(online) = ISSN 2285 – 3642
ISSN-L = 2285 – 3642
Journal of Economic Development, Environment and People
Volume 13, Issue 2, 2024

URL: http://jedep.spiruharet.ro
e-mail: office_jedep@spiruharet.ro

Bond Market Developments and Service Delivery Paradoxes in Zimbabwean Local Government Institutions

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Abstract. *The creation of a functional bond market has emerged as a viable option to restore the financial vibrancy of local government institutions in Zimbabwe while, in the broad continuum, resolving the flagrant and gripping service delivery challenges encumbering the country's local constituencies' progress. In this regard, a qualitative desktop review was conducted. The study relied exclusively on purposively selected secondary documents. The study revealed that most local authorities in Zimbabwe are experiencing a liquidity crisis hence the development of a functional bond market will catalyse the alleviation of inflationary pressures and service delivery impasses that Zimbabwean local governments are grappling with. The study recommended that the bond market should be built on a strong foundation that includes political will and a stable currency regime to help create a conducive environment for the bond market while also mitigating the impact of the volatile political economy that currently exists in Zimbabwe.*

Keywords: Bond markets, liquidity, service delivery, local government institutions, Zimbabwe.

JEL Codes: G1, G12, G18.

How to cite: Chilunjika, A., Muswaka-Zinatsa, P., Intauno, K., Poshai, L., & Muswaka, C. (2024). Bond Market Developments and Service Delivery Paradoxes in Zimbabwean Local Government Institutions. *Journal of Economic Development, Environment and People*, *13*(2), 81–96. https://doi.org/10.26458/jedep.v13i2.842

1. Introduction

Before 2013, Zimbabwe's local government structure was solely a product of legal regulations (Mapuva, 2015). The current Zimbabwean local government system was constitutionalised in 2013, marking a significant step forward regarding the scope of their mandate and powers. Zimbabwe now has 92 local authorities, 60 of which are rural district councils and 32 of which are urban councils (Munyede, Chikwawawa, and Mazambani, 2021; Marumahoko, 2018; Murimoga and Musingafi, 2014; Zhou and Chilunjika, 2013). These institutions oversee providing services that directly impact the socio-economic prosperity of the communities under their jurisdiction. For example, health, solid waste management, education, water, and sanitation as well as road maintenance and transportation are among the services provided by local authorities in Zimbabwe (Chilunjika, Chilunjika and Uwizeyimana, 2023; Munyede et al., 2021; Murimoga and Musingafi, 2014; Mushamba, 2010). However, local authorities require substantive capital to avoid disruptions in delivering these services. Without a solid financial base, local authorities in Zimbabwe will continue to fall short of the expected service delivery standards.

Local government institutions in Zimbabwe are notorious for service provision inadequacies (Chilunjika, Mutema and Dube, 2020; Mabika, 2015). Principally, the sources of funding on which Zimbabwean local government institutions rely to support development initiatives and, subsequently, enhance service delivery appear to be dwindling and unworkable. The lack of a precise schedule for the release of funding by the Ministry of Finance and Economic Development, through the Ministry of Local Government and Public Works, is a major challenge for both urban and rural local authorities in Zimbabwe. For instance, in 2020, council officials indicated that there was insufficient time to carry out planned initiatives because the fiscal year was almost over when they generally got substantial sums of money from the central government meant for local developmental projects (Munyede et al., 2021; Chilunjika et al., 2020). Nevertheless, from the perspective of financial sustainability, the creation of the bond market seems to be a feasible alternative solution to the current liquidity problem harming the capacity of local government institutions in Zimbabwe to provide services effectively and efficiently. This paper proposes the implementation of a bond market model as an innovative financing system to enhance the self-reliance of local government institutions in Zimbabwe. The local government sector in Zimbabwe grapples with numerous service delivery challenges, most of which are deeply rooted in an inconsistent financial framework. Notable issues include insufficient water treatment capacity resulting in unpredictable and irregular water supply, a lack of machinery and equipment for road maintenance, and inadequate high-tech infrastructure and resources for effective solid waste management (Chilunjika et al., 2023; Marumahoko, 2020; Dube, 2019). Citizens in Zimbabwe have expressed widespread discontent with the subpar provision of municipal and local government services since the beginning of the new millennium (Murimoga and Musingafi, 2014).

Simultaneously, Chilunjika and Chilunjika (2021) observe that Zimbabwe's two decades of economic hardship have led to a continuous decline in service delivery within local administrations. This predicament necessitates a thorough investigation into the factors that can promote the growth of bond markets and reinvigorate a bond market that has lain dormant for some time as a funding source for Zimbabwe's local government organisations. Consequently, the endeavour to establish a sustainable bond market would not only alleviate liquidity challenges but also serve as a safety net for other sources of funding for local government institutions, such as taxes and rates. This, in turn, would ensure rapid economic growth and foster effective and efficient service delivery within the country's local government institutions. The study delves into the feasibility of establishing a bond market as a sustainable, long-term resolution to Zimbabwe's local government financing woes. The overarching objective is to address the root causes of

(online) = ISSN 2285 – 3642
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Journal of Economic Development, Environment and People
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the longstanding issues surrounding suboptimal service delivery, which have been emblematic of local government operations in recent years.

