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# FINANCING DISTRICT COUNCILS
# LOCAL TAXES AND CENTRAL ALLOCATIONS

A.H.J. HELMSING & K. WEKWETE

Department of Rural and Urban Planning
University of Zimbabwe

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## 1. INTRODUCTION

The problem of local government finance is a universal one whose manifestations vary from country to country. The problem is more significant for developing countries where the variety of designated functions for local authorities have not always been matched by responsibility for public spending.

Due to rapid population growth there is a growing demand for provision of local services and employment. This is reflected in the growing numbers to be educated, sheltered, transported, treated and employed. Zimbabwe with an estimated population growth rate of 2.9% is faced with a wide range of these problems, in addition to the objective of restructuring the inherited dualist colonial economy.

In simple terms, the problem of local government finance concerns raising money as well as spending it; enough revenue must be raised to meet functions which range from provision of basic services to coordination and planning. It is a problem of resource allocation to be resolved both at the national and local levels.

The raising of revenue for local government includes a variety of central government allocations, local taxation through national and local legislation, borrowing and income generating activities. In Zimbabwe central allocations directly to local authorities (Districts) and through sectoral ministries, is a key source of revenue generation. There is an excessive degree of dependence on central resources which is largely a product of the nature of the inherited colonial economy.

Since Independence central government has stressed the importance of district local authorities increasing their capacities to generate revenue. This objective is linked to the desire to strengthen self-reliance and decentralization of both economic and political activities.

The 1984 Prime Minister's directive enshrines this desire: "To define the administrative structures at provincial and district level and the relationships and channels of communication between all the participants in development at provincial and district level in order to achieve the co-ordinated development of provinces and districts of Zimbabwe."

The principal features of the directive are planning, participation, coordination and implementation. The role of finance is central to achieving these objectives and furthermore, this raises the key issue that the powers bestowed on local authorities (whether through Acts, e.g. the District Council Act or through directives) have to be clearly linked to the question of effective power of public spending. How can local authorities generate enough revenue to finance a wide range of development projects? What alternatives exist and how feasible are they within the given context of Zimbabwe?

Currently District Councils have been exploring a range of alternatives to generate local revenue. These include: new taxes and levies on local inhabitants; grain and product levies; rural bus licences; and a general desire for tax sharing. All these alternatives sound attractive but should be carefully examined within the general framework of financial relations between central and local government.

There are also general political pre-conditions which determine the question of resource allocation. Political leadership at all levels of government, from village to national levels, is bound to struggle for a sufficient degree of control over an adequate amount of resources to maintain a power base and to be able to distribute expected benefits to those on whose support it depends. In this context, also local levels of government struggle hard to meet implementation of projects and programmes they helped to identify under the banner of grassroots participation in planning.

The discussion contained in this paper will attempt to highlight the following issues:
a) The problems of linking resposibilities and functions bestowed upon local authorities with the ability to generate adequate resources to meet them.
b) Formulation of general criteria for judging the effectiveness of local taxation with reference to equity, administrative feasibility, political acceptability and powers of sanction.
c) Analysis of post-independence experience (using current research). This will include both discussion of overall trends and as well as of some options which District Councils have raised for the future.

## 2. Financial relations between central and local government

There are many ways in which the financial relationships between Central Government (CG) and Local Authorities (LA´s) can be structured. It would be difficult, if not impossible to identify an optimal structure. Much depends on historically evolved roles, actual political economic context as well as on future directions in the role of CG and LA´s. Even though this may be the case, there are some general guidelines and principles with which to judge effectiveness of an existing CG- LA financial structure and proposals for changes therein.

First of all, the adequacy of fiscal resources available to LA´s can only be determined in relation to the responsibilities and functions which they have. Thus to insist that LA´s have to undertake developmental tasks without ensuring that LA´s have adequate financial means, either in the form of local taxes or central transfers, would be an irresponsible act of government. Equally it would make little sense on the part of LA´s to insist on increased revenue base, without justifying this in terms of expenditures for which they are held responsible both by CG and their own communities.

