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FISCAL DECENTRALIZATION IN THE DRC: EVIDENCE OF REVENUE ASSIGNMENT

Angelita Kithatu-Kiwekete
University of Johannesburg, Republic of South Africa
Email: angelita.kithatu@gmail.com

Abstract

The rationale for central government to devolve resources for service provision has been debated in decentralization literature. Decentralization enhances democracy, encourages participation in local development initiatives and promotes local political accountability. This discourse has been complemented by the implementation of fiscal decentralization to increase the ability of sub-national government in financing municipal service delivery. Fiscal decentralization has often been adopted by African states since the onset of the New Public Management era in an effort to improve the standard of governance. The concern is that African states have taken minimal steps to adopt fiscal devolution that promotes revenue assignment which in turn limits sub-national governments' ability to generate own source revenues.

This article examines the revenue assignment function of fiscal decentralization in the Democratic Republic of Congo (DRC) in the light of decentralization concerns that have been raised by civil society, as the country charts its course to democracy. The article is a desktop study that will consider documents and policies in the DRC on the national, provincial and local level as far as state revenue sources are concerned. Revenue assignment should enable DRC's provinces and local authorities to generate significant revenue independently. However, post-conflict reconstruction and development efforts in the Great Lakes region and in the DRC have largely isolated decentralization which would otherwise entrench local fiscal autonomy in financing for local services and development. The article concludes that revenue generation for local authorities and the provinces in the DRC is still very centralised by the national government. The article proposes policy recommendations that will be useful for the country to ensure that decentralization efforts include fiscal devolution to enhance the financing for local development initiatives.

Key Words: *Fiscal decentralization; decentralization; revenue assignment; own source revenues; reform*

JEL Classification: H71

1. INTRODUCTION

The rationale for central government to devolve physical, human and fiscal resources particularly for developing states has been emphasised in decentralization literature (Cheema & Rondinelli, 2007; Oluwu & Wunsch, 2004; Ndegwa & Levy, 2003). These authors argue that decentralization enhances democracy, participation of communities in local development initiatives as well as promote local political accountability. This discourse has been enhanced by the implementation of fiscal decentralization to facilitate the ability of sub-national government, that is, local and provincial spheres of government, in financing service delivery. Fiscal decentralization can then be seen to “tailor outputs to local taxes” as well as promote opportunities for “experimentation and innovation in locally provided goods and services” (Rosen, 2005: 516). This will require that the local governing authorities are able to independently finance a significant portion of municipal services. The fiscal authority is delegated and vested through revenue assignment. This article will argue for the importance of revenue assignment in entrenching local fiscal autonomy so that sub-national government is in a position to be able to directly finance community services.

Fiscal decentralization has been minimally applied by African states during the New Public Management era through local government reforms which implement revenue sharing rather than revenue assignment (EISA, 2010; Tonhodzai, Nyikadzino &Nhema, 2015). Revenue sharing leaves local government at the behest of central government who frequently leave local authorities with limited fiscal tools to finance a myriad of local services (Agbar, Stephen & Nnamani, 2014; Marumahuko & Fessha, 2011).

Revenue assignment requires a more intrinsic use of fiscal devolution through an enabling framework that will provide for the form and function of raising revenue locally (Bahl & Vazquez, 2006: 10). This latter form of fiscal decentralization includes the assignment of appropriate revenue to services specific to municipal jurisdictions, as well as matching the various types of sub-national government with their corresponding own source revenues (OSR) and development capital. It should be noted that intergovernmental transfers are needed to supplement the function of revenue assignment and this will mean that local authorities will be better equipped and will thus depend less on central government to finance local services.

This article examines how revenue assignment is delegated to the subnational government of the Democratic Republic of the Congo (DRC). This is in part driven by the democracy agenda that has been pursued by the country since 2000 through transition, a period that has also witnessed violent regime changes as well as ethnic clashes. The increasing role of security sector reform has overshadowed and drawn attention from much needed reconstruction and development initiatives. A case in point is the derailed decentralization process. Weiss and Nzongola-Ntalaja (2013: 7) state that “Mobutu’s regime left the DRC highly centralised” and this meant that the eight provinces had no real delegated authority but were seen as “mere administrative pawns”. After the contested 2006 elections, decentralization activities implemented by the central government have brought minimal improvement as far as the provinces and the decentralised territorial entities (ETDs)are concerned (Weiss & Nzongola-Ntalaja, 2013: 8). The gap presented by this derailed process suggests the need for fiscal debates so it is particularly opportune for this article to scrutinise the DRC’s revenue assignment.

