April 2022

Financing Service Delivery in Urban Councils

Reform discussion note

Introduction

Malawi's local government system is made up of 35 authorities: 28 district councils covering rural areas, 4 city councils (Blantyre, Lilongwe, Mzuzu and Zomba) and 3 municipal councils (Kasungu, Luchenza and Mangochi[1]). The Local Government Act does not make any distinction between the functions of these different types of local government.[2] This means that all these local governments have the same status and should deliver the same set of services. However, in practice, local governments in urban areas (city and municipal councils) do not deliver all local government functions, and districts continue to deliver some services within the jurisdiction of city and municipal councils.[3]

The remainder of this note sets out in more detail the functions districts carry out in urban councils, issues with the financing of urban councils and then sets out options for reform.

This note should be read together with the note on Expenditure Assignments for Basic Service Delivery Reform, which covers the need to clarify local government functions in more detail, and the note on Intergovernmental Fiscal Transfers for Improved Local Governance and Service Delivery, which covers the need to ensure the adequacy of local government transfers, and ensure they are equitably allocated. This applies equally to the transfers focused on urban areas.

1 Mangochi was upgraded from town to municipal council in 2021.

2 Local Government Act, 1998, Second Schedule.

3 In more technical language, this means that in law Malawi has a single-tier system of local government where each local government authority is responsible for all local government functions within its jurisdiction, but in practice operates a two-tier system of local government with districts and urban local government splitting local government functions in the same area between them.

Inconsistencies in current urban functions and financing

Matching functions with financing in urban LGAs

District Councils continue to provide services within City and Municipal Councils' jurisdictions. As in law these councils have the same functions, we assess this by examining which conditional transfers councils receive, shown in Table 1 below. Whereas Districts receive a total of 18 sectoral conditional transfers (i.e., not including capital transfers or the General Resource Fund), City Councils only receive 6: Community Development, Education, Environment, Gender, Sports, and Youth. Whilst some of these transfers are not provided to City Councils as they are for rural functions (e.g., Agriculture, Fisheries, Forestry and Irrigation), it is harder to understand why other transfers are not provided to urban councils, including: Disaster Risk Management, Health, Housing and Water. In addition, Districts manage the education pay roll for Cities. Municipal councils only receive three transfers: General Resource Fund (GRF), environment and Infrastructure Development Fund (IDF).

Table 1 Grants received by different types of local government

District	City	Municipality
Recurrent		
GRF	GRF	GRF
Community Development	Community Development	
Education	Education	
Environment	Environment	Environment
Gender	Gender	
Sports	Sports	
Youth	Youth	
Agriculture		
Disaster Risk Management		
Fisheries		
Forestry		
Health		
Housing		
Immigration		
Irrigation		
Labour		
NRB		
Water		
Trade	Mzuzu only	
Development Transfers		
DDF		
IDF (5 Districts)	IDF	IDF
CDF	CDF	
	City Roads	
Water Fund	Water Fund	

As District, City and Municipal Councils have the same functions in law as Districts, the rationale behind these different allocations of sector transfers is hard to understand. However, it means that in practice, if not in law, there is a tiered system of local governments, with rural LGAs continuing to provide services within urban jurisdictions.

This is most notable for health, which is the second largest sector grant, after education. City Councils have small health departments financed from their own discretionary resources (own source revenue and GRF) which focus on environment and sanitation activities. This means that primary and secondary healthcare services are provided in City Councils either by central government (through the central hospitals) or by the surrounding districts. There also appears to be an inconsistency in the water sector, where City Councils do not receive the recurrent water transfer but do receive the development Water Fund. Within Municipal Councils, Districts continue to provide a variety of services, the largest of which are education and health services within their jurisdictions (the Expenditure Assignments for Basic Service Delivery Reform discussion note discusses this is more detail).
The rationale for why Districts are financed to deliver some functions, but urban councils are not is unclear as it is not spelled out in law or policy. There are two considerations here, population size and own source revenues, which is discussed in the next section. Urban local governments vary in population enormously, both in comparison to each other, and to District Councils. The Municipal Councils have small populations compared to other Districts,[4] so there are strong arguments that (a) they should only manage specifically urban management functions and that a larger district council can manage other services more efficiently and effectively and (b) that conditional transfer budgets would become unduly fragmented if they were extended to small urban councils. Dividing up an already constrained budget between small local governments could be inefficient in a small, resource-poor country such as Malawi. However, it is less clear that this argument holds for the City Councils, which are comparable in size to Districts.[5] There is also an inconsistency between the two largest expenditure functions of education and health. City Councils currently receive education conditional transfers, and have education department seconded staff, but they do not receive health conditional transfers or health seconded staff.