There are many ways in which LA´s can be provided with adequate resources. The ´fiscal capacity´ of LA´s can be enlarged. This can be done by authorizing LA´s new local taxes on property or land, on persons, producers and companies (income taxes) and on goods and services. In addition, LA´s can be authorized to enlarge the scope for charges and fees for services provided. A lot of attention has been paid of late to another source of local revenue, namely income generating projects. A last local source of revenue would be borrowing, either from CG or otherwise. Looking at experiences in other parts of the world it can be asserted without much reservation that it is highly unlikely that local revenue will constitute an adequate resource base for LA´S. Even if LA´s have little developmental responsibilities, local revenue normally is not sufficient to provide basic local public services.

When considering the effectiveness of local sources of taxation, four general criteria come to mind (1):

a) Financial appraisal. Is the (new) local tax worth its while? That is to say, what is its yield in relation to the costs of recovery and in relation to the total revenue base. A proliferation of many different local taxes, each with high (direct and indirect) costs of recovery (eg. more than 10-20%), and each contributing only minor sums to the local budget would not be very desirable;

b) Economic incidence. Here reference is made to the impact of the tax among the population. Has the new tax an equitable impact, in that it distributes the burden equally among people with similar income positions? Does it give a proportionally heavier burden to a ´rich family´ who can shoulder it better than a poor widow? What impact would the new tax have on economic behaviour? It may discourage or encourage certain sectors of the economy, something which may contradict or conflict with other (economic development) objectives.

c) Administrative capacity. This is probably one of the most important constraints to effective local taxation. All too often forms of taxation that are desirable in terms of the above two criteria cannot be implemented due to administrative requirements. Or putting it differently, the administrative (incl. legal) requirements may severely reduce the tax yield and make the economic incidence highly unequal.

d) Partly implied in the above, there is a political factor involved which has two dimensions. People will resist a tax if its purpose is unclear. Also people will resist a tax of which the incidence is considered highly unequal and unfair. In order to avoid the people´s wrath, LA´s have a marked preference for more ´covert forms´ of taxation. That is to say, to levy a tax not directly at the taxpayer, but via other economic intermediairies (e.g indirect taxes). Very often there are administrative reasons for levying a tax at an intermediate source (e.g case of petrol) rather than at each individual doorstep. But there are also powerful reasons related to popular acceptability. Another common political fact is that the rich resist progressive taxes and are often in a position to do so. The poor do not like regressive taxes but are often not aware of it (everybody is equal - but some more than others) and generally have little means to correct it.

e) A last point relates to sanction. We all are ´free riders´. That is to say we like to benefit from public goods and enjoy it even more when we can avoid to pay for it. For example, radio licence. The frequency of declared radio ownership in any neighbourhood will drop immediately as soon as the licence inspector arrives! This attitude will result in large scale tax evasion when there are no sanctions to ´free ridership´ and to tax evasion. This on the grounds that "if my neighbours don´t pay, why should I?" Necessarily this point relates to administrative capacity.

As already observed earlier it is unlikely that local authorities can stand financially on their own (2). Even though LA´s in moments of financial desperation may do some wishful thinking in this direction, some reflection would soon help to conclude that this would make little sense. Even though LA´s may wish it to be a reality, central government would certainly not appreciate financial independence of LA´s. For many CG official separatism and civil chaos will result from any devolution of fiscal powers. While these are usually exagerated fears, anyone can see that central transfers can be a very convincing leverage to make sure that a recalcitrant LA gets back into line. This overly political view erroneously assumes that central government and local authorities are each others opposites. It misses an important characteristic of modern government, namely that there are no separate (even if hierarchical) layers of government, but that modern economies require a SYSTEM OF GOVERNMENT. Not only is central government involved in local affairs but equally local authorities are engaged in the organization and provision of national public services.

