Chapter 11
Changing Centre-Local Relations and the Financing of Urban Development in Secondary Cities: A Comparative Study of Zimbabwe and South Africa

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Abstract Most urbanisation in developing countries occurs in secondary cities, yet their revenue base is relatively declining. The chapter traces the changing centre-local relations to establish the scope for future development funding in secondary cities. This is important because estimates indicate that if secondary cities were better equipped to steer their economic assets and development, the gross domestic product could double or triple, with a significant developmental impact on their hinterlands. The research design adopted a comparative approach to urban finance in Zimbabwe and South Africa. Data collection was based on literature reviews and key informant interviews. The results show that both countries have been centralising revenue collection and reducing the scope for local finance. This has increased the dependence of secondary cities on intergovernmental transfers at a time when central governments are facing economic challenges. In the future, secondary cities will need to look for alternative sources of revenue, including land value capture and public-private partnerships or concessions.

Keywords Centralisation · Control · Intermediate cities · Urban finance · Africa

11.1 Introduction

The financing of cities and towns is high on the global agenda, particularly in view of difficult international and domestic environments (Cirolia 2021; South African Cities Network 2012; Roberts 2014). Within global policy arenas, financing is critical for ensuring socially, economically, and environmentally sustainable urban development. The New Urban Agenda prioritises urban finance by harnessing the

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city economy and creating employment (UN-Habitat 2016). This call for sustainable finance pushes for productive cities (SDG 12) that are resource efficient and can raise living standards through the production of more affordable goods and services. Fostering the development of productive urban economies is the path to sustainable cities and communities (SDG 11).

An important development in Africa has been the rise of constitutional democracy with its emphasis on the devolution of power and authority to local governments. The constitutional recognition of local authorities has given further impetus to the critical role of urban finance in the development of cities (Roberts 2014). Urban finance is critical to provide funds for strategic infrastructure and capital investment. It has received increased interest in relation to secondary cities due to their important role in supporting national and regional development. A secondary or intermediate city generally occupies the second-tier level of a hierarchical system of cities based on population thresholds. It is defined as an urban area that generally has a population between 100,000 and 500,000. However, what are considered secondary cities may differ from country to country.

Secondary cities are of interest because they have been exhibiting strong demographic growth but often receive less scholarly attention than primary cities. However, demographic growth has caused great stress on these cities, which tend to have fewer resources than the primary ones. Thus, many are struggling to manage urbanisation, attract investment, and meet the demand for housing, infrastructure, and urban services. But it is in these cities that national economies need to be built because of their potential to double or triple the gross domestic product (GDP), with significant benefits to their hinterlands (Roberts 2014). Also, it is in these cities that solutions to global challenges, such as unemployment, poverty, inequality, and the impact of climate change, need to be managed.

This book chapter addresses a relatively neglected subject in the urban agenda, that of the financing of urban development in secondary cities, given that scholarship has tended to give more attention to primary cities. Furthermore, the chapter draws parallels between two neighbouring countries, Zimbabwe and South Africa, which have a similar colonial history but have implemented devolution to varying extents using lessons of experience. It gives a theoretical framework based on the neoclassical model of intergovernmental relations; conceptualises centre-local relations; briefly outlines the methodology before presenting the findings, followed by a discussion; and then concludes.

11.2 Neoclassical Model of Intergovernmental Fiscal Relations

The chapter adopts neoclassical theory in analysing centre-local relations within the overall framework of decentralisation. The neoclassical model is concerned with the assignment of responsibilities, that is, allocative efficiency, distributional equity, and macroeconomic stability, among the various tiers of government (Musgrave and Musgrave 1976; Oates 1999).

The neoclassical model of fiscal decentralisation regards sub-national jurisdictions as small and open economies whose capabilities and interests do not necessarily coincide with those of the central government. Interjurisdictional disparities can result in the inability to provide local public services that may induce undesirable internal migrations that result in social-political tensions. The model asserts that the proximity of the decentralised government to the electorate permits a more sensitive adaptation to offer public services to differing scales of interregional variations based on preferences and higher accountability and responsiveness by policymakers. Accordingly, additional gains can also be realised from experimentation and innovation at sub-national levels. For these reasons and to maximise efficiency in decentralised systems, the neoclassical model assigns the allocation function to the sub-national level and the stabilisation and distribution functions to the central level (Musgrave and Musgrave 1976).

