

# Fiscal federalism in Zambia

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# **Fiscal Federalism in Zambia**

*Final draft of the paper*

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*July 25 2022*

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## Executive Summary

At the request of the Zambian government, this report was prepared to provide recommendations for making progress in the fiscal federalism structure of the country. The recommendations are made considering the existing nature of the Zambian fiscal federalism, as gathered from the literature and through the interactions with distinguished Zambian public officials.

In the first chapter, the key aspects of Zambia's existing fiscal federalism elements are discussed. The second chapter provides examples of countries relevant to the Zambian context, discusses the pros and cons in their decentralized structure, and the learnings that can be derived for Zambia. Short term, medium term, and long-term recommendations on both sides of fiscal federalism, i.e., Revenue and Expenditure are laid out in the next three chapters. Specifically, chapter three discusses as to what the Zambian government should do as well as what it should "avoid", since both are equally important for the success of a decentralized fiscal structure. Points highlighted in chapter three are cursory; they are however fleshed out in chapters four and five for revenue and public expenditures, respectively. Finally, the last chapter provides recommendations for tracking and evaluating the progress of fiscal federalism in Zambia. This can happen only through useful data and by involving researchers and practitioners from all spheres.

A special emphasis throughout the report is given to the role of "*information*" in ensuring a well-connected, jointly-implemented, and thoroughly-supervised governing functions across all the relevant entities of a decentralized structure, i.e., the Central government, the Local governments and the Citizens. A pictorial representation of the idea is portrayed in Figure 2 in the Conclusion section.

Some of the key recommendations are:

- In the short-term, over 1-2 years, Zambian government should focus on thoroughly assessing the status-quo by involving public officials from different offices as well as the citizens.
- Over the medium term of about 3-10 years, the focus should be on getting closer to some of the developing countries in terms of the extent of responsibilities devolved locally.
- Finally, over the long term after about 10 years, the aim should be to have a fully functional Local governments with involved and informed citizens.

# Chapter 1: Current Fiscal Federalism in Zambia

## 1.1 Background

Countries across the world are increasingly decentralising governance powers to ensure that services are delivered by institutions closer to their citizens. The three key imperatives that drive decentralisation of a country rests in: a political imperative, an economic imperative and a service delivery imperative (Deborah 2001). One of the pertinent arguments favouring decentralisation is that local governments are likely to have better information on citizen needs enabling a more efficient governance for delivery of public services at local level, while also holding them directly accountable to their citizens. On the other hand, decentralisation may also result in perverse outcomes due to local elite capture and administrative inefficiencies.

A successful decentralisation would be the one that respects the following key elements: discretion to each tier of government, upward as well as downward accountability for all government actions, and above all, sharing of relevant governance information among all entities including citizens.

The Government of the Republic of Zambia (GRZ) is a unitary state with two levels of governments: Central and Local which operates through four administrative levels: National, Provincial, District, and Sub District. Decentralisation in Zambia has its roots in the 1991 Local Government Act (LGA) with specific reference to the Public Service Reform Programme (PSRP). However, the constitutional references to local government came into force only with the Constitutional Amendment Act of 1996. Subsequently, in 2004, National Decentralisation Policy (NDP) was launched that sets out a new decentralised structure by introducing provincial, district and sub-district levels (referred to as wards in the Constitution). Empowering local communities through decision making power, building capacities for development, and providing legal and institutional framework for effective decision making remain the prime objectives of the NDP. However, it was not until 2009, that the decentralisation Implementation Plan was launched.

For the longest time, the implementation of the NDP remained a mere political rhetoric. It called for a more devolved form of governance through democratically elected local councils. With the aim to overthrow the ‘deconcentration’ of power at the Central government, a revised National Decentralisation Policy (R-NDP) was brought in with two fundamental objectives: 1) a fully autonomous local government with decision making authority on developmental priorities, collection and utilisation of revenue as well as managing its human resources and 2) to have an intergovernmental fiscal arrangement that recognizes local government as a primary service provider and contributes to improving its fiscal space to deliver on its mandate (GRZ 2014c).

## 1.2 Roles and Responsibilities of local government

The country is divided into 10 provinces which are further subdivided into 103 councils. Of these 103 councils, four are city councils, 15 municipal councils and 84 district councils. City councils are located in dense urban areas, municipal councils cover the sub-urban regions and district councils in the relatively rural districts. Provinces on the other hand are run by national government ministers and are the deconcentrated levels of national government (SNG-WOFI 2019).

The constitutionally mandated responsibilities of local government lists 63 functions. Of them, agriculture, forests and fisheries; local economic development; trade and industry and tourism, are discretionary services of the LGs. The Central and Local governments share joint responsibilities on areas such as housing and town planning, environment and consumer protection, and public health. Water and sanitation, refuse collection and disposal, sports and leisure, and water supply are some of the sole responsibilities of local government. Summary of service provision by the two tiers of government in Zambia with indications to their joint and discretionary responsibilities are provided in the Annexure 1.