Education is one example. Every Zimbabwean has a right to education. Education is a nationally standardized public service and therefore a direct responsibility of the Ministry of Education. Local Authorities are so to say field managers. The Per Capita Education Grant and teacher salaries transfers enable them to carry out this function.

Central allocations have another important national objective, namely to redress severe spatial imbalances. For natural and historic reasons not all districts are well endowed. Hence, LA´s in poor districts have far less fiscal capacity and are therefore not in position to provide basic services of a same standard to which every Zimbabwean is entitled.

Central allocations can take various forms. One is a vote appropriation from the national budget. LA´s can incur expenditures for specific purposes. The financial transactions however do not go via the LA budget, but funds remain within national accounts against which creditors are paid. The Per Capita Education Grant referred to above is an example of a unit cost grant. For each child a specified cost can be made. Single-purpose grants have much in common with unit cost grants. LA´s have little discretion in its use, except in the execution of the expenditures. Multi-purpose grants are giving LA´s a somewhat greater discretion in that the central allocation can be used for a prescribed range of purposes.

In addition to these expenditure specific votes and grants there are other forms of grants which are defined in terms of local financial position. Revenue matching grants are given in a certain proportion to a specified source of local revenue. They intend to reward local fiscal effort. Thus ´richer´ LA´s can benefit from them more than ´poorer´ LA´s. Block or deficiency grants work in an opposite manner. Differences in fiscal capacity among LA´s are compensated by reference to a specified standard of services.

In addition to votes and grants there are at least two more important forms of central allocations, namely, tax sharing and loans.

Tax sharing is a form of CG allocation to LA´s where a certain proportion of revenue of a nationally collected tax is reserved for local authority use. This can be done in various ways. A specific tariff is applied to the taxpayer in a specified area. Thus, the national tax office collects the tax on behalf of the LA. Alternatively, a certain percentage of the revenues of a national tax is pooled and reserved for LA´s.

Tax sharing has an intuitive appeal to LA´s. In comparison to local taxes, the continuous headaches of administrative capacity to collect and of political resistance to adjust rates are avoided. In comparison to grants one can avoid the sometimes tiresome procedures and negotiations to apply for a particular grant or to have it enlarged. Furthermore, sharing in a national tax often has the added advantage of elasticity or automatic adjustment to inflation (in case of an ad valorem tax). There are however also serious difficulties. Most importantly, how is one going to distribute the revenue among local authorities? If in accordance to local contribution (assuming that this can be accurately measured) then one may enhance inequalities among the various districts. If in accordance to ´need´, the problem is one of definition of need (distributional formula).

Loans via a specially constituted District Loan Fund are a practical way of financing capital works (e.g public services buildings) in the sense that the financial burden does not fall in one single financial year when the benefits of having the building are reaped over a number of years. The current practice of capital grants has this particular drawback.

When considering the various forms of central allocations it makes little sense to propose one single form which maximizes per se either local authority´s autonomy or central government´s centralist control. As we have argued earlier, Zimbabwe needs an integrated system of government where local authorities and central government work together to provide the much needed public services at the highest possible standard and at the lowest possible cost. The ways of LA finance depend on the responsibilities enthrusted to them. For example, a unit cost or single purpose grant is a perfectly sound way to finance education or road maintenance. For local regulatory tasks a block grant would be an adequate way of finance. For economic services a matching grant in function of business licences would be sensible. If one has to generalize, all what one could probably say is that a balanced revenue mix is needed that takes into account differences in fiscal capacity and that gives local authorities a reasonable amount of discretion to carry out their own responsibilities as against their national functions.

## 3. Post-Independence experience in financing District Councils

At Independence Zimbabwe inherited a disjointed local government system, which had on one hand Urban and Rural Councils reflecting European economic interests, whilst on the other hand the African Councils represented african interests. There was very limited local government for the african sector (Tribal Trust Lands), which was subject to strong authoritarian control by central government (3). The African Councils were generally small fragmented units whose authority was linked to Chiefs, Subchiefs and Headmen. The small size undermined their financial viability and this together with low levels of efficiency caused poor service provision.