These arrangements whereby Districts deliver services within urban councils poses an accountability issue as Districts are delivering services in urban areas where their councillors do not have jurisdiction and authority. Conversely, how are the urban councillors representing that area meant to hold a neighbouring rural LGA accountable for service delivery performance?

4 Kasungu and Mangochi Municipalities have populations of 58,653 and 53,498 respectively, smaller than any District except Likoma. Luchenza Municipality has a population of only 12,600, which is smaller than Likoma

5 Lilongwe City (population 989,381 in 2018) and Blantyre City (800,264) are comparable in size to the largest Districts (they are the 3rd and 6th largest LGAs by population). Mzuzu City (221,272) and Zomba City (105,013) are comparable in size to smaller districts. Mzuzu City is larger than two other districts excluding Likoma (Neno and Mwanza) and has a population half of the median LGA population. Zomba City has a smaller population than any districts (excluding Likoma), and only a quarter of the median.

Financing service delivery in urban LGAs

This section covers issues in the grant financing of services in urban LGAs. It does not cover own source revenues which are covered in a separate discussion note Mobilizing Local Own Source Revenues.

Urban areas have a much greater economic base than rural areas, and so as would be expected, OSR generation is hugely different in rural and urban LGAs with urban LGAs collecting collection more than ten times per capita than rural: 4000 MWK p.c. and 300 MWK p.c. respectively. On this basis it may be argued that urban councils should not receive the same level of transfers as rural councils. Whilst this is a valid argument, it is usual for variation in own source revenues to be used to inform the allocation of a general-purpose equalisation grant (in Malawi the GRF would be the closest equivalent), rather than sector conditional grants. Cities and Districts in fact receive similar per capita amounts for the GRF. It is also clear from the actual budgetary practices of City Councils that this is not how non-receipt of the health conditional transfer is understood, as they are not providing large budget allocations to health from their OSR. Against this, there is also the case that as urban areas typically require more capital-intensive service delivery, they need higher spending. As such, whilst there may be a rationale for taking into account own source revenues in allocating general purpose grants, the case is harder to make for sector conditional transfers.

As shown above, municipalities do not receive the water fund grant. Yet this is a result of the way it is allocated, rather than as a result of differences in the function of these local governments. Water supply in urban areas (even in urban areas in districts) is typically provided through one of the semi-autonomous water boards. However, this is supplemented by urban LGA investment in the peri-urban areas where the water boards find it economically inefficient to operate (e.g. connectivity to piped water systems, construction of water kiosks or drilling boreholes). But because the water development grant is allocated based on the number of constituencies (each LGA receives MK12 million per constituency), this is only received by the city councils, but not by the municipal councils, which are not separate constituencies. This is despite these LGAs receiving closely grants with closely related functions (environment and IDF). There seems little justification for using constituency as the basis for allocating funds for water development, rather than a more rational basis of the population needing services.
There is a similar problem with the CDF. Although the CDF is allocated by constituency by design, this means that while district LGAs and cities receive the CDF as a largely discretionary grant to finance capital investments, this source of funding is not available to municipal councils.

Options for reform

Clarify the status of municipal councils. The government has committed to develop secondary cities as rural growth centres that act as bridges between urban and rural development. Over time, there is thus likely to be greater demand for the creation of further municipal councils. Yet there is currently a gap between their functions in law and how these are financed. Given their small populations it would make sense to limit them to urban management functions, similar to what they currently carry out, and review their status in law as part of the Ministry of Local Government's review of the Local Government Act. It would make most sense to regard these as a lower tier of council. They would be responsible for a specific set of urban functions, but district councils would continue to provide social services (e.g. education, health) within their boundaries. This would regularise the existing practice indicated by the transfers they receive. This is a more attractive option than the alternatives of (a) maintaining the status quo where the law and practice are not aligned, or (b) seeking to upgrade urban LGAs with very small populations to undertake the same set of functions as much larger LGAs.[6] This would enable municipal councils to focus on urban/secondary city development. To enable them to do this, they should be entitled to the full set of LGA revenue sources within their jurisdiction (i.e. municipalities, not the rural LGA would collect property taxes within the municipality). The basis for this is that the services that the rural LGA would be responsible for providing are largely financed by conditional transfers, not own source revenues.