### **1.3 Fiscal situations and resources**

While local governments are legally empowered to raise revenue of their own, Zambia faces both horizontal and vertical fiscal imbalances due to the differences between the local tax base and the assigned expenditure responsibilities (Martinez-Vazquez, McLure & Vaillancourt 2006). The National government of Zambia appropriated that the Intergovernmental fiscal transfers in the form of the Local Government Equalization Fund (LGEF) to the local government should not be less than 5 percent of the total amount of income taxes collected for Zambia for that financial year. Additional grants earmarked for different activities are Grants-in-Lieu of Rates, and the Constituency Development Fund (CDF).

If one considers, the local government expenditure as a share of GDP and local expenditures as a share of total general government expenditure as indicators to measure the success of decentralisation, it is difficult to assess the Zambian situation owing to the lack of data sources. No comprehensive data sources are available to measure the locally raised revenue across the councils.

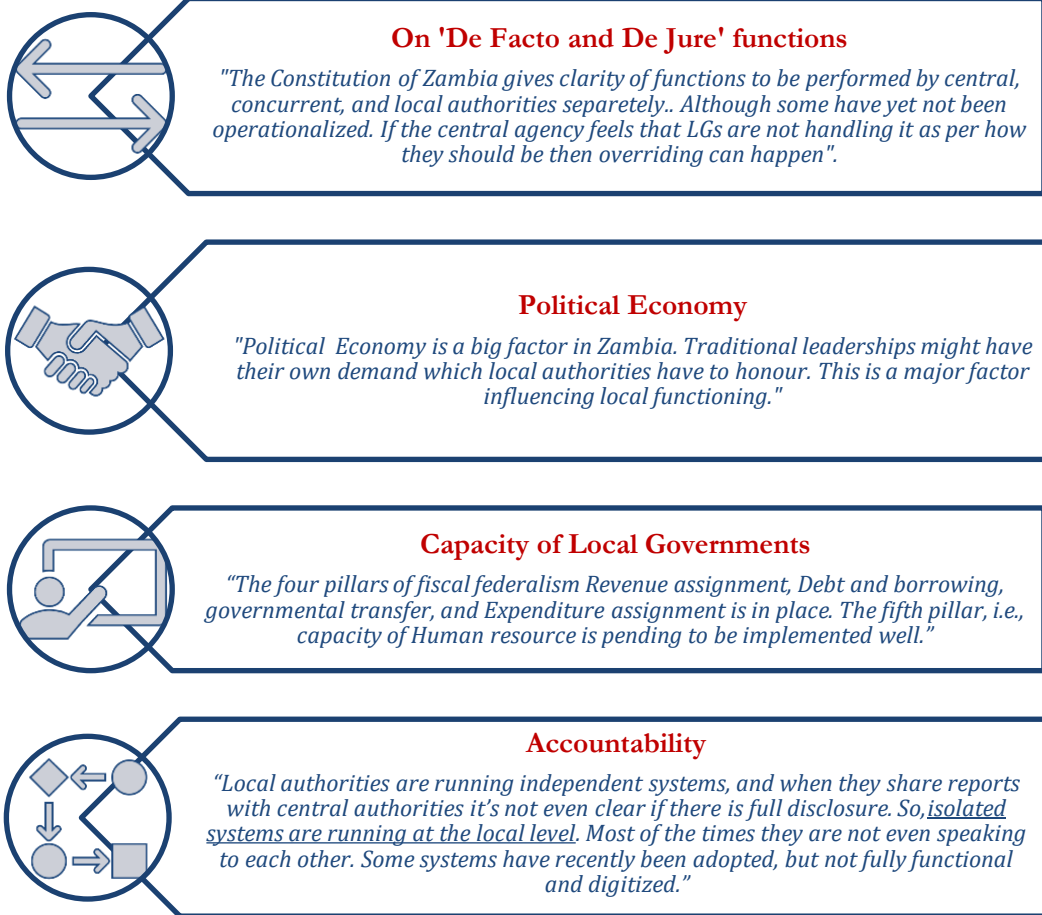
Individual published reports indicate that the amounts of LGEF funds have marginally increased over the years in nominal and real terms. A dated figure shows the local government expenditure as a percentage of total government expenditure was as low as 0.9 percent in 2012 (CLGF 2018).

Local governments also fall short on the utilization of the equalization funds. While the mandate is to spend 80 percent of the equalisation funds for salaries and provision of services in communities, and 20 percent on capital projects, it is found that personal emoluments accounts for a greater proportion than capital and service expenditure. For example, Lusaka City Council, Luanshya Municipal Council, and Luangwa and Chisamba town councils spent only 5 percent, 16 percent, 0.3 percent and 5 percent, respectively of the total government equalisation transfers received (Chishimba et al. 2020). All these are quite below the minimum prescribed 20 percent of the equalisation grants to finance capital projects.

### **1.4 State of affairs: Excerpts from Interaction with Zambian Government officials**

In an effort to understand the current situation of fiscal federalism in Zambia, an interaction with two Zambian officials in the Central Government results in the following interesting insights. Of the many potential challenges towards fiscal federalism in Zambia, the following are some anecdotes.