The reconstituted District Councils covered (after Independence) the same communal lands (Tribal Trust Lands) as the African Councils, but they became more linked to administrative districts. The District councils also became more effectively integrated with provincial and central government, and the flow of public sector investment to them increased. Rural development became a government priority and district councils were seen as an important vehicle to achieve rural development goals.

However, the newly constituted district councils inherited a legacy of a poor resource base, which continues to afflict their viability as local government units, in spite of increased central government allocations.

## 3.1 Some overall trends and comparisons

Some tentative calculations will throw some light on the financial situation of the district council and its predecessor.

In 1972/73 the African Councils had a local revenue base of 3.9 mln (4). With a population of 3.3 mln (5), this gives a total of 1.18 Rhodesian Dollars per person. The total of central allocations was not much higher namely, 4.7 mln. or on a per capita basis RH $ 1.42. Thus, the total that African Councils could spend for the benefit of their population was 2.60 dollars per person per annum. If one would express this amount in 1984 prices so as to make it comparable to the 1984/85 District Councils´ budgets, the amount rises to Z$ 9.10 (6). The actual per capita district council expenditure in 1984/85 was Z$ 56.48 (7). In other words, present day District Council expenditures are in real terms more than 6 times those of the African Councils. To a large extent this may be explained by the transfer and post independence expansion of education.

Even though considerable progress has been made since Independence, the great economic imbalances between District Councils and the Rural and Urban Councils on the other, are still very much there. Again some figures are illustrative. In 1981/82 the current expenditures of District Councils were on a per capita basis Z$ 25.60 while those for all local authorities together were Z$ 77.40 (8). Since the latter is an aggregate of all local authorities, the actual gap is more than a factor three. Although this gap has been narrowed, primarily due to central government transfers to district Councils, there are still considerable inequalities which call for continued transfer of resources in favour of the communal areas.

Table 1 and 2 give a summary overview of the composition of revenue of District Councils for 1981/82 and 1984/85 respectively. From these tables it can be concluded that education dwarfs everything else. In 1984/85 it constituted 90% of District Council revenue. This not only applies to grant revenue which even for 96% are destined for education, but increasingly also for local revenue where school fees now constitute 60% of total local revenue. In 1981/82 this was only 31%. A second important conclusion of a comparison of 1981/82 with 1984/85 figures is that the dependence on central government grants has diminished from 90% to 83%. A third observation is that the reliance on grant revenue is least in the general account (39% is local revenue). Although, it must be said, the relative importance of local revenue has not changed much since 1981/82, despite all debate around the issue.

Table 1
District Councils,
Composition of Revenue, by account, 1981/82

| | Total | General | Education | Liquor |
|---|---|---|---|---|
| Local Rve | 11.573.857 | 3.067.348 | 3.596.743 | 4.909.766 |
| Grants | 102.527.825 | 4.660.127 | 97.867.698 | - |
| Total | 114.101.732 | 7.727.475 | 101.464.491 | 4.909.766 |
| | Percentage distribution by source | | | |
| Local | 10 | 40 | 4 | 100 |
| Grants | 90 | 60 | 96 | 0 |
| Total | 100 | 100 | 100 | 100 |
| | Percentage distribution by account | | | |
| Local | 100 | 27 | 31 | 42 |
| Grants | 100 | 4 | 96 | 0 |
| Total | 100 | 7 | 89 | 4% |

Note: Liquor account refers to gross revenue.
Source: MLGRUD, District Council Accounts 1981/82 (unpublished figures).

