most of the enforcement teams use harsh and militant methods that yield little returns. Relationships are also destroyed, and compliance further affected as taxpayers resist and rebel against the mechanisms used by enforcement teams: A key participant observed:

“.... generally, enforcement teams lack relationship building skills and use force to enforce collection. As a result, taxpayers evade and find new ways of evading tax...”

In order to improve local revenue mobilisation efforts, involvement of councilors is important as they have the grassroots support from their constituents. It is important for both councilors and secretariat staff to speak the same language in matters of revenue generation.

Awareness campaigns will go a long way in letting resident know their tax obligations and what councils are doing with the taxes collected. Revenue collectors need to be capacitated in relationship-building rather than the use of force that is currently being employed. In a study by SEATINI (2014) for local government in Uganda, results revealed that awareness of tax use and responsibilities, has a direct effect on tax compliance levels. Study results revealed that those citizens that were aware of the tax use and responsibility were likely to pay than those who were ignorant

Local assemblies should set up a reward system that rewards outstanding performance for revenue collectors. In an earlier study for Blantyre City council by World Bank (2016), revenue collectors were willing to do more if they were going to be properly rewarded for their efforts.

Local councils should also implement rejuvenation programmes that would see places of interest attracting economic activities. These would bring in revenues and also stimulate economic activities, thereby expanding the tax base. In addition to awareness and reward systems, central government should commit to surrounding all the ceded revenue as per the regulations.

Business licensing processes

The study further found that the licensing schedule is inflexible, complicated and renewal periods are short. Additionally, business licensing covers limited businesses and business registers are outdated, leaving out many of the businesses currently operating within the city. Again, business licensing for foreign owned firms is still being carried out by the central government which serves to reduce revenues for councils.

For most business owners, costs of compliance are too high either due to inflexible schedules or because of multiple licenses running for short periods.

Councils with the support of the Ministry of Local Government, should embark on a reclassification process and introduce flexible licensing methods by allowing longer periods and a license per business category and/or value through the introduction of single business permits. Single business permits would serve to reduce the costs of compliance and increase the tax base by increasing the number of businesses included in the licensing (Devas and Kelly, 2001). For example, in a pilot study in Kenya where single business licensing was introduced, the results of the study found that revenues for most local authorities grew to more than double due to increase in coverage and reduction in costs of compliance (Devas and Kelly, 2001). Similarly, another pilot study for Entebbe in Uganda revealed that the introduction of the single business permit and a one stop centre reduced the number of days, and compliance levels increased by 43% while revenue grew by 40% (Sander, 2003).

4.6 CHAPTER CONCLUSIONS

Current sources of revenues for local governments are inadequate. Local councils rely on central government transfers to fund their operations with an average contribution of over 70% of total revenues. Urban councils are able to generate more revenue from local sources due to their wider tax base; however most of these funds go towards meeting recurrent costs for the councils.

Low own revenues have been blamed on some of the following challenges: financial mismanagement, over-reliance on central government transfers, outdated legal provisions, political interference, capacity challenges, tax evasion and resistance from taxpayers, corruption and theft.

Councils will have to renovate their approach to public service delivery and pursue reforms that will reduce costs in order to improve their local revenue generation capabilities. Improvements in internal systems and process will also help seal revenue losses through theft and pilferage. Central government will need to support local governments by providing policy and enacting enabling regulatory changes that will

strengthen the legal systems of local government, so that a local council's revenue situation can change.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter presents a summary of study findings, conclusion and recommendations. In Malawi, local councils mainly depend on central government transfers to finance their programmes and activities. Of late the central government budget is highly constrained, as the main donors who provide budgetary support, have been pulling out and/or demanding more accountability for their resources before they can release new funds. As a result, transfers to local council funding have declined as central government deals with other competing priorities. This has led to a general service delivery breakdown in councils. It has therefore become critical for local councils to relook at their funding mechanisms. This study's purpose was to evaluate existing funding mechanisms for local authorities in Malawi and explore options and/or alternative funding mechanisms. The study objectives were: firstly, to examine the current state of funding mechanisms for Local Authorities; secondly, to evaluate the adequacy of the current financing options for local authorities and identify strategies for optimising them; and lastly to make recommendations on alternative funding mechanisms that the local authorities could utilise.

5.2 SUMMARY FINDINGS

In order to achieve the objectives of the study, four research question guided the study, and these were: What are the current sources of revenues for Local Authorities? What levels of funding does each source currently generate and contribute towards service delivery? What strategies can the local authorities implement in order to fully optimise the current revenue sources? What alternative sources of funding are available to local authorities to explore within their current legal frameworks?