2. Literature Review

2.1. Bond Market Development in the Local Government Sector

Municipal bonds are a form of debt security issued by different tiers of government to raise funds for a wide range of public projects and infrastructure developments (Gumede, Uwizeyimana and Chilunjika, 2023; Ponder, 2021). Where bonds are used, municipal authorities can finance their obligatory recurrent functions such as road maintenance, water provision, maintenance of public housing facilities and sewer reticulation systems as well as investing in capital-intensive projects such as the construction of hospitals, large roads, and schools (Oodongo, Mukoki and Ojah, 2023; Otchere, Ofori-Sasu and Abor, 2022). Investors commonly perceive municipal bonds as a secure investment option, especially those seeking tax-exempt income. These bonds help local governments overcome financial obstacles by guaranteeing capital repayment and allowing them to fund essential projects without relying solely on tax revenue. Through municipal bond issuance, local authorities can obtain funds to finance infrastructure and public services, ultimately contributing to urban development and stability (Ponder, 2021). Additionally, the implementation of municipal bonds may provide a means of funding initiatives that support environmentally beneficial projects through the utilisation of financial markets for sustainable and long-term infrastructure development financing (Banga, 2019). However, in most African countries, bond markets are underdeveloped as public issuance does not have a collateral security backup.

Bonds, also known as debt securities, serve as a pivotal means for addressing government budget deficits in both developing and developed countries (Conterius, Akimov, Su and Roca, 2023). Essentially, a bond is a financial instrument that establishes a binding commitment on the issuer, often referred to as the borrower or debtor, to reimburse the lender or investor the initially borrowed principal amount alongside accrued interest, within a stipulated time frame (Obalade, Khumalo, Maistry, Naidoo, Thwala and Muzindutsi, 2023; Liu, 2013). Within the realm of finance, a bond market functions as the primary arena for the trading and issuance of bonds and other debt instruments (Bhattacharyay, 2013). This marketplace facilitates the exchange of offers between borrowers and lenders, streamlining the transaction process, although it necessitates careful consideration from the lender (Musah and Badu-Acquah, 2019). Del-Valle (2013) underscores the significance of the bond market's expansion as a highly effective strategy for stimulating economic resurgence, offering a multitude of advantages that reverberate throughout the entire economy. Consequently, a well-developed bond market serves to mitigate risk, lower interest rates, bolster portfolio diversification, reduce market volatility, and encourage long-term investment commitments.

Well-functioning bond market systems serve as a cornerstone for local government development because they reduce local government reliance on external borrowing and central government grants. The reduced dependency equips local governments with the financial means to effectively fund their service delivery mandates. However, the predicament faced by local governments in emerging nations is the limited capacity to mobilise sufficient revenue for effective service delivery. Thus, the development of a thriving bond market can be a useful strategy for expanding the revenue base for local authorities in Zimbabwe. The

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need for a robust bond market system is indispensable for expanding local government financial options, fortifying its financial stability, and reducing its reliance on external borrowing as shown in the figure below (Figure 1).

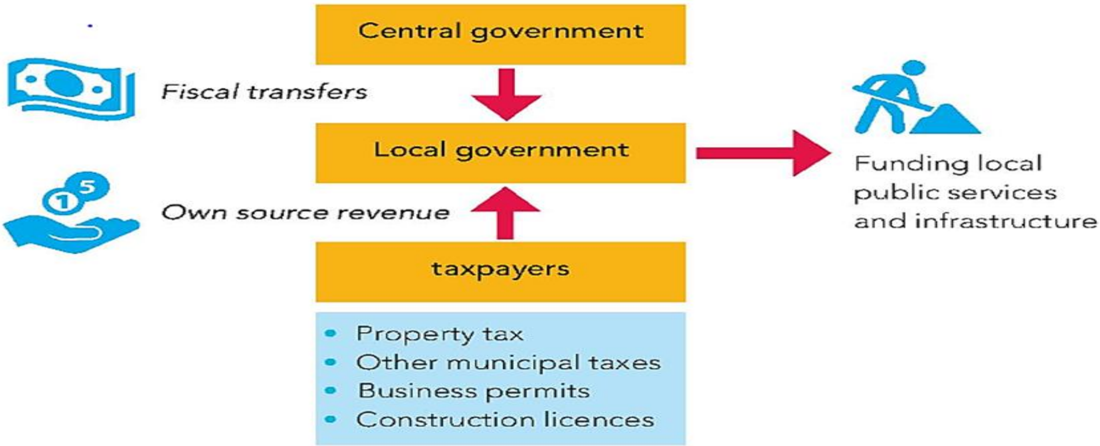

Figure 1: Funding structure of local public services

Source: VNG International (2023) https://www.vng-international.nl/improving-own-source-revenue-local-level .