Table 2
District Councils,
Composition of Revenue, by account, 1984/85

| | Total | General | Education | Liquor |
|---|---|---|---|---|
| Local Rve | 44.577.178 | 6.063.051 | 27.334.880 | 11.179.247 |
| Grants | 216.674.828 | 9.431.460 | 207.243.368 | - |
| Total | 261.252.006 | 15.494.511 | 234.628.248 | 11.179.247 |
| | Percentage distribution by source | | | |
| Local | 17 | 39 | 12 | 100 |
| Grants | 83 | 61 | 88 | - |
| Total | 100 | 100 | 100 | 100 |
| | Percentage distribution by account | | | |
| Local | 100 | 14 | 61 | 25 |
| Grants | 100 | 4 | 96 | - |
| Total | 100 | 6 | 90 | 4 |

Note: Liquor account refers to gross income
Source: MLGRUD, District Council Accounts 1984/85

### 3.2 Experiences of some selected districts

The above analysis is based on aggregate figures which often tend to hide a lot of variation in experiences of individual districts. It is not easy to capture the complexity of the problems without actually descending to the level of individual district councils. In order to be able to come up with a picture that would mirror the situation for all district councils, a random sample was drawn. In such a sample each district has the same propability or chance of being selected. Hence there is no bias in selection which would influence any results. The following districts were selected: Batanai, Beitbridge, Buhera, Cheziya Gokwe, Chiweshe, Gazaland, Hlangabeza, Mashambazhou, Mhondoro, Murewa and Mutoko. Since our main aim is to get an overall picture, the names of the individual districts have been deleted in the results presented below. What matters is the overall picture, not whether district A is slightly better off than B or vice versa.

Table 3
Per Capita Grant and Local Revenue,
Selected Districts, 1981/82 and 1984/85
(current dollars)

| | Per Cap. Grant Revenue | | Per Cap. Local Revenue | |
|---|---|---|---|---|
| | 1981/82 | 1984/85 | 1981/82 | 1984/85 |
| District 1 | 16.98 | 46.70 | 1.00 | 5.51 |
| District 2 | 12.33 | 35.57 | 0.97 | 2.69 |
| District 3 | 17.65 | 52.79 | 1.13 | 8.55 |
| District 4 | 8.71 | 41.64 | 0.81 | 5.71 |
| District 5 | 11.30 | 37.26 | 0.94 | 5.70 |
| District 6 | 22.11 | 53.62 | 0.80 | 4.15 |
| District 7 | 30.12 | 59.59 | 3.54 | 12.84 |
| District 8 | 24.69 | 41.81 | 1.00 | 7.20 |
| District 9 | 34.01 | 69.26 | 3.90 | 12.04 |
| District 10 | 25.54 | 55.28 | 1.74 | 10.00 |
| District 11 | 31.89 | 70.23 | 3.10 | 9.41 |
| Mean value | 21.39 | 51.25 | 1.73 | 7.62 |
| Std Deviation | 8.67 | 11.93 | 1.21 | 3.24 |
| Coef. Var. | 0.40 | 0.23 | 0.70 | 0.42 |

Note: based on CSO, prelimenary results of population census of 1982 and MLGRUD, District Council accounts.

From table 3 a number of important conclusions can be drawn. First of all, the inter-district variation in the allocation of central government grants is relatively low, though not unimportant. Secondly, this variation has gone down over time. A third important finding is that there is much greater variation among the various districts in capacity to generate local revenue. Although also this variation has gone down relatively, it is much higher than that for grant revenue. It is important to add here that at the height of the 1983-1984 drought the inter-district variation went up again (9), only to go down in the last and favourable agricultural season. In other words, there are considerable differences between the various districts in ability to raise local revenue. Furthermore, it seems that the differences in local fiscal capacity accentuate themselves in periods of drought. Lastly, it can be concluded that central allocations in the form of grants help to reduce differences in financial resources between the various districts. Without central allocations a potentially clear unequal development of districts would be enhanced.