The revenue sharing form of fiscal decentralization in Africa has been covered by Mothusi (2010) and Sharma (2003) who discuss the increasing financial dependence of Botswana’s local authorities on central government. Similar findings were made by Agbar, *et al*, (2014) on local government in Nigeria; and more recently, the research by Iwerks & Toroskainen (2017) proposes compliance to policy as a means of enhancing intergovernmental transfers in the DRC. This article will focus attention on the second type of fiscal decentralization, that is, revenue assignment, which has not received much attention in the fiscal devolution debate in Africa and in post-conflict states in particular.

Using a model that is drawn from a framework for implementing fiscal decentralization proposed by Bahl and Martinez-Vazquez (2006), the article examines the DRC legislative detail on the revenue assignment function. Furthermore, the article utilises an economic efficiency model for fiscal decentralization that supports local financing of local public goods. The scrutiny covers government policies, academic publications, and relatedresearch reports from international finance institutions and development organizations that facilitate government reforms for fiscal decentralization in Africa with specific reference to the DRC. For the purposes of this article, fiscal decentralization is the devolution of fiscal resources to lower levels of government such as provincial and local government. Revenue assignment asserts local fiscal autonomy by granting local authorities the mandate to generate local revenue through various means (Bahl, 1999). It follows that local fiscal autonomy should manifest when local authorities have independence in generating a significant portion of local revenue rather than reliance on national government to provide revenue for financing service delivery.

There are four main sections in this article. The first provides an overview of the DRC as a post-conflict state in the Great Lakes region. The second section examines the model that is used for assessing revenue assignment. The third provides evidence of limited access to own source revenue and development capital devolved in the DRC. The final section analyses these findings and shows that post-conflict reconstruction in the DRC has not fully embraced fiscal decentralization and particularly revenue assignment. This article provides policy recommendations that can still be incorporated if revenue assignment is to be implemented more meaningfully in the DRC government.

1.1 Overview of the DRC

The DRC is one of the larger countries of the continent with a population of close to 70 million with an ethnically diverse population. The early discovery of minerals resulted in the extended Belgian occupation for over 300 years. Minerals continue to be the mainstay of the DRC economy and contribute significantly to the country's GDP. For the most part the minerals are still extracted by multi-nationals and remain a bone of contention and conflict. (Kuditshini, 2008) argues that governance in the DRC has been marginalised as a result of the country's involvement in the exploitation of natural resources.

The transition to democracy for the DRC remains elusive. Elections were held in 2006 and 2011 and (with the exception of the delayed election in 2016)these tended to arouse ethnic conflict which obstructs the work of government and limitsit to security sector reform (Wilèn, 2014; Rogier, 2004). Government structures established during Mobutu's regime have scarcely been improved which means that service delivery to citizens remains limited.The transitional regime which took over the government ofthe DRC after the 2011 elections has not engaged fully in processes to restructure government institutionsto improve governance for ordinary citizens. The provision of education is one such example.

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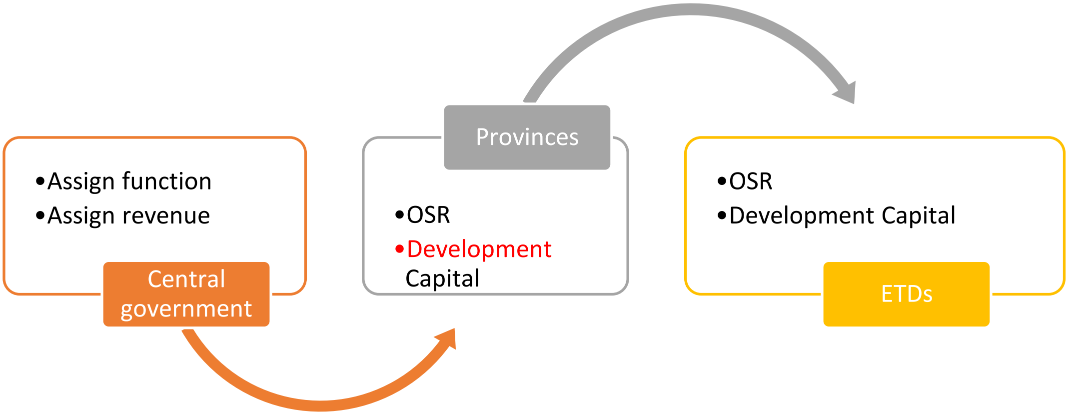
In this instance, the state does not provide free basic education, leaving civil society to take the responsibility for this vital task.Churches and other non-governmental organizations (NGOs) have had to provide this service and education in the DRC is not streamlined. Titeca & De Herdt (2011)found that the reluctance of the state to manage and provide education to citizens has meant that the education is not being provided uniformly and is at the mercy of power relations in civil society. This shows the slow erosion of the role of government in promoting socio-economic development and providing critical services to citizens. It is thus important to interrogate how the grassroots level of government is equipped to finance local service delivery.