In Zimbabwe, local governance financing faces formidable challenges that hinder effective service delivery and infrastructure development at the grassroots level. One significant obstacle is the limited revenue base of local authorities, exacerbated by factors such as a weak tax collection system, economic instability, and widespread poverty in local communities (Chilunjika et al., 2023; Chilunjika and Chilunjika, 2021; Chilunjika *et al*., 2020; Zhou and Chilunjika, 2013). Insufficient financial resources constrain the ability of local governments to invest in critical public services, maintain infrastructure, and address the needs of their communities. Moreover, there is a lack of fiscal decentralisation, as a substantial portion of financial decision-making remains centralised, diminishing the autonomy of local authorities. The country's historical economic challenges, coupled with political and institutional factors, further complicate the issue, creating a complex environment for sustainable local governance financing in Zimbabwe (Chilunjika *et al*., 2020; Zhou and Chilunjika, 2013). Addressing these challenges necessitates comprehensive reforms, adopting municipal bonds as an alternative or complementary financing source, improved fiscal policies, and increased efforts and political will by the central government to empower local governments, ultimately fostering more resilient and responsive governance structures.

Reopening Zimbabwe's bond market holds significant promise for bolstering capital investments and alleviating the country's acute liquidity crisis. The persistent depletion of institutional and human resources within both the public and commercial sectors continues to impede economic progress and hampers the delivery of essential services by local governments in Zimbabwe. This challenge persists, even though a decade has passed since 2010. Given the prevailing circumstances characterised by short-term bank loans and the pronounced liquidity constraints confronting the nation, especially at the local government level, there is a compelling need to establish a well-regulated platform for debt instruments that can provide the long-term financing essential for sustainable economic development. Consequently, the revitalisation of Zimbabwe's bond market holds the potential to attract new investors to the local exchange. Considering Zimbabwe's ongoing financial challenges, the establishment of a bond market emerges as a pragmatic solution capable of bridging the funding gaps exacerbated by the Ministry of Finance and Economic Development's current stringent austerity policies.

The Zimbabwe Stock Exchange (ZSE), formerly recognised as one of the top-performing stock markets on the African continent, has witnessed increased volatility stemming from a scarcity of stocks that offer substantial value to investors. As Sibanda and Dubihlela (2013) aptly noted, fostering the growth of a resilient bond market can play a pivotal role in providing borrowers with consistent and dependable sources of credit, while concurrently offering investors a reliable stream of income. Consequently, the accessibility of a well-functioning bond market not only allows investors to secure more predictable financing costs but also facilitates the progress of vital infrastructure development projects, the efficient delivery of community services, and the generation of positive economic returns that ripple through the broader economy in response to reduced funding costs. This shift toward a robust bond market provides the much-needed stability and predictability that can revitalise Zimbabwe's financial landscape, address the challenges posed by stock market volatility, and enhance the overall economic environment.

In Zimbabwe, the expansion of the bond market might be the key to financing long-term development projects that span the purview of multiple local governments. This is due to the understanding that bond markets often provide longer-term and less volatile money compared to stock markets, which provides developing countries with the essential support to meet their long-term financing needs (Guha, 2019). In this context, for example, infrastructure development initiatives with marginal economic outcomes that are sensitive to the cost of capital might proceed based on more assured finance costs gained through access to the bond markets while providing investors with dependable cash flows (Sibanda and Dubihlela, 2013). Hypothetically, domestic bond markets should give developing countries a way to get long-term debt in their national currency to fund local government development needs (Ndi, 2010).

3. Materials and Methods

The study employed a qualitative desktop research approach, exclusively relying on secondary sources to investigate the dynamic landscape of the bond market within the public sector, with particular emphasis on its role in financing local government institutions in Zimbabwe. The study relied on a comprehensive review of purposively selected diverse secondary sources was undertaken, encompassing a wide array of materials, including academic research papers, conference proceedings, and current news articles that addressed pertinent and timely issues within the bond market discourse. Data was collected from these sampled sources through manual data extraction. The collected data was analysed using qualitative content analysis. Ethical protocols for qualitative desktop reviews such as the avoidance of plagiarism and data fabrication were also upheld in this paper. Thus, all secondary sources utilised are meticulously acknowledged within the body of the text and in the references section, adhering to established academic citation practices and ethical standards.

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ISSN-L = 2285 – 3642
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4. Results and Discussion

4.1. A Synoptic Overview of Bond Market Developments in Zimbabwe

The growth of the bond market, as well as the stock market, ostensibly, offers opportunities for better resource allocation, increased capital use, and the endowment of pertinent data for assessment. According to Jecheche (2014), the stock market supports capital market operations and is frequently used as a gauge of the direction of the economy. For example, with a well-developed bond market system, investments are invited, liquidity is created, the risk is reduced, information is spread and acquired more effectively, and there are better incentives for corporate governance. In the case of Zimbabwean local authorities, this can be a long-term measure to strengthen them as they play a critical role in the broad national economic development agenda. The rate of economic growth can be increased by enhancing the efficiency and effectiveness of these tasks through rapid service delivery, which would further improve the quality of the services provided by local government organisations.