As stressed earlier the education account dwarfs everyting else. Since the role of District councils in the case of education is mainly to act as a ´field office´ for central goverment and local discretion is limited to the execution of the budget, the picture gets somewhat distorted. It is therefore useful to take a closer look at the administration department as it is particularly this department where District Council´s capacity and responsibility is greatest. Table 4 gives a first impression of fiscal strength.

Table 4
Relative importance of local revenue in Administration, Selected Districts, 1981/82 and 1984/85, (in percentages)

| | 1981/82 | 1984/85 |
|---|---|---|
| District 1 | 30 | 60 |
| District 2 | 50 | 44 |
| District 3 | 63 | 67 |
| District 4 | 20 | 51 |
| District 5 | 69 | 70 |
| District 6 | 57 | 79 |
| District 7 | 60 | 74 |
| District 8 | 52 | 63 |
| District 9 | 70 | 73 |
| District 10 | 40 | 32 |
| District 11 | 24 | 38 |

Note: calculations based on DC Accounts 1981/82 and 1984/85.

Individual districts have made great strides in raising local revenue and are becoming less dependent on the various central government allocations. While it is true that most districts are experiencing a decline in grant revenue on the general account as a consequence of MLGRUD policy, the main reason for the increase in the relative importance of local revenue, are the efforts of the districts to enlarge their local fiscal capacity. As is shown in table 4, five of the eleven districts generate more than two thirds of the administration budget themselves. In 1981/82 only two districts managed to achieve this.

Table 5 takes a closer look at the several sources of local revenue. In the fiscal year 1981/82 nine out of the eleven districts were dependent for more than half of their administration budget on economic taxes such as business licences, fees, beer permits and levy, etc. For three districts this was even more than 90%. A secondary, but far less important source of local revenue were income generating projects, such as the sale of gum poles, etc., but above all liquor profits transferred. In one district income from these projects constituted even 70 per cent of local revenue. Only in a few instances were other types of revenue of some importance.

Table 5
Composition of local revenue, Administration, by type
Selected Districts, 1981/82 and 1984/85,
(in percentages)

| | Rates & Dev. Fees | | Ec.Taxes & Lics | | Service Charges | | Inc. Gen. Projects | | Other Sources | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 81/2 | 84/5 | 81/2 | 84/5 | 81/2 | 84/5 | 81/2 | 84/5 | 81/2 | 84/5 |
| District 1 | 0 | 0 | 92 | 33 | 3 | 4 | 0 | 46 | 4 | 17 |
| District 2 | 0 | 15 | 46 | 47 | 0 | 4 | 38 | 7 | 17 | 27 |
| District 3 | 0 | 2 | 73 | 65 | 0 | 3 | 18 | 13 | 9 | 18 |
| District 4 | 0 | 13 | 94 | 60 | 0 | 1 | 1 | 2 | 4 | 24 |
| District 5 | 0 | 0 | 60 | 79 | 0 | 0 | 0 | 1 | 40 | 19 |
| District 6 | 0 | 0 | 60 | 75 | 17 | 8 | 17 | 11 | 6 | 7 |
| District 7 | 0 | 1 | 12 | 15 | 10 | 2 | 70 | 42 | 8 | 40 |
| District 8 | 0 | 15 | 83 | 67 | 1 | 0 | 1 | 3 | 15 | 15 |
| District 9 | 0 | 0 | 69 | 75 | 0 | 6 | 28 | 2 | 3 | 17 |
| District 10 | 0 | 0 | 84 | 53 | 7 | 4 | 0 | 42 | 9 | 1 |
| District 11 | 0 | 5 | 96 | 39 | 0 | 3 | 0 | 1 | 4 | 52 |

Note: calculations based on DC Accounts 1981/82 and 1984/85

By 1984/85 this situation had changed considerably. Development fees have become significant source of revenue for three districts. Income generating projects are becoming more important also, though some districts are clearly doing better than others. Five districts earned significant amounts of revenue from these. In most cases these projects are commercial (sale of primary products). Manufacturing projects were only in one instance yielding sizeable revenues. The over-reliance on economic taxes diminished accordingly and service charges remained an unimportant source of income.