2 MODEL FOR REVENUE ASSIGNMENT

The model below is drawn from Bahl &Martinez-Vazquez (2006) and proposes a way to facilitate the implementation of fiscal decentralization. This model emphasises revenue assignment as an important measure to enhance local fiscal autonomy for sub-national government. In this case, the assignment of expenditure responsibility should precede the devolution of local revenue tools that is the finance→function rule (Bahl & Martinez-Vazquez, 2006:16). This order is motivated by three main factors: firstly, the level of local revenue required cannot be done without “an estimate of expenditure needs”; next, it is also difficult to “impose a hard budget constraint” if there is “insufficient revenue assignment”; and finally the economic “efficiency assignment of revenues requires prior knowledge of the expenditure mandate” in order to be adopted (Bahl & Martinez-Vazquez, 2006:17).

Figure 1: Devolving Revenue Assignment



As shown in the above model, an enabling framework is provided when central government issues an appropriate legal framework in which the function for local authorities is articulated with the corresponding ability to generate a larger portion of local revenue to finance municipal services independently. Local revenue is generated through own source revenues (OSR) and development capital for development projects. OSR can be generated by means of: consumer tariffs for "exclusive public goods" where "units of consumption are quantifiable", and the "cost of unit consumed" can therefore be charged accordingly (Gildenhuys, 2000: 101). User charges are then imposed for the use of "specific local government services", for example emergency services (Gildenhuys, 2000: 99). Nominal fees such as those paid for licenses also contribute to localfunds. Development capital used to finance capital projects can be obtained through trusts and various loans which are funded over the medium and long term.

This model proposes the option that allows for independence of the local tiers of government to generate revenue for specific municipal services. For local fiscal autonomy to take full effect, the revenue tools of OSR and development capital must meet the criteria espoused by Reed (1999: 85-88). These local fiscal tools must yield the maximum income and to do so there are a number of requirements: One, they must be administered in a manner that collection costs are kept as low as possible; secondly, these revenue instruments must also be used to promote equity among citizens; and finally, the fiscal tools should be administered in relation to local services offered so that citizens can see what services they are paying for. This model suggests that local government must first have a mandate that is prescribed by the national legal framework to provide municipal services and then the necessary revenue tools, through OSR and development capital, to generate significant local revenue for municipal service delivery. The experience of the DRC with revenue assignment is examined next.

3 REVENUE ASSIGNMENT IN THE DRC

In terms of the above model, DRC should provide an enabling environment for the local fiscal autonomy by prescribing the function of local government and assigning appropriate revenue that comprises largely OSR and development capital. This is done by means of a legal framework which is laid down in the DRC constitution (2006); the DRC laws on public finances (2011) and various local taxes for local services including mining codes. Firstly, the function of subnational government is stipulated by the constitution. During Mobutu's regime, the DRC was a centralised state with eight provinces across the vast state (Weiss & Nzongola-Ntalaja, 2013). The constitution now identifies 25 new provinces and the capital city of Kinshasa. Decentralised territorial entities (ETDs) that are managed by local authorities are made up of cities, communes, sectors and chiefdoms with "administrative freedom and managerial autonomy" with respect to local resources that include economic and financial resources (DRC, 2006, Article 2; 3). The constitution also stipulates the exclusive and concurrent areas of competence for provincial government. Provinces are responsible for matters that include urban and rural housing, mining programmes as well as agriculture and forestry programmes (DRC, 2006: Article 204).