The summary findings and conclusions are presented as per the study objectives as follows:

5.2.1 Sources and levels of funding

The study found that the main source of funding for local governments in Malawi were transfers from central government. Currently grants from central government to councils come through sectoral transfers, Constituency Development Fund, General Resource Fund, Infrastructure Development Fund and Rehabilitation of City Roads grants. Central government grants make up more than 80% of district councils' total revenues unlike urban councils, who receive less than 30% from central government. District councils make up more than 90% of all councils in Malawi which therefore means that local governments' main source of revenue are transfers from central government.

Out of the 35 councils, only four of the urban councils were able to supplement their revenues from local sources. Revenues from locally generated sources make up a very insignificant figure. Some of the sources of local revenues are property taxes, service charges and business licensing. The study found that between 2013 to 2017, locally generated funds made up an average of 30 % of all total revenues available to councils. These were mainly coming from the four urban councils of Blantyre, Zomba, Mzuzu and Lilongwe.

These revenues mainly go towards funding recurrent costs. Capital expenditure budgets are still being wholly funded by external funding, either from central government or through donor funds. Such a funding status has taken away council's independence as most of the funding from the centre is conditional, and as such, councils have no say in how the funds are spent. Due to insufficient locally generated revenues, councils are unable to finance their own programmes as contained in the development plans, which would have improved service delivery. Therefore, adequate own resources would enable local governments meet their prioritised programs, more than is currently the case.

5.2.2 Adequacy and challenges and strategies

There were gaps between councils' budgets and total fiscal resources available to councils, revealing that currently councils face serious shortages of funds to finance their budgets. Analyses of data for the period 2013 to 2017, revealed widening gaps between available resources and councils' needs both in the recurrent and capital

expenditure budgets. Most of the capital expenditure that is currently being done, is through already earmarked funds from the centre. Most of the projects that were identified locally are yet to be implemented due to inadequate funding.

Generally, the study found that local revenue mobilisation meets a lot of challenges that negatively affect levels of revenue obtained. Various challenges affect the local authorities' ability to generate and access sufficient funds to finance their service delivery requirements. Some of the challenges identified were: financial mismanagement, overreliance on central government transfers, outdated legal provisions, political interference, capacity challenges, tax evasion and resistance from taxpayers, corruption and theft.

Local government needs to address these challenges if councils want to begin to champion their own programmes in order to meet their mandate. Paramount to these strategies is the need to review the current LG Act in order to facilitate revenue collection and enforce compliance. Additionally, councils need to be deliberate in their engagement with their constituents to provide tax education benefits and responsibilities. Councils should also pursue modernising their systems and processes in order to seal revenue leakages. Councils should also reconsider their service delivery models through considering outsourcing or PPP arrangements through private partnerships.

5.3 CONCLUSIONS

The study findings summarized above lead to number of conclusions that could be drawn by this study:

The study found that the main sources of funding for local government in Malawi were transfers from central government. The study therefore concludes that the narrow range of funding sources in local authorities seems to be affecting service delivery. Local authorities' dependence on central government transfers is of great concern as it affects quality of service delivery and council's independence. Currently, local governments are acting as implementing agencies for central government programmes and not able to implement their own programmes that would help improve quality of service delivery. There is a widespread breakdown of service delivery in most

areas of local government responsibilities due to limited and constrained financial resources. It is therefore critical for councils to turn their attention to mobilising revenue from their own sources so as to champion projects that will help improve service delivery.

In evaluating the adequacy of the current financing options for local authorities in Malawi, the study therefore concluded that the current sources of local revenues are not being fully exploited. Own source revenues are advantageous as councils are allowed to spend these on any of their programmes without accompanying instructions from central government. Therefore, sufficient own source revenues would go a long way in enabling local authorities to implement initiatives that have been identified locally. Councils will be enabled to make investments in infrastructure and skills that would help improve service delivery.

The study identified a number of strategies for optimising financing options by local authorities in Malawi. It therefore can be concluded that local authorities have varied options that they could pursue to increase their funding base. The funding challenges for local authorities are then reduced to the lack of initiative by the local authorities to pursue other funding sources. To supplement current revenue sources, council would have to start looking elsewhere for funding especially for large infrastructure projects. Presently credit ratings for most of the public institutions in the country are poor as a result of lack of credit history and/or quality of financing proposals presented to financial institutions. In order to access this revenue source, councils need to improve their internal processes and generate business ideas that are self-financing so as to access financing from external sources.