On the whole one may speak of a diversification of sources of revenue and this in itself is a positive development. It increases the ability of District Councils to withstand better financial crisis arising from droughts and recessions.

Despite this measured optimism one should realize that in real terms the fiscal capacity of District Councils has not increased so rapidly (disregarding for a moment education and gross liquor sales). If one takes into account the growing population and the rising costs due to inflation, the real amount of resources increased 3.5% per annum in the period considered. Given the growing demands on District Council´s capacity to undertake development, and the insistence on the part of central government on greater local self-reliance and on reduction of (some) grants, the councils may get into a difficult fix, and get caught between rising expectations and slow growing resources.

## 4. Some reflections on District Council fiscal capacity

In the above section we have dealt in some detail with district council finance. The analysis presented sofar is however incomplete. The financial implications of amalgamation have not been discussed. Nor has the role of the DDF in local capital formation been analized. The DDF incurred some Z$ 23 mln of expenditures in the 1984/85 fiscal year, mostly on roads and bridges and water supplies, and all financed from central resources. Realizing the incompleteness of our research sofar, it is still usefull to reflect on some issues, albeit in a speculative manner and without being able yet to commit these reflections to rigorous empirical tests.

Whatever will be the financial implications of amalgamation, it should be borne in mind that the per capita income of a communal lands household is estimated to be some Z$ 300 (10). Assuming an average household size of six members, this means an average income per person of Z$ 50. At the same time, the national per capita income of the same year is estimated to be Z$ 418 (11). Admittedly, these are speculative and inaccurate figures, and they can always be criticized. Yet they are indicative of the tremendous gap in income (and wealth) between the Communal Areas and the rest of the economy. Given this vast inequality, continued transfer of income in the form of grants and expenditures is a matter of political justice. Furthermore, the historically grown imbalances in developmental infrastructure require above average efforts in order for the Communal Areas to catch up. With a per capita income which is only one eighth of the national average, these extra efforts cannot be self financed locally. Self reliance is a laudable goal but history has given it sharp limits. It seems therefore unlikely that central government transfers will diminish in importance. The third argument for central government allocations is based on the observed spatial inequalities between districts. Only through central government allocations can real differences in fiscal capacity be evened out. It is important to distinguish here between fiscal capacity and fiscal effort. Fiscal capacity may be large, yet because of poor administration, low professional standard, political opportunism etc, the actual amount of revenues raised may be very small. Such situations of poor fiscal effort should of course not be enhanced by compensatory central allocations.

As stated earlier, any distribution of resources among different levels of government can only be judged in relation to the reponsibilities each level has. If central government would assume 95% of public expenditures, including all developmental functions, leaving Local Authorities only with regulatory and representative functions, then, there is no great need to raise the LA's resource base. If however, the general movement is one of decentralization through which District Councils are enthrusted with major development responsibilities, then 'responsible government' would require a parallel decentralization of resources. Such fiscal decentralization in no way implies that central government would loose considerable powers. There are many ways in which central government can remain on top of the situation and maintain in control of critical allocation decisions.

Fiscal decentralization can take place in many different forms, either through enlarging the local fiscal capacity or through central allocations.

Perhaps one of the most serious problem with enlarging local fiscal capacity is the weak ability for effective local taxation. There are several issues at stake here. The administrative and legal capacity of District Councils generally is weak and needs to be strengthened. It makes little sense to introduce new forms of local taxation when recently introduced forms are doing badly. The experiences with development fees in some councils is illustrative in this respect. The revenue budgeted after 2 years of experience with this fee has in some districts gone down to a mere fraction of its originally estimated full potential.

Clearly, one does not need draconian colonial measures to convince people to make their contributions, but only repeated requests and pleading may not be a sufficient response to the problem. Fortunately, some councils have been able to make important improvements which goes to say that many other councils can improve their administrative ability for local taxation.