Zimbabwe's capital markets are lean as they are made up of the Financial Securities Exchange (FINSEC), founded in 2016 and the Zimbabwe Stock Exchange (ZSE), founded in 1896 (Murekachiro, Mutingwende and Mungwini, 2019). Since there are just two corporate issues registered on the ZSE, Zimbabwe's bond market is still in its infancy. In 2009, Zimbabwe adopted a basket of currencies such as the United States Dollar (USD), South African rand (ZAR) and Botswana pula (BWP) as the main trading currencies in the country. Due to the multicurrency regime, trading activity resumed on the ZSE in 2009. Before this initiative, the local exchange had trouble supplying the demand for foreign currency at the beginning of this multi-currency period due to a lack of liquidity. Post 2017, a new government popularly known as the 'Second Republic' was installed in Zimbabwe and the country resumed the use of the Zimbabwean dollar. These moves restricted monetary space as the economy started to rely more on remittances from the diaspora, a few exports, and, to a lesser extent, foreign direct investment (FDI). Investors started to lose confidence in the Zimbabwean currency, and, as a result, low trades occurred, and this scuppered efforts to establish a strong bond market system. As shown in Figure 2 below, Zimbabwe continues to experience trade deficits at the national level.

(online) = ISSN 2285 – 3642
ISSN-L = 2285 – 3642
Journal of Economic Development, Environment and People
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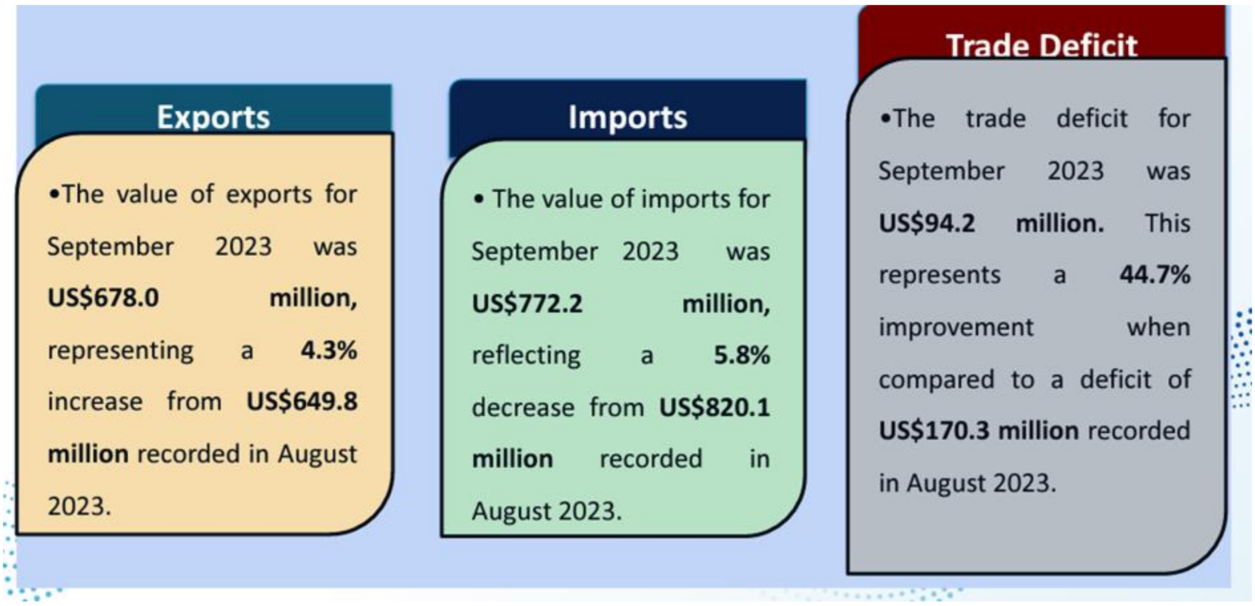

Figure 2: Exports, Imports and Trade Deficit.

Source: Zimbabwe National Statistical Agency (2023) https://www.zimstat.co.zw/wp-content/uploads/2023/Macro/Trade_and_Prices_Statistics_10_2023.pdf.

The figure above shows the persistent trade deficits in Zimbabwe, which have severely impacted local governance financing, strained the country's foreign exchange reserves, and limited funds for effective governance. As shown in the figure above, the outflow of capital due to imports being higher than exports has hindered resources for local projects and public services, constraining the ability of local governments to invest in critical infrastructure, education, healthcare, and the provision of other essential social amenities. Thus, addressing trade deficits has become crucial for ensuring national economic stability, and the well-being and functionality of local governance in Zimbabwe. The trade deficits experienced in the country culminate into budget deficits which subsequently close the fiscal space for the central government to adequately fund local government processes which further justifies the need for a strong bond market system.