Additionally, the legal environment will need to be strengthened in order to fully exploit current sources and attract external financing. Amendments to the current Local Government Act to incorporate changes to property and business licensing procedures would enable councils to fully exploit revenues from both these sources. Strengthening of other public finance management legislations would also help attract donors and other financiers to partner with local government in financing their projects. Currently, mostly external financiers are hesitant to get involved in public financing because of the feeling that the legal environment is not tough on offenders or enforcement of

financial agreements. Additionally, financial systems and processes will have to be strengthened in order to seal leakages in revenues.

Local councils also need to invest in financial capacity building initiatives for both personnel and infrastructure. Councils need to prioritise staff training and hiring the correct personnel to manage councils' finances. Oversight committees also need to be provided with external technical support to enable them carry out their responsibilities appropriately.

Councils should also look into building relationships with taxpayers through awareness and deliberate initiatives aimed at building relationships. Political personnel of the councils need to take a leading role and speak one language with council secretariat staff.

5.4 RECOMMENDATIONS

The section puts forward suggestions on options and alternatives that councils should consider pursuing to enhance their fiscal health and/or reduce revenue loss.

5.4.1 Optimisation of current processes and mechanisms

Outsource service delivery

Councils should consider outsourcing some of the services that they currently run in-house such as waste removal, street cleaning and gardening. One of the key findings for the study was high recurrent costs that include wages and maintenance of equipment for in-house service delivery operations. The council could benefit by outsourcing refuse removal service to private organisations rather than the current in-house operations. Private sector institutions are believed to be more cost effective and the council will also reduce its payroll and running costs for this service.

Improve property taxation administration.

The study revealed that the councils face challenges to fully utilise property tax. There are high arrears, some dating back to over ten years ago, while at the same time there is revenue that is being lost due to outdated property rolls that do not contain a record of current properties within the city's rateable arrears. Further, the property valuation

method has at times inflated property values to levels that property owners cannot afford to pay.

The current legal enforcement procedure requires the council to seize and sell the property involved, which is politically unpopular and administratively undesirable for the councils. Therefore, there is a need to review the Local Government Act to allow:

- Changes to valuation procedures, to update property rolls using methods that are easy to administer and cost efficient, such as mass valuation approaches compared to the individual property valuation approach.
- To introduce enforcement procedures that are easier and practical to enforce by allowing councils to place charges on property that has property arrears, which would force the owner to clear arrears in case they want to sell or use it as collateral at financial institutions.
- Establish an institution that can review work of property valuers in case of disputes in valuation value.

Modernise payment processes and systems

Most of the current revenue collection methods expose revenue to loss through theft and/or corruption or evasion by taxpayers. The study found that over 50% of revenue from locally generated sources was being lost through theft or corruption, due to these methods. The study further found that a big chunk of unaccounted for revenue is lost through evasion because revenue collectors must physically collect tax from taxpayers. Council will need to make investments in systems to modernise current payment systems in order to minimise loss of revenue through these vices.

Councils should consider:

- e-payment platform and service kiosks with computerised systems of invoicing and receipting for some of its service charges such as street parking, market access, business licences. These could include use of mobile payment systems.
- introduce long term parking discs other than the daily parking charges currently in place and provide incentive for longer term payment through use of discounts.

- Modernise the billing system by allowing e-billing platforms especially for business licensing and property taxation other than the current system of mailing property tax invoices.

These innovations will benefit the Councils twofold: reduced payroll costs and improvement in financial management by reducing leakage through human actions.

Simplify business licensing process

The study found that business licencing process is not transparent and encourages wilful and unwilful default. The list of business licences is too long and not consistent with current business operating models. In some instances, business owners are required to pay for various licences for their single business due to classification of the licencing system.

Council could encourage compliance through:

- Review and simplify the business classification process and licensing through adoption of single licenses determined through type and size of business.
- Segment businesses into those requiring longer term licences and those requiring short term renewals to reduce costs associated with compliance.
- Increase coverage through updating business registers through cooperation with other institutions that keep business registers such as Malawi Revenue Authority, Registrar General and Ministry of Trade.
- Publicise business licencing process and rates through public channels and modes, so that people are aware of what they are supposed to pay.

Establish taxpayer education office

The study found that most rate payers do not have information on taxes that are applicable, the process of paying, rates determination and places to pay. There is also general resistance to pay tax because of poor service delivery. Again, council's enforcement teams are usually militant in their approach to tax collection which destroys relationships with taxpayers. To encourage compliance and build relationships, the City Council should consider:

- Establishing taxpayer education programmes to educate and provide the public with information on rates, fees, services, costs, pay points, liabilities and demonstrate how councils utilise these revenues in service delivery.
- Improving customer service delivery through training their teams to move from a militant approach to a relationship-building approach in tax enforcement processes.
- Creating an active customer feedback centre where residents can report and ask for service delivery and other feedback on city council services.
- Improving public facilities and service delivery to customers.