In the neoclassical model, for the revenue side of the budget, the assignment of taxes should take account of the differences in taxpayer mobility among the various levels of government. The horizontal and vertical fiscal gaps, which necessarily arise from such an exercise, should be filled with transfers and grants in aid. Ultimately, the neoclassical model proposes optimal-size jurisdictions that ensure confidence between a group of decision-makers, taxpayers, and beneficiaries.

The importance of the neoclassical model to the study of centre-local relations lies in its recognition of the existence of multi-level governmental institutions and their role in service delivery, thereby assigning them responsibilities such as resource allocation, distributional equity, and macroeconomic stabilisation. The model also recognises that capital and labour mobility can result in horizontal fiscal gaps. This is true because labour and capital follow where they are rewarded with profits. Some regions are resourceful compared to others, and this may result in disparities and inequitable development. The model assigns distribution and stabilisation functions to central authorities, which use governmental transfers and grants to fill the horizontal fiscal gap.

The neoclassical model has been criticised for its excessive normative character (Beer-Toth 2009; Wiseman 1987). Institutions tend to be a product of a multiplicity of historical forces and are not necessarily well suited to perform the normative tasks set by the model. Furthermore, some sub-national structures already existed under centralised unitary systems of government. In such cases, the political and fiscal autonomy of lower-level authorities was severely limited, which left them with the primary role of being simple executive agents of the centre.

In the New Urban Agenda, intergovernmental relations are undergoing a thorough change resulting from extensive political and fiscal decentralisation. This change not only leads to more autonomy but also signifies responsible government at all levels. However, most governments in the developing world adopt a decentralised unitary model, and much less is based on federal systems. Moreover, the form and content of actual intergovernmental arrangements vary with actual geographic and demographic characteristics, the political and institutional context, as well as the actual stage of decentralisation.

11.3 Conceptualising Centre-Local Relations

'The conceptualisation of centre-local relations has usually been linked to decentralisation and its related meanings' (Wekwete 1994: 37). In centre-local relations, three forms of decentralisation are identified: de-concentration, delegation, and devolution. De-concentration means that the higher-level authority keeps its powers and responsibilities for a given public function while leaving the execution to lower authorities. Delegation is whereby the lower authority has considerable discretion as to how to carry out a delegated task, but it is fully accountable to the higher authority, which retains ultimate responsibility for what is done and provides some or all necessary funding. Devolution is the most complex form of decentralisation, in which responsibility for a particular function is entirely transferred to lower authorities that are, in this case, elected, independent, and self-governing entities.

The centre represents the central government and the apparatus at its disposal to exercise power. In unitary systems of government like Zimbabwe, the centre largely determines what happens at the local level. The rules that govern relations between the central and sub-national levels are generally prescribed by the central government. The capacity of local governments is partly dependent on the resources and responsibilities they are granted and on the power of central governments to override their decisions (The World Bank 2000). This contrasts with federal systems of government as their sub-national institutions enjoy relative autonomy. In Africa, there has been much rhetoric about bestowing power to local governments, but in reality, the powers are highly circumscribed (Wekwete 1994; Conyers 2003; The World Bank 2000; Cirolia 2021).

In many African countries, fiscal decentralisation has been half-hearted with an expanding catalogue of responsibilities granted to local governments without providing the necessary revenues. No wonder the quality of decentralised services has declined drastically (The World Bank 2000; Cirolia 2021).

11.4 Methodology

The research adopted a comparative design that considered the fact that both Zimbabwe and South Africa have a similar colonial history and adopted devolution in 2020 and 1996, respectively. The comparison was based on identified sources of urban finance, such as intergovernmental transfers, borrowing local revenue, and emerging funding mechanisms under the influence of changing centre-local relations in both countries. The research is based on a desk review, but due to easier access in Zimbabwe, this was complemented by key informant interviews. Six key informants were interviewed, and their designations are as follows: key informants 1 and 2 – senior officials in the Ministry of Finance and Economic Development, key informant 3 – senior official in the Urban Councils Association of Zimbabwe, and key informants 4, 5, and 6 – senior finance officials, each from three secondary cities visited in Zimbabwe. Evidence on South African secondary cities is based on literature review, laws, and policies, including national budget statements. Data were subjected to content and thematic analysis to derive patterns that informed comparison.