The Second Republic which is also commonly known as the 'new dispensation' started to implement fiscal and monetary reforms in 2018 (Murekachiro *et al*., 2019). The fiscal and monetary reforms were mainly punctuated by the unwelcome introduction of the Real-Time Gross Settlements (RTGS) as the national currency. The RTGS was introduced by the Reserve Bank of Zimbabwe (RBZ) on 22 February 2019 through Statutory Instrument 33 of 2019. The move by the Government of Zimbabwe to ditch the USD amidst a recovering economy created a national crisis of the erosion of trust in the RTGS dollar local currency. Investors started to retreat as they lost confidence in the economy. Thus, when these reforms were implemented, the Zimbabwean economy experienced a cash crisis because of a mismatch between RTGS

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balances and foreign currency (USD) balances, and banks were unable to meet demand deposits. To address this issue, the RBZ implemented Foreign Currency Accounts (FCA), RTGS, and FCA Nostro accounts, as well as the Intermediate Money Transfer Fee (IMTT), commonly referred to as the 2% tax on all electronic transactions.

While the purpose of the Intermediate Money Transfer Charge was to tax previously untaxed informal companies, captains of the industry argue that it double-taxed formal enterprises, increasing the cost of goods (Sibanda, 2020). The IMTT triggered a considerable drop in activity across all sectors, including the capital markets, which was exacerbated by year-on-year price increases. As a scapegoat measure to address these challenges, the RBZ liberalised the currency rate and established the interbank market in 2019. However, a combination of inadequate corporate governance, risky lending practices, and poor risk management left the economy vulnerable. Stock and real estate markets dropped, while banks raised interest rates making it difficult for companies and individuals to borrow. Firms and households began to fail on repayments, putting local government institutions in an even dire situation as they depend largely on bill payments and borrowing from companies. These developments were a major blow to economic recovery strides that had been following a stable trajectory since the multicurrency regime was introduced in 2009.

The fiscal and monetary reforms introduced by the Government of Zimbabwe in 2018 have not helped but worsened the economic situation in the country. In 2018, Zimbabwe started another economic crisis journey, facing its worst economic crisis since 2008 and reaching a peak or tipping point in early 2019 (Chitiyo, Vines and Vandome, 2019). Zimbabwe's economy resembles a triple whammy of hyperinflation, economic stagnation, and low productivity, compounded by a context of low worldwide pricing for its export commodities, weak regional currencies, and drought. Such a looming situation has had disastrous consequences for local government institutions, who are now confronted with finding alternative ways to continue providing services to the public in the middle of such a raucous environment with financial deficits. As local authorities struggle in the current inflationary environment, cases of inadequately treated water supplies, malfunctioning traffic lights, inconsistent water supplies, dilapidated roads, ageing sewer reticulation systems and shortages of necessary machinery have become the norm in most Zimbabwean municipalities. This calls for the introduction of the bond market system as this can help in creating financial reserves for supporting service delivery functionaries of local government institutions in Zimbabwe.

The Zimbabwe Stock Exchange has been struggling to build the necessary infrastructure for the reintroduction of a full-fledged debt market. Some of its strides in this regard include the implementation of an electronic trading system, an electronic clearing settlement system, and a depository system, all of which are projected to substantially rationalise several major parts of the capital market and make settlement more efficient (Chitiyo *et al*., 2016). However, while the projected return of the bond market appears to be a reasonable answer for raising long-term funding and enhancing service delivery in local governments, other possible hurdles such as institutionalised corruption and polarization must be addressed. Hence, the convergence of various elements is critical for the improvement of bond markets, particularly in an inflationary environment like Zimbabwe (Sibanda and Dubihlela, 2013).

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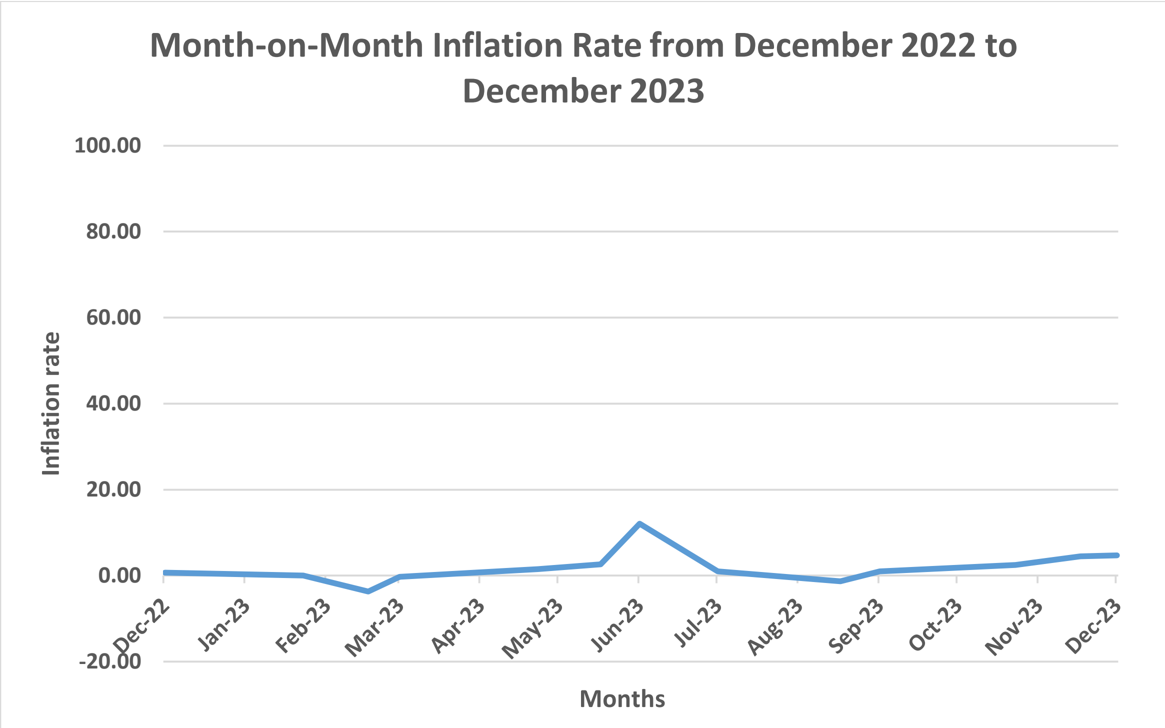