Strengthening of city council health departments. Health is an anomaly as it is the only major function (as measured by the size of expenditure) not fully carried out by city councils. As such it is recommended that city councils should receive a health PE and ORT transfer and strengthen their existing city health departments to fully take on primary and secondary health functions. Dividing up the existing ORT transfer their surrounding rural LGAs receive with the four cities would stretch resources, but this is likely to be outweighed by the potential improvements in accountability structures, and would assist with developing public health capabilities within city councils, the importance of which has been highlighted by Covid-19. This will primarily imply the transfer of a proportion of staff[7] and the relocation of a proportion of the health conditional transfers of the neighbouring rural LGAs to City Councils, rather than additional staffing and financing. The aim is to strengthen the staff complement in the urban health departments and transfer the resources that are meant for urban health service delivery but are now going to rural LGAs.

6 This is unlikely to be feasible, as shown by the fact that in 2010, some District and Town Councils were merged on this basis. For example, Karonga Town and Karonga District Councils were merged into Karonga District Council with one Administration from previously two. The District Council is responsible for both the rural and urban functions.

7 It is also worth noting that while city councils receive education ORT transfers, the human resource functions are still carried out at the District Councils. This carries the same accountability issues noted above. City councils should be able to transact HR issues just like district Councils. This should include, but not be limited to, processing of teachers' salaries, discipline, retirement processing, transfers and even recruitment.

Ensuring the allocations for other urban transfers is aligned with urban functions. The broader issues related to ensuring the equity and adequacy of transfers is covered in the note on Intergovernmental Fiscal Transfers for Improved Local Governance and Service Delivery. Here we just note some of the specific issues for urban transfers:

- **Infrastructure Development Fund (IDF).** The district equivalent of the IDF, the DDF is being reformed with support from the World Bank Governance for Effective Service Delivery (GESD) project. This can provide options for reform of the IDF, including (a) clarifying what it can be used for, especially considering proposed reforms to the road and water grants suggested in the Intergovernmental Fiscal Transfers note, and (b) adjusting the formula. Currently IDF is allocated as a flat rate for cities (MK 128 million in 2021/22) and for municipalities and towns (MK 17 million in 2021/22). This is despite the large population differences between cities and municipal/town councils, leading to large per capita differences, as shown in Table 2.

Table 2 2021/22 IDF allocations

Urban LGA	IDF Allocation	Population, 2018	Per capita allocation
Blantyre City	128,425,791	800,264	160
Lilongwe City	128,425,791	989,318	130
Mzuzu City	128,425,791	221,272	580
Zomba City	128,425,791	105,013	1,223
Kasungu Municipality	17,123,439	58,653	292
Luchenza Municipality	17,123,439	12,600	1,359
Mangochi Town	17,123,439	53,498	320

- **Road transfer.** Currently only city councils receive a transfer for roads. The level of the IDF is clearly not sufficient for the maintenance and development of LGA roads, especially in the smaller councils. The Intergovernmental Fiscal Transfers for Improved Local Governance and Service Delivery argues that the road fund should be extended to all councils. If this is done, the needs of municipal and town councils will also need to be considered.

- **Water development grant.** Rather than being based on a constituency basis, which is unlikely to be an adequate measure of need, the formula for allocating this grant should be improved so it is allocated on a more needs-focused basis, which should allow it to be received by the smaller urban councils as well as by the city councils.

- **Constituency development fund.** This is not currently received by the municipal councils. Ideally the CDF should be integrated with the other development grants (DDF and IDF) as suggested in the Intergovernmental Fiscal Transfers Reform Discussion Note, or a formula should be developed to distribution the CDF between the district and the municipality when these are represented in a single constituency.

Document prepared by
Overseas Development Institute

With support from
UNICEF Malawi

www.unicef.org/malawi