11.5 Results

11.5.1 Zimbabwe: Of Debt Crisis and Control

The government of Zimbabwe has been promoting development in secondary cities as a way of reducing the disparities between rural and urban areas. Cities are expected to be engines of economic growth in regions and contribute to the development of their hinterlands. The development of secondary cities has been dominated by the growth of residential areas that lack infrastructure and services. By the time the country implemented the fast-track land reform programme 2001–2003, it was already in debt repayment arrears. Since its independence in 1980, Zimbabwe has relied on loans provided by the World Bank to finance infrastructure development in cities. The government would borrow money for lending to cities, which was to be repaid over a duration of 10–30 years. The advantage of the loans is that they were affordable for cities and nurtured a sense of responsible citizenship since they were intergenerational. Loans were also used to finance low-income housing, allowing beneficiaries to repay over 25 years or more. By 1998, Zimbabwe began to fall behind in its repayment of loans to the World Bank, a situation that would deprive it of much-needed funding for infrastructure and service provision.

Post 2000, the macroeconomic environment continued to deteriorate following the fast-track land reform. Hitherto, bonds had been the commonly used capital market instrument exercised by secondary cities. Municipal bonds would be floated on a regular basis and used to raise cash for investments in infrastructure development. With the fast-track land reform, the image of the country was severely battered and the accompanying status of the Pariah state increased the level of risk.

Besides the unstable political and macroeconomic environment, since the formation of the main opposition Movement for Democratic Change (MDC) (later renamed Citizens Coalition for Change (CCC)) in 1999, centre-local relations in Zimbabwe have been defined by polarised politics. There is political polarisation between the Zimbabwe African National Union-Patriotic Front (ZANU-PF) party, which dominates the central government, and the CCC, which controls 31 of the 32 urban councils in the country. The period after the formation of the CCC has seen the continued withdrawal of power from urban councils by the centre. There has been a deliberate move to centralise revenue collection because most of the urban councils are controlled by the opposition (key informant 5).

In 2001, the Zimbabwe National Road Authority (ZINARA), which falls under the Ministry of Transport and Infrastructural Development, was established in terms of the Roads Act with the aim of improving the road network throughout Zimbabwe. ZINARA took over vehicle licensing from local authorities, a move that has deprived the latter of an important source of income. The parastatal is supposed to disburse part of the collected revenue to local authorities for use in road infrastructure development, but in practice, disbursements have not been regular and the amounts have been short of recipient expectations. The feeling has been that the old arrangement that let local authorities license vehicles gave them power and that the move towards centralised government control over finances enabled political control by the centre (key informant 5). Similarly, in 2006, the Ministry of Local Government, Public Works and National Housing directed the Zimbabwe National Water Authority (ZINWA) to take over the management of water and sewage disposal infrastructure from local authorities, citing their incapacity to deliver the services (Nyikadzino and Nhema 2015). Urban councils have argued that the transfer of water management to ZINWA greatly affected revenue inflows. They viewed it as a planned move to deprive them of their traditional source of revenue (Mushamba 2010).

The 2013 Constitution of Zimbabwe provides for devolution as a new theme for central-local relations. It provides that political power, policymaking, resource raising, and distribution, as well as administrative and governance responsibilities, are to be devolved through three tiers of government, which are national government, sub-national government (provincial and metropolitan authorities), and local governments (rural and urban councils). These constitutional provisions were further pronounced through the 2020 Decentralisation and Devolution Policy. However, the policy document is inclined to de-concentration and delegation forms of decentralisation rather than devolution as it gives the central government ultimate power to control local authorities. Although the policy document designates a lot of responsibilities from the central government to local authorities, there is no fiscal capacitation of local governments to meet the new responsibilities. The power to collect revenue from vehicle licensing and the sale of electricity is vested in parastatals, and the lower tiers of the government depend on financial transfers from the centre. Even the Constitution does not address the issue of central control. It provides for devolution funds, a misnomer, first because the funds are provided by the centre and second because the central government has been interfering with how local authorities use the funds (key informant 5). The funds are received by local authorities in bits and pieces, making it difficult for urban councils to plan for their use (key informant 4).