Figure 3: Month-on-month inflation rate from December 2022 to December 2023.

Source: Zimbabwe National Statistics Agency (2023)

https://www.zimstat.co.zw/wpcontent/uploads/macro/prices/CPI/2023/December/Dec_2023_CPI_Dec.pdf

The pervasive inflationary pressures in Zimbabwe have profoundly impeded the capacity of local authorities to effectively deliver essential services to their communities. The country has grappled with hyperinflation, which has led to the devaluation of purchasing power and a surge in operational costs for local government bodies (See Figure 3 above). As the prices of goods and services skyrocket, local authorities face challenges in maintaining and upgrading infrastructure, ensuring consistent public services, and promoting the well-being of residents. The financial constraints imposed by inflation severely undermine the ability of local authorities to invest in critical domains, such as waste management, water supply, and road maintenance, thereby exacerbating the already tenuous state of service delivery. On the other hand, the implementation of municipal bonds could potentially bridge the existing funding gap in the local government sector, thereby alleviating prevailing service delivery challenges.

The persistently rising inflation rates and an unbalanced currency system as the case in Zimbabwe will make it difficult for any government to develop a functioning bond market. As shown in Figure 3, inflation has characterised and dominated the Zimbabwean economy since 2021 which makes the investment environment unconducive, unsustainable, and difficult to make essential economic projections. Such uncertainties discourage investment and savings, significantly lowering all types of investment, particularly FDI. The organisation of the economy, investment plans, the legal system, the size of the banking industry, and the degree of economic development are just a few prerequisites that Zimbabwe must take into consideration (Sibanda and Dubihlela, 2013). For the bond market system to fruition, special attention must be given to ensuring a robust financial services sector that is free from political restraints and operates on market values to ensure a viable capital market. In this regard, it is obvious that further efforts to strengthen the investment climate and the necessity for a regional integrative approach to bond market development must be in place for Zimbabwe to build a sustainable bond market. Monetary authorities must consider Zimbabwe's basic characteristics, such as the country's small market size, governance issues, lack of opportunities for risk modification, the presence of weak currencies, and the pervasiveness of systemic risk, and how these characteristics constrain the potential of the country's new domestic bond markets (Sibanda and Dubihlela, 2013). Reforms for supporting the growth and survival of the bond market in Zimbabwean local authorities must be viewed within a larger framework of financial improvement in the context of global financial integration to keep inflation at manageable levels.

4.2 Challenges to Bond Markets Development in Zimbabwe

A series of negative factors bedevilling the country on both the economic and political fronts jeopardise the sustainability of establishing bond markets in Zimbabwe to solve local authorities' financial conundrums. Zimbabwe's political instability and hyperinflation have combined to produce enormous uncertainty in the securities market, resulting in an unstable bond market (Sibanda and Dubihlela, 2013). In addition, the country's persistent hyperinflationary experiences, which offer significant investment risks, are a significant obstacle to the creation of a sustainable bond market. Developing a home market in a country with sovereign risk, high inflation, and an unstable currency will be tough (Sibanda and Dubihlela, 2013). The "original sin" of this form of economy is claimed to exist. In highlighting the effects of economic instability, Fabella and Madhur (2003) foresee that it will be very challenging to establish viable bond markets in a macroeconomic setting plagued by instability and ongoing hyperinflation in Zimbabwe. The Government of Zimbabwe has changed its currency more than ten times since 2000, which has led to a decline in confidence in the entire financial system. According to Mutize (2020), the value of a nation's currency affects how appealing its bond issues are. The risk of default and debt sustainability is increased by a weak currency because repayments must still be made in foreign currency. Thus, currency crises in Zimbabwe have negatively affected the successful implementation of a functional bond market system that would have benefited local government institutions in a great way.

The other barrier to establishing the bond market system is corruption which has become a cancer in Zimbabwe. It is worrying that corruption is pervasive in Zimbabwe such that it has turned into one of the main reasons for low investment due to mistrust and an unstable investment environment. Considering this, establishing a stable bond market in such a volatile environment is extremely difficult because the only other option is to keep corruption to a minimum, giving investors confidence in the country where they are investing. Similarly, it should be noted that widespread corruption schemes in Zimbabwe serve to further inhibit development by scaring away potential investors who are critical players in the establishment of a bond system. Local investors are scared off by the country's many instances of corruption, despite their

(online) = ISSN 2285 – 3642
ISSN-L = 2285 – 3642
Journal of Economic Development, Environment and People
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intimate understanding of the domestic political and economic risks associated with investing in Zimbabwe. This scuppers efforts to adopt a strong bond market.