5.4.2 Explore new options

Telecommunications equipment levy

Currently, telecommunication companies do not pay any levy to councils to elect any of their communications equipment. Councils should pursue this source and charge communications companies for using council land and air space.

Development fees

Development fees applicable to developments on council land are too insignificant at between 90-100US dollars. Councils should reconsider this charge and increase the amount payable to reflect current costs of providing council services to such areas.

Tourist establishments levy

Currently guest houses or tourist establishment do not pay any fees to local councils other than normal property rates. Councils should consider charging a fee for guest and tourist service providers to benefit from tourists who visit the city.

Refuse removal charge

Refuse removal is currently one of council's free services. Councils should start to charge for refuse removal in low density areas before moving to other high density areas.

Mineral levy

Councils do not charge any levy, nor do they receive any transfers from government on mining activities within their jurisdiction. Councils should start to collect mining levies from mining activities that fall within their jurisdiction.

PPP agreements

Councils have embarked on very minor PPP agreements, where private sector organisations take over taking care of councils' roadside gardens and main roads roundabouts in exchange for free advertising. Council should consider going into more significant arrangements with private sectors where private firms get involved in provision of services and or facilities for service provision or facilities that generate revenue. The initiatives could include some of the following: building shopping complexes, lodging places, housing, public transport system, refuse removal and waste recycling.

5.5 LIMITATION OF THE STUDY

This research met a number of challenges especially during data collection. The main challenge was general resistance by some council officials to provide financial data which caused the data collection process to go beyond the planned period. Most of the financial records are classified; therefore, data that has been utilised is that which is already in the public domain in the form of financial budgets and financial reports.

There was also general fatigue amongst participants, especially from the case study council because of numerous study interviews that they provide to other students from the university nearby. This also lengthened the study period as participants kept changing the time committed to interviews.

Access to high quality data, especially financial reports, was also a major challenge in this research as most councils do not keep such records.

5.6 AREA FOR FURTHER RESEARCH

This research focused on internal funding challenges faced by councils that constrain their service delivery efforts. There is a need to conduct research to get views of

taxpayers on challenges that they experience in paying local taxes, their interaction with local councils with regard to tax payments and how systems and processes can be improved to make it easy for them to comply and hence improve council's local revenues.

REFERENCES

- Akudugu, J., and Oppong-Peprah, E. (2013). Local Government Revenue Mobilisation and Management: the case of Asante Akim South District Assembly, Ghana. **Journal of Public Administration and Governance**, 3(2)
- ARD (2004) **Alternative Sources of Revenues for Financial Sustainability: A Case of Local Governments in Rwanda**. USAID/MINALOC, 2004.
- Banerjee, A., & Chaudhury, S.(2010). Statistics without tears: Populations and samples. **Industrial Psychiatry Journal**, 19(1): 60–65. Accessed at: <http://doi.org/10.4103/0972-6748.77642>
- Beauchamp T. L. & Childress, J., (2012). **Principles of Biomedical ethics**, Oxford University Press: Oxford
- Boex, J. (2015) Vertical assignment of responsibilities and expenditure responsibilities. **LPSI Working Paper**. Washington DC.
- Bolatito, S. and Ibrahim, S.. (2014) Challenges of Local Government Administration in Nigeria; An Appraisal of Nigerian Experience. **International Journal of Science and Research**,3(7):562-568.
- Chandra, J. (2012). Theory of Fiscal Federalism: An Analysis. **MPRA Paper 41769**. University Library of Munich, Germany
- Chinsinga, B., (2007). District Assemblies in a Fix: The Perils of Self-Seeking Tendencies in Decentralisation Policy Reforms in Malawi. **Africa Development**, XXXII (1):89-111
- Chiweza, A. (2010b). **A Review of the Malawi Decentralization Process: Lessons from Selected Districts**. A Joint Study for Ministry of Local Government and Rural Development/ Concern Universal: Lilongwe.
- Chiweza, A. (2015). **Political Economy Analysis of Accountability for Resources and Results in Local Government Councils**. Tilitonse Fund Project: Lilongwe
- Chiweza, A., (2010a) **A Review of the Malawi Decentralisation Processes: Lessons from Selected Districts**: A Joint Study of the Ministry of Local Government and Rural Development and Concern Universal: Lilongwe
- Chukwuemeka, E., Ugwuanyi, B., Ndubuisi-okolo, P., and Onuoha, C. (2014). Nigeria Local Government: A Discourse on the Theoretical Imperatives in a Governmental System. **African Research Review**, 8(2):305-324.