The policy environment has not allowed for sustainable urban development in secondary cities. At the centre of economic problems has been currency volatility. The rate of inflation has been very high, and the interest rate hovers around 210%. The government has not been consistent with the exchange rate, and this has been a great source of risk in the economy. Investor confidence has been dampened by changes in policies on the repatriation of profits. The unpredictable macroeconomic environment has made borrowing difficult as rational agencies can only borrow in the short term. Additionally, citizens would defer the payment of tariffs to benefit from inflation. Policy inconsistencies have affected the capacity of local authorities; for example, fuel dealers are allowed to sell dollars in the United States, while local governments are only allowed to demand payment in Zimbabwe dollars. Furthermore, unexpected policy directives from the central government have been a source of uncertainty as when in 2013 toward harmonised elections, the Ministry of Local Government, Public Works, and National Housing directed urban councils to cancel debts owed by residents. In subsequent years, the directive has influenced residents to adopt a wait-and-see attitude, thus negatively affecting revenue inflow, as has been documented in the case of Chitungwiza City Council (Nyikadzino and Nhema 2015; key informant 1).

An issue of concern in centre-local relations has been the lack of trust between the centre and urban councils. Senior government officials see urban councils as lacking the capacity to plan, implement, coordinate, and review. Key informant 1 stated that urban councils lack tools of the trade, without proper billing systems, and the absence of properly packaged project proposals that can be considered for funding (key informant 1). Furthermore, senior management in urban councils is said to prioritise their benefits, for example, the purchase of executive cars at the expense of providing services to residents (key informant 2). This is often the case, but there is a severe shortage of high-quality human capital at all levels of government. But if things are so bad in cities, why does the central government not undertake the training and staff-monitoring programmes of the International Monetary Fund to bring local bureaucrats up to speed? On the other hand, urban councils, through the deprivation of local revenue, accuse the centre of 'hunting in the kraal' (key informant 4) and do not allow them to increase tariffs when parastatals like ZINARA and ZINWA easily get permission to do so (key informant 6).

A sense of responsible citizenship would improve revenue collection by urban councils, but some influential citizens are believed to be still in the war of liberation mode whereby they have a feeling of entitlement, resulting in them not paying their taxes (key informant 4). Old people have been observed to be more up to date with paying taxes than young people. Therefore, a call has been made to introduce civic education in schools. This would also require one not to owe any taxes if one wishes to stand for public office.

Despite the challenges in central-local relations, there is scope for secondary cities to broaden the local sources of revenue by harnessing diaspora remittances, but the challenge for central and local governments is to find a way for people to invest back home. This would require authorities to build trust and establish attractive funding vehicles.

11.5.2 South Africa: Relative Centralism

In South Africa, there has been an increasing interest in secondary cities in part because they are a relatively neglected subject on the urban agenda (South African Cities Network 2012; Roberts and Anyumba 2022). Secondary cities show strong demographic growth, catalyse development in their hinterlands, alleviate demographic pressure from the country's metropolitan areas, and are generally expected to offer a better quality of life than densely populated urban conurbations. Most secondary cities tend to be administrative centres because they host local government structures, and provincial capitals that are not metropolitan centres fall into this category. Many have experienced growth on the basis of being agricultural markets or sources of mineral resources but need to diversify their economies if they are to become strong urban centres.

South Africa has a quasi-federal system of government that guarantees some taxing and borrowing powers to provinces. However, in the negotiations towards independence in 1994, the majority African National Congress (ANC) party favoured a strong centre (Dickvick 2007). The result was the 1996 Constitution of South Africa, which recognises three spheres of government and guarantees equitable sharing and the allocation of revenue raised nationally, that is, between the national, provincial, and local spheres. The national government is vested with all broad-based taxes, such as income tax, corporation tax, value added tax (VAT), excises, fuel levy, and customs, constituting about 80% of the total revenues. Sources of revenue for the provinces are very few and insignificant and include tax on gambling, motor car licence, and hospital fees. Municipalities have a more significant tax base where they can raise revenue from sources such as property tax, regional levies, and electricity/water user charges (Table 11.1). Compared to Zimbabwe, South African secondary cities have a broader revenue base since they can surcharge for electricity provision and receive transfers from provincial governments.