Furthermore, to explain the breadth and depth of corruption levels in Zimbabwe, Zinyama (2021) argued that profiting has become a routine habit among the wheeler-dealer elite, while the working poor extort bribes to augment their compensation. The administration has gradually undermined its national integrity system while limiting the scope of judicial probes, resulting in corruption scandals that reveal a severe human component degradation in governmental bodies. As a result, given Zimbabwe's persistently volatile investment climate, establishing a viable bond market is difficult. Bond market development demands robust institutions and adherence to good governance norms at all levels, both of which are conspicuously absent in Zimbabwe. Currency certainty is also another missing link in efforts towards building a strong bond market in Zimbabwe.

4.3 **The Nexus Between Bond Market Development and Service Delivery Challenges**

Financial shortages have become a recurrent lament among Zimbabwean local government institutions (Mabika, 2015). The declining quality of service delivery in local governments can be attributed to the worsening macroeconomic condition and decreased donor financing which result in local authorities having dry coffers against their mammoth service delivery mandates. A well-developed financial market is critical to promoting economic growth and effective local government service delivery. Financial development contributes to economic growth through a variety of channels such as risk reduction, information asymmetry reduction, enterprise monitoring and promotion, liberalisation of the exchange of goods and services and savings mobilisation.

Figure 4: Conceptual model for improving revenue base and service delivery in local authorities.

Source: Authors' construction.

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The current revenue mobilisation strategies and sources in local authorities in Zimbabwe are short of the required revenue mobilisation standards. This is reflected by persistent budget deficits in both urban and rural local authorities which eventually compromises the quality of services provided. Services such as waste collection are below par with challenges such as irregular refuse collection and shortage of Personal Protective Equipment (PPEs) causing health and occupational risks to municipal solid waste collectors (Intauno & Poshai, 2023).

In addition, there are budgetary deficits for the procurement of water treatment chemicals which culminates in erratic water shortages in most urban local authorities in Zimbabwe. Moreover, budgetary deficits in local authorities are also reflected through irregular to non-existent servicing of residential stands which has created a mismatch between housing supply and housing demand in urban areas (Poshai, 2021). Urban local authorities in Zimbabwe are also grappling with mobilising sufficient revenue for the maintenance and rehabilitation of ageing infrastructure such as roads, with potholes becoming an eyesore in most urban environments. All these service delivery quagmires are reflective of the need for an alternative or supportive source of revenue for funding local government service delivery functionaries. In this regard, the development of a robust bond market system can help in improving the revenue base for local authorities especially if harmonised with the current revenue sources as illustrated in the figure above. The service delivery obligations of local authorities can therefore be buttressed by combining current revenue sources with a strong municipal bond market system.

The Zimbabwe Coalition on Debt and Development (ZIMCODD) (2020) reports that while African cities are potentially viable locations for economic growth and socio-political transformation, there is still concern that the lack of funding for infrastructure investment, together with weak local revenue generation capacities and exponential population growth places a strain on weak service delivery mechanisms. Zimbabwean local government institutions face a lack of safe, potable water and sanitation, refuse collection as well as dependable and affordable energy. In the framework of the global development trajectory, local governments in Zimbabwe play a vital role in the delivery of basic public services. However, the political and socioeconomic environment is characterised by insurmountable difficulties brought on by hurried and erratic urbanisation and the growing disparity between available financial resources and municipal spending needs because of the urban population's explosive growth.

In addition, the ZIMCODD report (2020) emphasises how the change in urban demographic studies leads to a sharp rise in the need for services and better public finance infrastructure investment in equipment like roads. In addition, these problems are compounded by the low wages and an unstable informal sector that accounts for more than 80% of employment in Zimbabwe's cities. As a result, domestic financial institutions and international financing alternatives are viable options for long-term capital to fund infrastructure building in Zimbabwe because urban populations do not create a sustainable tax base for them to pay for the provision of public services.

Given the existing precarious economic abyss haunting local governments' performance in general, as well as unsustainable and unreliable revenue facilities. Zimbabwe's local government services follow a common trend where there has not been much infrastructural growth in the last two decades from the year 2000. This is worsened by the current economic crisis, which is characterised by soaring inflation, shortages of

(online) = ISSN 2285 – 3642
ISSN-L = 2285 – 3642
Journal of Economic Development, Environment and People
Volume 13, Issue 2, 2024