The devolution of functions and authority is supposed to guide the management of local fiscal resources for service delivery and development of local communities. According to Weiss & Nzongola (2013:8) no new provinces had been formed by 2013, nor had "local elections mandated for 2010" been held. It was only in 2015 that the state passed an administrative law dividing the country into 26 provinces, including Kinshasa and finally giving effect to the constitutional stipulation (DRC, 2015). The delayed demarcation of the country has adversely affected how the DRC local government generates revenue, as will be discussed later in this section.

Secondly and more critical for the local fiscal autonomy is the assignment of revenue for local government. Local fiscal autonomy implies that while provision is made for intergovernmental revenue sharing, it is important that local government is permitted a certain level of independence in generating revenue through OSR and development capital. The supreme law of the land endows the citizens with the right to enjoy national wealth and gives the state the duty to protect this right, redistribute wealth equitably andsafeguard the right to development (DRC, 2006, Article 58).

As the supreme law, the separation of finances between provincial and national government is paramount; the portion of national revenue for each is fixed at 40% which is *retenue ála source,* that is, the local revenue is retained at source by the provinces (DRC, 2006, Article 171, 175). Additionally, a national trust for equal development is established by the constitution to "finance public investment programs and projects" and this must be financed annually from the national fiscus (DRC, 2006, Article 181). These clauses prescribe collective national and local responsibility to generate revenue and to direct this revenue for citizens' development through service delivery.

Provincial and local government authorities are permitted to generate revenue through various means such as local taxes and domestic loans. The constitution requires that additional national legislation be in place to govern the public finances for national, provincial and local government. The DRC laws on public finances (2011) are used to realise this. Internal resources include current revenues and receipts from the various local taxes while external resources are secured from loans that are guaranteed by central government as well as external donations for specific projects (DRC 2011, Article 147).

4 FINDINGS ON LOCAL FISCAL AUTONOMY FOR PROVINCES AND ETDs

The above legal framework shows that subnational government should have access to several fiscal tools to generate revenue through OSR and development capital. However, given the slackness in the implementation of decentralization in the DRC, this paper findsthat revenue assignment is severely lacking in sub-national government levels (Weiss & Nzongola-Ntalaja, 2013). This is exacerbated byan unhurried attitude on the part of central government to undertake the necessary demarcation of the provinces since 2006 and the perpetuated centralist nature in which national government manages revenue (National Resource Governance Institute, 2015). This reluctance on the part of central government to decentralize means that the lower tiers of government have yet to be accorded the authority to manage local revenue generation independently.A case in point is the income from mining activitiesthat central government remains heavily reliant upon because mining revenue finances a significant portion of state expenditure. Exports from the DRC are on the rise and the government continues to enjoy a “rapid increase in mining revenues” (National Resource Governance Institute, 2015: 2).

However, this has left provinces and ETDs, particularly those in the resource rich regions,severely short-changed. No province has been allowed to keep the constitutionally stipulated 40% of internally-generated revenues by the central government (Weiss & Nzongola-Ntalaja, 2013: 8). The World Bank (2010: 2) also acknowledges that the “central government has not yet fully implemented the transfers of 40% of domestic revenues to the provinces”. Table 1 below gives two examples of mining royalties accrued in the provinces and collected by the central ministry of finance. The constitution proposes the 40% retention of revenue by provinces, while the Mining Code requires that an additional 25% of royalties stay in the province and the remaining 15% should be divided for the towns where mining is conducted. Table 1 below reflects clearly that these stipulations are not being met.

Table 1: Sharing of mining royalties

Province	**Reported share in US $**	**Entitled share in US $**
Katanga	12, 233, 746	33, 412, 151
Orientale	Unknown	2, 311, 732

Source: Iwerks & Toroskainen(2017: 3)

The DRC laws on public finances allow for external sources to be used to generate revenue locally for provinces and ETDs. These include domestic loans, trusts and transfers from central government. For instance, the proposed national trust for equal development would be a useful revenue instrument. Weiss & Nzongola-Ntalaja (2013: 8) confirm that this fund has not yet been created which leaves the poorer provinces bereft of a viable source of revenue.