- Coker, M. and Adams, J. (2012). Challenges of Managing Local government Finance in Nigeria. **Research on Humanities and Social Sciences Journal**, 2(3):1-12.
- Commonwealth Local Government Forum (2015) **Commonwealth Local Government Handbook**. Commonwealth Local Government Fund: London
- Creswell, J. (2013). **Research Design: Qualitative, Quantitative, and Mixed Methods**. SAGE Publications: Thousand Oaks
- Devas, N. & Kelly, R. (2001). Regulation or Revenues? An Analysis of Local business Licenses, with a Case Study of the Single Business Permit Reform in Kenya. **Public Administration and Development**, 21:381–391.
- Dillinger, W. & Fay, M. 1999 From centralized to decentralized governance. **Finance & Development**, 36 (4):19-21.
- Ebel, R. and Yilmaz, S. (2002). On the Measurement and Impact of Fiscal Decentralization. **Policy Research Working Paper; No.2809**. World Bank: Washington, D.C.
- Fish, P. (2015). Practical aspects of mobilising property tax: experience in Sierra Leone and Malawi. **Commonwealth Journal of Local Governance Issue** 16/17
- Fish, P., (2015). Practical aspects of mobilising property tax: experience in Sierra Leone and Malawi Commonwealth. **Journal of Local Governance** ,16/17
- Fjeldstad, O., and Heggstad, K., (2011) The tax systems in Mozambique, Tanzania and Zambia: Capacity and constraints. CMI Report R2011: 3
- Fjeldstad, O., Katera, L., Msami, J. & Ngalewa, E. (2010b) Planning in Local Government Authorities in Tanzania: Bottom-up Meets Top-down. **REPOA Brief No. 18**: Dar es Salaam:
- Fjeldstad, O., Katera, L., Msami, J. & Ngalewa, E. (2010a). Local Government Finances and Financial Management in Tanzania: Empirical evidence of trends 2000-2007. **REPOA Special Paper No. 10-2010**: Dar es Salaam
- Fouka, G., and Mantzorou, M., (2011). What are the Major Ethical Issues in Conducting Research? Is there a Conflict between the Research Ethics and the Nature of Nursing?. **Health Science Journal**, 5(1):3-14
- Golafshani, N. (2003) Understanding Reliability and Validity in Qualitative Research. **The Qualitative Report**. 8 (4), 597-607.

- Government of Malawi (1995). **Constitution of the Republic of Malawi**. Government Press: Zomba
- Government of Malawi (1998). **Malawi National Decentralisation Policy**. Government Press: Zomba
- Government of Malawi (2013). **Approved Estimates of Expenditure on Recurrent and Capital Budget for Financial Year 2013/14 (Output Based)**. Government Printer: Lilongwe:
- Government of Malawi (2014). **Approved Estimates of Expenditure on Recurrent and Capital Budget for Financial Year 2014/15 (Output Based)**. Government Printer: Lilongwe:
- Government of Malawi (2015). **Approved Estimates of Expenditure on Recurrent and Capital Budget for Financial Year 2015/16 (Output Based)**. Government Printer Malawi: Lilongwe
- Government of Malawi (2016). **Approved Estimates of Expenditure on Recurrent and Capital Budget for Financial Year 2016/17 (Output Based)**. Government Printer Malawi: Lilongwe
- Government of Malawi, (1998). **Local Government Act No. 42**. Government Press. Zomba
- Government of Malawi. (2015) **Local Authorities Budget 2015-16**. National Local Government Financing Committee: Lilongwe
- Government of the Republic of Malawi (2009) **National Policy Framework for the Local Development Fund**. Ministry of Finance LDF Technical Support Team: Lilongwe:
- Haggarty, L. (1996). What is content analysis?, **Medical Teacher**, 18(2):99-101
- Haque, A. (2012) Theoretical Perspective of Local Government - Literature Review. **MPRA Working Paper No. 46301**, University of Munich, Germany
- Hsieh, H., and Shannon, S, (2005). Three Approaches to Qualitative Content Analysis Qualitative. **Health Research**, 15(9):1277 - 1288
- Hussein, M. (2017). Local government In Malawi-sighs and sobs in District Councils. **International Journal of Social Sciences and Humanities Invention**, 4(1):3222-3230
- Islam, F. (2015) Minimizing Central-Local Relation using Local Resource Mobilization in Bangladesh. **Journal of Public Administration and Governance** ,5(2):78-99.