Secondary cities are largely able to finance much of their budgets from local revenues. For example, the percentage of own revenue for Polokwane was 53 for the financial year 2017/2018 and that for Gqeberha 72 (Roberts and Anyumba 2022). As a result, secondary cities require fewer intergovernmental transfers than provincial governments. In 2019/2020, local governments received 8.6% of national revenue (Republic of South Africa 2019). Urban finance is critical to the development of secondary cities, especially in providing funds for strategic infrastructure and capital investment. With much lower tax bases than big cities, secondary cities rely heavily on intergovernmental transfers (Yemek 2005; Roberts and Anyumba 2022). According to the 2019 estimates, local governments received 8.6% of national revenue as ‘equitable share’ in 2019/2020 (Republic of South Africa 2019). Division of revenue is made for 3 years under the multi-year budgeting system in South Africa. The estimates for the division of revenue until 2022/2023 are given in Table 11.2. In comparison, Zimbabwe's provincial councils and local authorities received 4.4 percent of the allocation in the 2022 National Annual Budget (Government of Zimbabwe 2021b).

Sustainable urban development requires a growing revenue base; however, secondary cities are heavily dependent on national revenue (Donaldson 2018; Yemek 2005). Intergovernmental transfers form the largest part of sub-national revenues. Data on financial performance show a decline in both transfer and local revenues.

Like Zimbabwe, but to a much lesser extent, South Africa has experienced a steady and gradual reduction of the fiscal autonomy of sub-national governments, including secondary cities, despite the pronouncement of devolution in the 1996 Constitution. Since the 1970s, intergovernmental fiscal relations in South Africa have become more centralised. Features of centralisation include (1) the abolishment of the local government regional service levy and the subsequent

Table 11.1 Revenue and expenditure assignments

Level of government	Expenditure functions	Revenue powers
National	Defence and intelligence	Income tax (personal)
	External affairs	Income tax (corporate)
	Criminal justice (police, prisons, justice)	VAT
	Home affairs	Fuel levy
	Higher education	Excise
	Welfare	
	Housing	
	Health	
	Education	
	Communications	
	Science and technology	
	Culture	
	Art	
	Land affairs	
	Environment and tourism	
	Minerals and energy	
	Trade and industry	
	Water affairs	
	Public works	
	Transport (national road and bus subsidies)	
Provincial	School education	Tax on gambling
	Provincial roads	Hospital fees
	Housing	License fees
	Welfare	Motor car fees
	Health (academic, hospitals, primary)	
Local	Electricity reticulation	Property tax
	Garbage collection	Regional levies
	Administration	Electricity/water use charges
	Municipal	
	Fire fighting	
	Municipal infrastructure (streets)	
	Water	
	Sanitation and waste	
	Water reticulation	

Source: Chakraborty et al. (2021)

establishment of a nationally collected and allocated local government share in the fuel levy and (2) the prospective new composition of regional electricity distributors, which is likely to remove electricity surcharge as a source of local government revenue (Calitz and Essop 2013). Since independence in 1994, the viability of revenue sources for secondary cities has been weakened by these centralist policies, limited access to well-trained staff, and increasingly constrained national government finances.

Table 11.2 South Africa – medium-term estimates of 'equitable share'

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
R billion	**Outcome**			**Revised**	**Medium-term estimates**		
Division of available funds							
National departments	555.7	592.7	634.4	742.8	757.4	766.2	796.2
Provinces	500.4	538.6	572.0	612.8	651.5	694.8	731.1
Equitable share	410.7	441.3	470.3	505.6	541.0	576.7	607.6
Conditional grants	89.7	97.2	101.7	107.3	110.5	118.2	123.5
Local government	102.9	111.1	118.5	127.2	132.4	143.0	152.2
Equitable share	50.7	55.6	60.8	69.0	74.7	81.1	87.2
General fuel levy sharing with metropolitan municipalities	11.2	11.8	12.5	13.2	14.0	15.2	16.1
Conditional grants	40.9	43.7	45.3	45.1	43.7	46.8	49.0
Provisional allocations not assigned to votes	–	–	–	–	21.2	34.9	33.1
Projected underspending				−3.2			
Total	1159.0	1242.3	1324.9	1479.6	1562.5	1638.9	1712.6
Percentage shares							
National departments	48.0%	47.7%	47.9%	50.1%	49.1%	47.8%	47.4%
Provinces	43.2%	43.3%	43.2%	41.3%	42.3%	43.3%	43.5%
Local government	8.9%	8.9%	8.9%	8.6%	8.6%	8.9%	9.1%