Furthermore, the slow pace of decentralization has also shown that the “fiscal capacity of provinces to take on responsibilities” as is constitutionally expected, is “currently not in place” (World Bank & European Commission, 2008: 32).It is important to note that presently “own provincial revenues and transfers are only able to cover basic salaries and operational costs” (World Bank, 2010: 3). Indeed, it is only by combining the two forms of revenue (that is, revenue sharing and revenue assignment) that operational cost can be met, leaving capital expenditure severely neglected. Besides, this uncertainty in revenue generation leaves provinces more reliant on central government that they should otherwise be. Table 2 below emphasises this point. With reference to the period 2007 to 2012, the table shows that provincial revenues increased steadily. What is of concern is that provincial transfers exceed local revenues for provinces by more than 500%.

Table 2: Provincial revenues

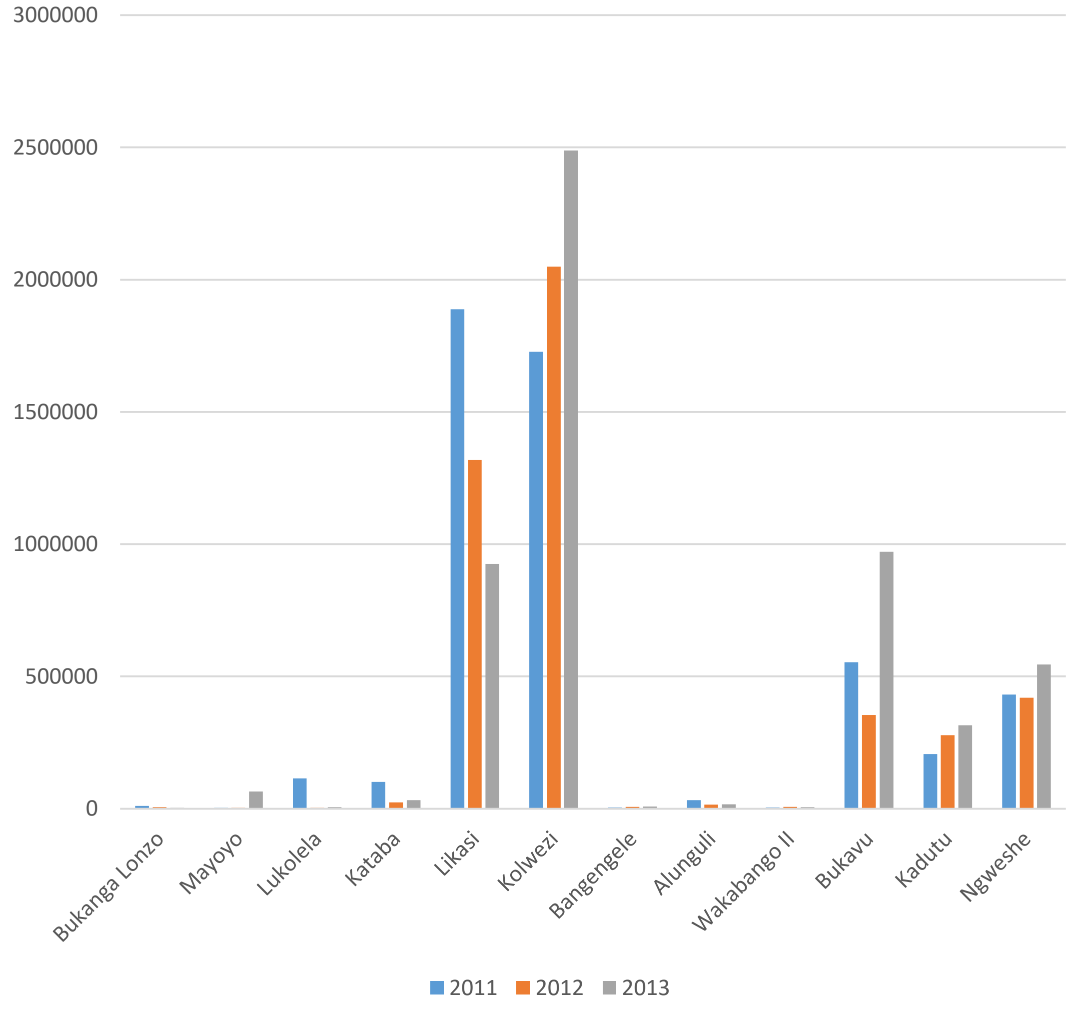
	Revenues (FC Billions)	
	Transfers	**Local revenues**
2007	132	32
2008	238	33
2009	319	45
2010	439	61
2011	570	79
2012	739	102