- Kelly, R., Montes, M., Maseya, E., Nkankha, K. and Tombere, K. (2001). **Improving Revenue Mobilisation in Malawi: Study on Business Licensing and Property Rates Final Report**. Lilongwe: UNDP/Malawi Government
- Koma, S. (2010) The State of Local Government in South Africa: Issues, trends and Options. **Journal of Public Administration**, 45(1.1):111-120
- Kothari, C. (2004) **Research Methodology and Techniques**. New Age International Publishers: New Dehli
- Kumar, R. (2011). **Research Methodology: A step by step guide for beginners**. Sage: London
- Kutengule, M., Kampanje, R., Chiweza, A. and Chunga, D. (2014) **Review of the National Decentralisation Programme II**. Joint Review of the Ministry of Local Government and Rural Development. Ministry of Local Government and Rural: Lilongwe
- Lacey A. and Luff D. (2007). Qualitative Research Analysis. The NIHR RDS for the East Midlands / Yorkshire & The Humber
- Malawi Government (2006). **Guidelines for the Constituency Development Fund**. Ministry of Local Development and Rural Development: Lilongwe:
- Manda, M. (2015). **Situation of Urbanization in Malawi**: Final Report. Ministry of Lands and Housing: Lilongwe
- Martinez- Vazquez, J., and Smoke, P., (2011). Conclusions in Local Government Finance: The Challenges of the 21st Century. UCLG: Barcelona:
- Martinez-Vazquez, J. (2001). **Intergovernmental Fiscal Relations and The Assignment of Expenditure Responsibilities**. Andrew Young School of Public Policy. Georgia State University: Atlanta
- McLure, C. and Martinez-Vazquez, J.(2000). The Assignment of Revenues and Expenditures in Intergovernmental Fiscal Relations. World Bank Institute, Washington D.C.
- National Local Government Finance Committee (2003) **Financial Regulations and Guidelines for Local Authorities**. Lilongwe: National Local Government Finance Committee.
- NDI (2015). **Power to the People: Guide for Public Expenditure Tracking for Local Governments**. NDI: Washington DC

- Noble, H., and Smith, J. (2015). Issues of validity and reliability in qualitative research. **Evidence-Based Nursing**, 18(2), 34-5.
- Nweke, A. (2013). Securing local government funds for national development: An overview. **Public Administration and Management Journal**, 2(3):217-224.
- O'Neil, T., Cammack, D., Kanyongolo, E., Mkandawire, M., Mwalyambire, T., Welham, B., and Wild, L., (2014). **Fragmented governance and local service delivery in Malawi**. Overseas Development Institute: London
- Odd-Helge Fjeldstad OH., and Heggstad, K., (2012). Local government revenue mobilisation in Anglophone Africa. **CMH working paper WP 2012:6**
- Oduor, C, Sevilla, J., Wanyoike, T. and Mutua, N.(2016). Automating revenue collections in Kenya: A case of Kiambu County, **2016 IST-Africa Week Conference**, Durban, 2016, pp. 1-9.
- Olowu, B. 2001. African decentralisation policies and practices from 1980s and beyond. **The World Bank Working Paper number 334**: Washington, D.C.
- Olowu, D., (1990). The Failure of Current Decentralisation Programs in Africa. Lynne Reinner Publishers: Boulder & London
- Pandey, P. and Pandey, M. (2015). **Research methodology: tools and techniques**. Bridge Centre : European Union.
- Patton.(2001). **Qualitative Evaluation and Research Methods**. Sage Publications: Thousand Oaks
- Rao, M. and Singh, N. (1998). **The assignment of taxes and expenditures in India**. University of California: Santa Cruz, USA.
- RUSCN (2017). Turning CDF Implementation Challenges into Positive Implementation Changes. RUSCN: Lilongwe:
- Saunders, M., Lewis, P. & Thornhill, A. (2009). **Research Methods for Business Students**. Prentice Hall: New Jersey
- Sandford, M. (2016). Public services and local government: the end of the principle of funding following duties. **Local Government Studies**, 42(4): 637-656.
- Schlachter, B., Coleman, M. and Anway, H. (2013) **Fiscal Policy and Governance Committee Key Challenges and Strategies for Local Government**. University of Pittsburgh Institute of Politics.