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essential chemicals for water treatment and other public services, including the maintenance of machinery and equipment, and a lack of offshore financing to recapitalize and unreliable revenue avenues in Zimbabwe, urban agglomerations have become "pirate cities," with residents relying on pirate operators such as mobile water vendors or illegal energy hook-ups due to local authorities' inability to provide services. Hypothetically, property taxes, trade account receipts, tariffs, or fees for services rendered provide most of the urban council's funding. However, due to their relative underperformance, borrowing has become a viable alternative source of funding for capital developments. Unfortunately, there is considerable evidence of corruption-related mutilation of borrowed money. For example, the Zimbabwe Coalition on Debt Development (ZIMCODD), a civil society organisation focused on economic fairness, stated that the 2018 Zimbabwe Auditor General's Report showed proof that several local governments were misusing ratepayers' funds and borrowed funds. According to the auditor general, as of May 31, 2019, only three of Zimbabwe's 92 local authorities had submitted their 2018 financial statements (ZIMCODD, 2020). This reveals pervasive unethical mismanagement of borrowed funds by Zimbabwean local government entities, which has long plagued their operations and had a negative influence on service delivery in the municipalities.

Local governments in Zimbabwe have alternative sources of income, including taxes, user fees, licensing, and foreign revenue, which consists of transfers from the government in the form of grants and revenue sharing (Chilunjika, Intauno and Poshai, 2024; Mabika, 2015). The levying of assessment rates on property, tariffs or fees for services delivered, and financing for capital works from the central government are the main sources of income for municipal councils. However, while having their revenue streams, local governments are currently struggling with a liquidity problem as most of their sources of income are not producing the intended results because of the current financial crisis the country is experiencing. Section 290 (1) of the Urban Councils Act (Chapter 29:15) permits local governments to borrow money for capital expenses. Even though there are borrowing options available, most local authorities are unable to borrow due to their inability to repay their debts, as they do not have enough revenue coming in to use this facility.

Mabika (2015) goes on to explain that local authorities do not have excess funds to invest in, despite the Urban Councils Act of 2015 (Chapter 29:15) section 131 (1)'s advice that they should if they have extra resources. In fact, because of the deteriorating macroeconomic circumstances in Zimbabwe, most local authorities have already expended any investments they may have had in the past. Most local governments lack the funding to buy the software and hardware they need to operate computers, and this may complicate the proper functioning of the bond market system. Service delivery has also been affected by this at a time when e-governance is the prevalent mode of conducting business. In addition, most municipal authorities in Zimbabwe are severely lacking in heavy equipment like motorised graders and water treatment facilities. Due to a lack of funding, most of the limited amount of accessible machinery consistently breaks down. The financial crisis is also contributing to issues with inadequate water treatment, unpredictable water supplies, and subpar garbage collection services. This article argues that bond market growth will help local government institutions maintain better liquidity situations and enhance service delivery.

Important policy lessons can be drawn from Namibia, Ghana, and other African nations concerning the characteristics of the bond market and their relationship to efficient service delivery, economic growth, and

(online) = ISSN 2285 – 3642
ISSN-L = 2285 – 3642
Journal of Economic Development, Environment and People
Volume 13, Issue 2, 2024

URL: http://jedep.spiruharet.ro
e-mail: office_jedep@spiruharet.ro

other macroeconomic aspects in Zimbabwe's local governments. It can be argued that long-term economic growth exclusively depends on the capacity to accelerate the accumulation of physical and human capital to utilise the ensuing productive assets more effectively and to ensure access to those assets for the entire population. By guaranteeing that these funds are allocated towards the most productive use, distributing risk, and supplying liquidity, financial intermediation through the creation of a bond market offers this investment process for local authorities, enabling them to operate successfully within their advanced capacity. More so, the core of a country's development is its budgetary system. Therefore, economic progress and prosperity are determined by the effective provision of financial services, and this in turn supports the bond-market model. Thus, it can be concluded that local authorities have placed a strong emphasis on providing a service supply mandate that is not just open but also transparent and accountable. This is only possible, though, if the country has a sound financial foundation that can support the additional demands of a dynamic economic environment.

5. Conclusion

Service delivery in Zimbabwean local authorities is in a sorry state as reflected by dilapidated facilities. The challenges faced by authorities in delivering services are often financial. The rapid pace of urbanisation, as evidenced by the growing population, puts pressure on local authorities to provide services to an increasing number of people; however, their ability to generate revenue is dwindling. As a result, limited financial resources are available for service delivery. This situation highlights the need for additional funding, which can be provided through the bond market. Given that most local authorities in Zimbabwe are experiencing a liquidity crisis, the growth of the bond market could be a catalyst for improving the quality of service delivery. However, it is important to ensure that the bond market is built on a strong foundation that includes political will and a stable currency regime. These factors will help create a conducive environment for the bond market while also mitigating the impact of the volatile political economy that currently exists in Zimbabwe. As the study indicated, to create a functional and viable local government bond market in Zimbabwe, careful consideration must be given to several factors, including the organisation of the economy, investment strategy, legislative framework, size of the banking industry, and level of economic development. Currently, efforts in this direction have not yet been observed. Conversely, it is imperative to note that the bond market model is not intended to replace existing sources of revenue but rather to provide additional support for revenue generation.

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(online) = ISSN 2285 – 3642
ISSN-L = 2285 – 3642
Journal of Economic Development, Environment and People
Volume 13, Issue 2, 2024

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