Source: Republic of South Africa (2019)

However, secondary cities have more scope to borrow money from the market, but only for purposes of financing capital expenditure. Municipalities are allowed to borrow from private markets for infrastructure development if they demonstrate their creditworthiness. A municipal council has the exclusive right to borrow without any national or provincial approval, and the obligation to repay is that of the municipality without any national or provincial liability (Government of South Africa 2017). Moreover, local governments can raise bonds as a form of debt financing, but most secondary cities have been conservative borrowers relying largely on fiscal transfers.

Secondary cities are more dependent on transfers than metros, although they receive less funding than metros on a per capita grant. To address revenue shortfalls, secondary cities should look at alternative sources of urban finance. Like in Zimbabwe, the trend has shown a decreasing role for the private sector in urban finance. The private sector had been the largest source of capital finance for municipalities. However, during the fiscal year 2015/2016, the public sector overtook the private sector to become the largest holder of long-term debt in South Africa. Public-private partnerships (PPPs) offer ways in which investment can take place outside the balance sheet of local authorities in respect of some local services – with the local authority playing a regulatory rather than a delivery role). PPP structures (such as water concessions) may facilitate direct access to private capital through the revenue base of the service in question rather than via the balance sheet of the local government. Development charges are a tool worth adopting by secondary cities. A development charge is designed to pass on upfront costs to developers, who will in turn pass it on to their customers. Tax incremental financing is the most widely used form of development charge in South Africa. Applying the 'benefit' principle of public finance means that those who benefit the most from a product or service should pay in proportion to the value they derive from it. Tax incremental financing dedicates tax increments within a defined district to finance the debt that is issued to pay for the project. It creates funding for public or private projects by borrowing against the future increase in these property tax revenues.

Secondary cities can also use land-based strategies to finance urban development. A right to more intensive land development – a higher floor space index or floor area ratio may also be sold by secondary cities. These 'excess density rights' in effect represent the publicly controlled share of privately owned land. The development rights have economic value that can be sold by the local authority.

11.6 Discussion

For both Zimbabwe and South Africa, the findings reveal a difficult global and domestic macroeconomic environment. The ongoing global economic crisis, in part exacerbated by the COVID-19 pandemic and more recently the economic fallout from the war in Ukraine, has further constrained national government finances. In the deteriorating macroeconomic environment, particularly in Zimbabwe, many secondary cities are struggling to manage urbanisation, attract investment, and meet the demand for urban services.

Both countries are experiencing increasing centralisation, although to a greater extent in Zimbabwe. In South Africa, revenue-raising powers under the Constitution have remained highly centralised. Zimbabwe is making use of state-owned enterprises, specifically ZINARA, to finance urban infrastructure. Thus, through the Emergency Road Rehabilitation Programmes, the central government has taken over the maintenance of roads in cities. In taking over road maintenance, the central government cites a lack of capacity at the local levels. It has become an accepted article of truth that, upon attaining independence, African governments seek to consolidate power through centralism (Nyikadzino and Nhema 2015; Cirolia 2021). In Botswana, local authorities are simply an extension of the central government and are responsible for implementing central government policies at the local level (Dipholo and Gumede 2013). It has been noted that the financing of urban infrastructure in Africa – if it happens at all – tends to be through state-owned enterprises or public-private partnership (PPP) arrangements or directly into revenue-producing infrastructure projects.