- SEATINI Uganda (2014). Local Government Revenue Mobilisation, Allocation and Utilization Processes: A case of Kitgum, Lamwo and Pader Districts August. SEATINI UGANDA: Kampala
- Shah, A., (2007). Local Public Financial Management. Public Sector Governance and Accountability. World Bank: Washington DC
- Sikander, T. (2015) A Theoretical Framework of Local Government. **International Journal of Humanities and Social Science**,6(1):171-176.
- Smith, J., and Firth, J. (2011) Qualitative data analysis: application of the framework approach. **Nurse Researcher**, 18 (2): 52-62
- Smoke, P. (2003). Decentralisation in Africa: Goals, Dimensions, Myths and Challenges. **Public Administration and Development**, 23: 7-16.
- Sow, M. and Razafimahefa, I. (2015) Fiscal Decentralization and the Efficiency of Public Service Delivery. **IMF Working Paper No. 15/59**. IMF:Washington, DC
- Srivastava, A. and Thomson, S. (2009). Framework Analysis: A qualitative methodology for applied policy research. **Journal of Administration and Governance**, 4(2):72-79.
- Struwig, F., and Stead, G.(2013). **Research: planning, designing and reporting** (2nd Ed.). Pearson Education: Cape Town
- Sutton, J., & Austin, Z. (2015). Qualitative Research: Data Collection, Analysis, and Management. **The Canadian Journal of Hospital Pharmacy**, 68(3): 226–231.
- Taliercio, R. (2004). Own Revenue Source Revenue Policy and Administration. World Bank.Washington DC
- Tambulasi, R. (2009). Decentralization as a breeding ground for conflicts: an analysis of institutional conflicts in Malawi's decentralized system. **Journal of Administration and Governance** 4(2): 28–39.
- Tavakoli, H., and Hedger, E.(2009) **Public Expenditure in Malawi: Analysis of Trends and Performance**. DFID Malawi: Lilongwe
- Ulla, A. (2010). Financial Resources Mobilization Performance of Rural Local Government: Case Study of Three Union Parishad in Bangladesh. **Asia Social Science Journal**, 6(11):95-115
- UN-HABITAT (2009). **The Challenge of Local Government Financing in Developing Countries**. UN-HABITAT: Nairobi

- UN-HABITAT (2010) **The Human Settlements Finance Systems Series: Challenges of Municipal Finance in Africa**. UN-HABITAT: Nairobi
- UN-HABITAT (2011). **Malawi: Blantyre Urban Profile**. UN-HABITAT: Nairobi
- UN-HABITAT (2015). **The Challenge of Local Government Financing in Developing Countries**. UN-HABITAT: Nairobi
- United Cities and Local Governments (2009). **Decentralization and Local Democracy in the World: First Global Report**. UCLG: Barcelona
- United Cities and Local Governments (UCLG). (2008). **Decentralisation and Local Democracy in the World. First Global Report on Decentralisation and Local Democracy**. UCLG: Barcelona
- Vera, R. and Kim, Y. (2003). Local Government Finance, Private Resources, and Local Credit Markets in Asia. **ERD Working Paper No. 46**
- World Bank (2006). **Local Governance in Developing Countries**. The World Bank: Washington DC
- World Bank (2016). **Malawi Urbanization Review Leveraging Urbanization for National Growth and Development**. World Bank: Washington DC
- Zhou, G., and Chilunjika, A., (2013). The Challenges of Self-Financing in Local Authorities: The Case of Zimbabwe. **International Journal of Humanities and Social Science**, 3(11)

ANNEXURE 1: INTRODUCTION LETTER



South Campus
Department of Development Studies
School of Economics Development and Tourism
Faculty of Business and Economic Sciences
Tel . +27 (0)41 504 4275
Amanda.vandendenBerg@mandela.ac.za

6 July 2018

Ref: Confirmation of Registration for Research

To Whom It May Concern:

This is to confirm that Miss Towera Mvula (217359450) is a registered student on the MPhil coursework in Development Finance Programme and is currently working towards completing her treatise titled: **FUNDING MECHANISMS FOR LOCAL AUTHORITIES IN MALAWI –BLANTYRE CITY COUNCIL**. Her supervisor is Dr Alex Bara.

If you require further information please let me know.

Kind Regards.

A handwritten signature in cursive script, appearing to read 'A. van den Berg'.

Dr Amanda van den Berg
Module co-ordinator: Development Finance

ANNEXURE 2: THE INTERVIEW GUIDE

Demographics Data for respondents

1. What nature is your organization?

Local Authority/ Council	
Banking/ Financial sector	
Private Organization	
NGO/ Donors	
Other (Please Specify)	

2. What is your current profession?

.....

3. How long have you been in your current position?

0-2 Year	
2-5 years	
5-10 Years	
More than 10 years	

4. Rate your level of appreciation/understanding of funding mechanisms for local authorities

Basic	
Moderate	
Advanced	
Professional	

Local government /Council staff

5. In your opinion, how is the council doing towards fulfilment of its objectives?

6. What are the main sources of revenue for the council?

Source

7. In your opinion, what are the main challenges that the council meets in revenue collection?
8. How confident do you feel about the sustainability of your current financing mechanisms in financing your operations?
9. Do you think the council is efficiently deploying funds towards optimizing service delivery?
10. What are the controls in place to guide deployment of funds by councils towards ensuring optimal service delivery?
11. How much of a priority is it for you to actively explore other sources of financing your operations?