Perhaps the greatest dilemma at this moment in local finance is "What to tax?". Some alternatives are not really very much favoured. Such is the case with the development fee (a unit tax), not only for reasons of its resemblance to the colonial poll tax, but also because of its regressive incidence. However, in theory (though not always in practice) it is easy to collect.

A land or land rental tax could have far reaching implications for the system of land tenure. These implications go beyond the mere question of local revenue. Therefore its introduction would require consideration of the wider political economic consequences.

So increasingly, ideas are moving in the direction of a grain levy. That is to say, a producer income tax. Speculating about this idea, it would in all probability only refer to marketed grains and the Grain Marketing Board would then be the most obvious collection point. Thus, a council would receive the amount of grain tax that is levied on grain sales originating in its territory. The most serious drawback of such proposal would be the fact that there are quite important inter-district variations in grain surplus. Hence, a district in agro-ecological zone V would receive only a fraction of the amount received by a zone IIB district. Chiweshe or Hurungwe might do well, but what about Batanai, Mudzi or Hwange?

Not only are there grain production variation between district council areas but also between these and rural council areas. Introducing such a levy would have to await amalgamation so as not to reproduce the pre-independence situation whereby black farmers paid a surcharge on their marketed grain with which the then existing African Development Fund was financed. Such situation would clearly discourage small producers/peasants and contradict the present rural development policies.

While it would obviously be better to introduce such a grain levy in time of national grain surpluses, it seems wise to study first the distributional consequences of its introduction. Can its proceeds be channelled directly back to the respective districts or is it necessary to pool all revenues and re-distribute according to some ´need formula´? If the latter is to be prefered, something that seems likely, how would such re-distribution agreement (formula) look like? This matter deserves as much attention as the principle itself (12).

With the introduction of growth points and other measures to stimulate urbanization in the communal areas, and the development of infrastructure and public housing, service charges are likely to increase in importance, though their aggregate fiscal base can be expected to remain small.

Income generating projects have received considerable attention as means to expand local revenue. However the practice of income generating projects is that incomes are generated but mostly not for the councils but only for those who are employed in these projects. Of course this is a positive aspect in the sense that these projects contribute to the creation of employment in rural areas, but it also stresses the difficulty of achieving the fiscal objectives. Furthermore, in the case of beer sales, councils are faced with contradictory central government measures. On the one hand councils are told to generate their own revenue and at the same time the price controls on beer have turned many profitable liquor operations into net losses. Although the overall trend in terms of local revenue is not very encouraging there are also cases where districts have made success stories. Notwithstanding some rethinking of the objectives of such ´council projects´ may be in order.

As already argued before, central allocations will have to continue to play a significant role in financing districts. The question is in what form?

The present situation is a system of single purpose and unit cost grants (education, administration, health etc). This system makes it difficult for District Councils to develop new initiatives. Introducing some form of block grants to be used for different purposes, with central government prescription of boundaries, may be an alternative that gives the councils greater discretion and initiative.

Tax sharing looks very attractive to many councillors and local administrative officers. For example, if one could get only a 5% share of the national taxes on goods and services (these being 43% of all national tax revenues), then one would have Z$ 57 mln (13). In other words, this would amount to slightly over Z$ 1 mln for each council. Surely a handsome sum of money! But as already stressed earlier, tax sharing is by no means an easy affair. Why should Harava with 28.000 inhabitants, receive as much as Gutu which has a population of 177.000? Again the crux of the problem is not just the principle itself but a fully worked out proposal with a distributional formula that does not have inequitable consequences.

The title this paper carries, is: "Financing district councils - Local taxes and central allocations. Quite conciously an opposition of local taxes VERSUS central allocations was avoided. A choice of either local taxes or central government grants is a false one which denies the importance of the structural imbalances of the past and does not recognize the exigencies of modern government systems.