In the case of Zimbabwe, the story has been of the centralisation of urban finance since independence in 1980 and before. In 1985, the government created the Zimbabwe Electricity Supply Authority (ZESA), which took over the supply of electricity to residents from local authorities, in the process creating a funding gap for urban councils. Before the formation of ZESA, local authorities purchased electricity directly from the Central Africa Power Corporation (CAPCO) at a wholesale price, which they distributed to urban consumers for profit. The profits from the electricity account were used to subsidise urban public transport and also went into a tariff stabilisation fund. The formation of ZESA deprived the urban public transport system of an important source of subsidy until it barely existed. The Zimbabwe situation is complex. It is complex because, although centralisation is problematic, the main scourge that is putting a drag on the financing of secondary cities is corruption. 'Corruption occurs where the private search for economic advantage and personal advancement clashes with laws and norms that condemn such behaviour' (Rose-Ackerman and Soreide 2011: xiv). Legally, most land in peri-urban areas is owned by the government and local political elites, as well as ruling party structures rather than the opposition-led urban councils, allocate land parcels in violation of regulations. Corruption is a deep-seated problem in most secondary cities and has been extensively documented for the Chitungwiza secondary town, where there is rampant abuse of power by councillors and officials to amass property and solicit bribes for land, resulting in revenue finding its way into pockets of private individuals (Chiweshe et al. 2013; Muchadenyika 2020).

South Africa has a system of an equitable share of national revenues to local governments. The Division of Revenue Act, which is passed each year, considers consultations with the Finance and Fiscal Commission. In both Zimbabwe and South Africa, central government support for secondary cities has been declining over the past three decades, more so in the former country. As such, the fiscal viability of secondary cities is declining as there is growing dependence on intergovernmental transfers. In the near term, intergovernmental fiscal flows will remain a significant portion of secondary city budgets (Roberts and Anyumba 2022). In Zimbabwe, in an unstable political and economic environment, grants have increasingly become conditional (Marumahoko and Fessha 2011). Centralisation has neither brought about macroeconomic stabilisation nor improved equity – in the sense of the nationwide distribution of resources. At the local level, economies of scale have not been realised, and there has been no reduction in administrative and coordination costs. The shortage in transfers has resulted in unfunded mandates, and these are defined as the difference between the cost of delivering on a constitutional mandate and the constitutional revenue sources (Calitz and Essop 2013). Urban councils have responsibilities that are paid for by the central government through conditional grants, for example, the provision of primary health services. In Zimbabwe, the central government has not paid the nurse salary grant, thus imposing this responsibility and an unfunded mandate (key informant 4).

In view of the decline in central government support, secondary cities have been looking to alternative sources of revenue, such as land-based finance, public-private partnerships or concessions, and diaspora remittances. The land-based financing of secondary cities remains a future fiscal option because property tax is a relatively small contributor to revenue mobilisation in most African countries (Cirolia 2021). There is scope to improve collection not only through technological interventions such as digitising cadastres but also through improved property valuation. Property developers can be charged impact fees, designed to cover the cost of providing truck infrastructure such as water mains and outfall sewers associated with the development. Another form of land-based finance is the sale of development rights. By granting development rights to developers, the value of the land increased. Secondary cities can sell, for example, the right to convert rural to urban land, to increase density, or to convert residential to commercial land, all of which increase the value of land. Secondary cities can lease out or sell public land, as is common in Addis Ababa or Luanda. The current challenge in applying land-based financing specifically in Zimbabwe is that most urbanisation occurs in peri-urban areas of secondary cities. These areas tend to be characterised by informality, illegal land subdivision and consolidation, and poor information systems, for example lack of addresses and databases.

Property taxation requires a good information system. Charging of impact fees and the sale of development rights are already being practiced in Zimbabwe and South Africa, but with less transparency, regulation, and enforcement in the former country. The same applies to land use conversion. In Zimbabwe, the option to sell or lease public land in peri-urban areas has been mainly deprived of secondary cities because the government sold most of the land to housing cooperatives aligned with the ruling political parties and private developers. However, in most cases, these entities have not provided infrastructure or services to peri-urban communities.

An urban service provision model that has been gaining application in both Zimbabwe and South Africa is PPPs or concessions. In Zimbabwe, currency and exchange rate inconsistencies have resulted in investors opting for PPPs where they enter a revenue-sharing arrangement with the local authority to cover exposure to risk. For example, by funding the development of water infrastructure, the investor can recover the invested funds through a share of the revenue from the sale of water to residents.