Source: World Bank (2010: 3)

With respect to the ETDs, finances remain curtailed and it is a challenge to finance local service delivery. Djamba (2010: 33) concurs when he writes that a key hindrance is the "functioning of decentralised territorial entities" due to the lack of political will to "implement the provisions of decentralization" which renders fiscal devolution ineffective. ETDs also report constraints in service delivery that are caused by obscurity between different revenue sources because the "revenue collection structures put in place are still relatively new" and not yet adopted, while other obstacles also face the ETDs such as "few taxable materials" and lax "traditional attitudes toward paying taxes" (World Bank, 2011:23).

The ETDs that receive decentralization capacity building support from international organizations have been able to report on improved revenue collection but actual figures for corresponding values on how the ETDs utilise the revenue from the various local taxes are not readily available. The Figure 2 below shows tax revenues for 12 select ETDs from 2011to 2013. It should however be noted that this revenue does not include taxes collected on behalf of central or provincial government. Although the figures show that all the ETDs have been able to generate local revenue, only the local authorities of Kolwezi and Kadutu are able to show a steady increase during the three years under scrutiny. Therest of the ETD revenue, shows a dip in revenue in 2012 and then a growth spurt in 2013.Additionally, a majority of the selected ETDs do not collect a significant amount of local revenue which means that they still rely more heavily on intergovernmental transfers than OSR and development capital.

Figure 2: Select ETD revenues 2011-2013



Source: USAID (2014: 10)

The discussion above points to several deficiencies that can be found in devolving fiscal tools to the DRC subnational government. The revenue assignment in the DRC does not traject as per the “finance-follows-function” rule. Establishing the function of local government should precede the delegation of local revenue instruments so that the municipal expenditure function can be quantified in such a manner that the corresponding revenue tools are allocated accordingly. This lack of compliance is evident the slow process of implementing decentralization. In addition, the decentralization process is not yet fully implemented as seen in the delay of the demarcation of the 25 provinces as constitutionally stipulated. This issue is emphasised by the African Development Bank (2009). Furthermore, the DRC laws on public finances were adopted while the decentralization process was underway. As a result, there is now an inability to quantify the expenditure needs against available revenue tools to finance the service delivery and local development initiatives.

In terms of revenue assignment, the public finance laws do not prescribe adequately on the administration of local revenue tools other than listing the internal and external revenue sources. This disadvantage refers to OSR and development capital where the forms of local income are not explicitly clear due to limited data available. It is also unclear how the provinces and ETDs are to levy and administer the local taxes. This means that the local revenue tools do not meet the criteria as given by Reed (1997). In the first instance, the available revenue tools yield minimal income because the collection costs are quite high. Next, the national trust for equal development is not in place to cater for poorer provinces, which limits their access (as is also the case for the rest of the 25 provinces) to development capital that is urgently needed for financing capital expenditure. Therefore it is concluded that the revenue assignment function is not yet devolved adequately to provide enough OSR and development capital to finance the service delivery needs for sub-national governmental authorities in the DRC.

5 CONCLUSION AND RECOMMENDATIONS

This article scrutinises the revenue assignment for the DRC and concludes that there is minimal attention given to the vital requirement of sound sub-national government. Decentralization is urgently required to enhance the financing of local public services to local communities as well as to finance development projects. The pre-occupation with security sector reform will continue to marginalise local development if local government is not equipped to finance service delivery and development. Furthermore, limited local fiscal autonomy will not reduce the burden on central government to cater for all its citizens across this vast African country. The main recommendation is that the DRC government needs to put fiscal decentralization and decentralization in general at the top of the agenda for democracy. The local revenue tools need to be adequately prescribed in national legislation so that provinces and ETDs can generate local revenue independently. In terms of future research, it will be interesting to conduct fieldwork in the DRC now that the prescribed constitutional demarcation of provinces has finally taken place. Research in this field is urgently needed to assess the level of local fiscal autonomy for the new provinces and the ETDs.

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