Very important	Important	Moderately important	Less important	Not important
----------------	-----------	----------------------	----------------	---------------

12. What other funding options are being pursuing by the council to supplement current revenues?
13. In your opinion, what other innovative funding sources can councils explore to adequately finance operations?

Public financing experts/NGO's/PPP/Donors

14. What funding sources can be made available to councils with the support of your institution?
15. For councils to access funding from your institutions, what are the key requirements that the institutions must meet to access financing?
16. What can councils do to make themselves attractive for external financing agreements
17. In your view, which areas of council operations would be more attractive to external private financing?
18. What have been the major issues in the past regarding public sector institutions funding and or administration of funds by the councils?

ANNEXURE 3: ETHICS FORM E



ETHICS CLEARANCE FOR TREATISES/DISSERTATIONS/THESES

Please type or complete in black ink

FACULTY: Business and Economic Sciences

SCHOOL/DEPARTMENT: Development Studies_

I, (surname and initials of supervisor) _____ Bara A _____

the supervisor for (surname and initials of candidate) _____ Mvula T.I (217359450)

a candidate for the degree of MPhil in Development Finance

with a treatise/dissertation/thesis entitled (full title of treatise/dissertation/thesis):

Evaluation of funding mechanisms for local authorities in Malawi- Case study of Blantyre City Council

Considered the following ethics criteria (please tick the appropriate block):

	YES	NO
1. Is there any risk of harm, embarrassment of offence, however slight or temporary, to the participant, third parties or to the communities at large?		√
2. Is the study based on a research population defined as 'vulnerable' in terms of age, physical characteristics and/or disease status?		√
2.1 Are subjects/participants/respondents of your study:		√
(a) Children under the age of 18?		√
(b) NMMU staff?		√
(c) NMMU students?		√
(d) The elderly/persons over the age of 60?		√
(e) A sample from an institution (e.g. hospital/school)?		√
(f) Handicapped (e.g. mentally or physically)?		√
3. Does the data that will be collected require consent of an institutional authority for this study? (An institutional authority refers to an organisation that is established by government to protect vulnerable people)		√

3.1 Are you intending to access participant data from an existing, stored repository (e.g. school, institutional or university records)?		√
4. Will the participant's privacy, anonymity or confidentiality be compromised?		√
4.1 Are you administering a questionnaire/survey that:		√
(a) Collects sensitive/identifiable data from participants?		√
(b) Does not guarantee the anonymity of the participant?		√
(c) Does not guarantee the confidentiality of the participant and the data?		√
(d) Will offer an incentive to respondents to participate, i.e. a lucky draw or any other prize?		√
(e) Will create doubt whether sample control measures are in place?		√
(f) Will be distributed electronically via email (and requesting an email response)?		√
<p>Note:</p> <ul style="list-style-type: none"> • If your questionnaire DOES NOT request respondents' identification, is distributed electronically and you request respondents to return it <i>manually</i> (print out and deliver/mail); AND respondent anonymity can be guaranteed, your answer will be NO. • If your questionnaire DOES NOT request respondents' identification, is <i>distributed via an email link and works through a web response system</i> (e.g. the university survey system); AND respondent anonymity can be guaranteed, your answer will be NO. 		

Please note that if **ANY** of the questions above have been answered in the affirmative (**YES**) the student will need to complete the full ethics clearance form (REC-H application) and submit it with the relevant documentation to the Faculty RECH (Ethics) representative.

and hereby certify that the student has given his/her research ethical consideration and full ethics approval is not required.

SUPERVISOR(S)

DATE

HEAD OF DEPARTMENT

DATE

STUDENT(S)

DATE

Please ensure that the research methodology section from the proposal is attached to this form.

ANNEXURE 4: LETTER FROM PROFESSIONAL LANGUAGE EDITOR

Editing Service: Lee Kemp

14 Carlisle St

Mount Croix

Port Elizabeth

6001

24 NOVEMBER 2018

082 723 5408

TO WHOM IT MAY CONCERN

EDITING OF TREATISE: Miss Towera Mvula (s217359450)

This serves to confirm that I edited Ms Mvula's MPhil Dev Finance treatise.

The editing covered all aspects of language, punctuation and layout. I also crosschecked in-text referencing against the reference list.

Yours faithfully



Ms L. Kemp

B. A. (Hons English); MBA