Zimbabwean secondary cities have the potential to use diaspora remittances for urban development. This is in view of the fact that in developing countries, many secondary cities are becoming heavily reliant on diaspora remittances to supplement household income and support local economic activities (Roberts 2014). Global aggregate data show that where there are economic downturns, the volume of remittances increases (Roberts and Anyumba 2022). Remittances have been significantly driving the development of secondary cities in many developing countries, especially in Asia (Roberts 2014). A study of four Latin American countries showed that most of the remittances go to secondary towns and cities (Ibid.). In 2020, Zimbabwe received US$1.0 billion in diaspora remittances (Government of Zimbabwe 2021a). To take advantage of remittances, secondary cities must build trust with people working in the diaspora. Secondary cities need to put in place structures that allow for the absorption of diaspora funds and their productive use. This includes creating financial intermediation opportunities for micro-funds, developing, and communicating pipelines of investment opportunities that remittances can be directed to.

In carrying out the comparative analysis of the two countries, the Zimbabwe situation was found to be worrisome not only because of polarised politics and devolution rhetoric but also because of the overall negative perception of the country in the Global North. The country is isolated from key players in the global economy due to human rights issues, and until it re-establishes its relations with the international financial community, resources for the development of sustainable secondary cities may remain limited. The current volatile macroeconomic environment is not conducive to financing development in secondary cities.

11.7 Conclusions and Recommendations

The findings of the study show that although the Constitutions of Zimbabwe and South Africa provide for the devolution of power and authority to sub-national levels, the trajectory in the financing of secondary cities has fewer similarities than differences. The similarity is that there has been a tendency towards centralisation in both countries, with secondary cities experiencing a decline in revenue base. In both countries, there is a growing dependence on intergovernmental transfers to local governments, which in Zimbabwe are becoming more conditional. In recent years, the two countries have experienced a shift towards public funding, with the private sector contributing less to the financing of urban development. Private investors have shown more interest in the revenue-sharing model than in the loan model of finance.

As a result of the persistent political and economic crisis partly attributed to the Fast Track Land Reform Programme, Zimbabwe has experienced macroeconomic instability and a deliberate move to control revenue by the central government. Key informants believed that the centre controls revenue because most urban councils, including secondary cities, are controlled by the main opposition political party. The sense is that by controlling revenue, the centre can control politics. Zimbabwe faces more urban financing challenges than its neighbours, mostly because of policy failures characterised by currency inconsistencies, weak exchange and interest rate policies, and a lack of consistent pronouncements on the repatriation of foreign currency. As a result, secondary cities have not been able to attract investment. Most urban development has occurred in peri-urban areas that are characterised by materially and institutionally fragmented informal settlements that do not contribute to revenue. They do not contribute to city revenue because they occupy public land that is exempted from the payment of local authority taxes. However, Zimbabwe is experiencing an increase in diaspora remittances, which can be leveraged for the development of secondary cities. South Africa also faces some challenges, but to a lesser extent, and indeed has some lessons to offer to its northern neighbour, particularly with respect to its approach to devolution that recognises spheres of government and an equitable share of national revenue so that the amount of transfers is not dependent on the wishes of the central government.

Currently, secondary cities do not have much to offer. The situation in the two countries has similarities in emerging models for funding urban development but broadly needs different solutions to prevailing problems. Secondary cities should look for alternative sources of finance, such as those based on property tax, land value capture, and public-private partnerships or concessions (Chavunduka 2021; Roberts and Anyumba 2022). This can be achieved through administrative and policy reforms, both of which can be supported by technological interventions. Key reforms can unlock the potential of property tax and land value capture through, for example, improving taxation mapping, property valuation, tax collection, enforcement, and transparency. The aim should be to improve the availability and integration of data that can be used to support overall systemic changes, rather than be a reform process in itself.

Some parting advice for Zimbabwe would be appropriate at this point. There is a need to adopt bipartisan rather than exclusive politics as a step toward building a stable macroeconomic horizon. This requires the development of capacity for policy analysis at high levels of leadership. The government should provide a consistent and stable policy environment. It also needs to work to improve the country's image and strengthen relations with the international community, including international financial institutions, to unlock development resources. With this, the financing of urban development in secondary cities will have received a boost.

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