**Fig. 1: Excerpts from the discussions with Zambian officials on key issues of fiscal federalism**



## Chapter 2: Learnings from the other countries relevant to Zambia

Fiscal Federalism is practiced across many countries, and the evidence on their success is mixed. This chapter shares examples of five different countries that are similar to Zambia in different ways such as geographical overlap or similarities in administrative structures. For each country, the key aspects of their decentralisation efforts are discussed followed by specific learning for Zambia. These learning are then used to inform the recommendations in the next chapter.<sup>1</sup>

### 2.1 Ethiopia's Fiscal Federalism (Ashraf et al. 2016; Chakraborty et al. 2021; Barud 2021)

- *Overall*
  - Ethiopia is an example of successful decentralisation. One of the key reasons for its success is the strong ties between parties at different levels which resulted in better flow of information between Local and Central governments.
  - They also have regular training programs for the Local government officials to enhance service delivery.
  - Strong grievance redressal mechanisms, and systems to receive citizen feedback and enhance citizen participation in local service delivery is present in the country.
  - Sub-national civil servants are relatively more responsive to their representatives, unlike many other decentralised regimes.
- *Revenue-related*
  - Revenue sharing from central government to local governments relies on the share of fiscal gap each state has in the total fiscal gap. Basically, the difference between revenue potential for each region (which is assessed using the Representative Tax System (RTS) method) and expenditure needs (where factors such as population and development index are key) are utilised to arrive at the fiscal gap.
  - Districts (or *woredas*) have specified targets for tax collection. They are required to transfer excess collection to the regional level. Less than 20 percent of total government revenues are collected by local governments.
- *Expenditure-related*
  - Local levels are responsible for expenditures in areas such as education, health care, and agriculture.
  - About 38% of total national expenditure is accounted for by local governments. In other words, about 78% of the total local expenditure is financed by Federal grants based on a fiscal-gap formula.

#### ***What can Zambia learn from Ethiopia's fiscal federalism?***

- ✓ Strengthen the Central-Local link to ensure ownership in the fiscal federalism process as well as smooth flow of information.
- ✓ Increase citizen participation, and incentivize local officials for better service delivery.

<sup>1</sup> [https://www.theigc.org/wp-content/uploads/2022/01/Casey-et-al-Policy-paper-December-2021\\_web.pdf](https://www.theigc.org/wp-content/uploads/2022/01/Casey-et-al-Policy-paper-December-2021_web.pdf)

## 2.2 Tanzania's Fiscal Federalism (Ashraf et al. 2016; Noiset and Rider 2010)

- *Overall*
  - Tanzania's decentralisation efforts have been considered to be highly ineffective because the efforts are mostly donor driven, instead of being driven by internal political will.
  - The country has missing mechanisms for effective Central-Local coordination and cooperation to sustain.
  - Local bureaucrats are accountable upwards, rendering local autonomy ineffective.
  - Citizens are typically unaware of the power of the Local governments and have little role in local service delivery.
- *Revenue-related*
  - Revenue sharing by Central government to Local governments, such as through sectoral block grants, a major source of local spending, gives local governments little flexibility over expenditure decisions.
  - Local government's financial management capabilities continue to remain poor, despite varied efforts by the Central government and international agencies.
- *Expenditure-related*
  - Local governments have high expenditure autonomy, but about 78 percent of local spending is recurrent with little space for developmental expenditure targeting.
  - Only about 7 percent of local government's expenditure is financed through self-collected revenues. So, high dependence on the central government.

### ***What can Zambia learn from Tanzania's fiscal federalism?***

- ✓ *Ensure that any decentralisation move has in-country and local-level buy-in.*
- ✓ *In the short to medium term, the Central government must have more control over revenue, until Local governments' capacities are enhanced for the same.*
- ✓ *Over time, more decision-making powers to Local governments over Local expenditures.*

## 2.3 Bolivia's Fiscal Federalism (Faguet 2003; Faguet 2014)

- *Overall*
  - According to J.P. Faguet "*Bolivia is one of the most radical and sincere of decentralisation reformers*".
  - Representatives from local and grassroots groups serve as oversight committees to oversee municipal expenditures. They have the authority to get disbursements of funds suspended if they find irregularities in fund use.
  - Like Ethiopia, Bolivia continues to be inclusive of the traditional practice of community self-government through grassroots organisations.
- *Revenue-related*
  - Bolivia doubled the funds shared with municipalities to 20 percent in the 1990s itself, and it was done via a systematic sharing formula. More than 300 municipalities share about 70-75 percent of total local funds among themselves.



○ *Expenditure-related*

- Municipalities own local infrastructure in education, health, irrigation, roads and other such areas. They also have responsibilities to maintain, equip, administer and invest in new ones.
- After increasing autonomy for municipalities, it was observed that Bolivia's 250 smallest, poorest and most rural municipalities invested newly devolved public funds in their highest priority areas. As a result, public investment shifted from physical and economic infrastructure to primary services and human capital formation such as education, health and water and sanitation.

***What can Zambia learn from Bolivia's fiscal federalism?***

- ✓ The key to successful decentralisation is a mix of the following: adequate funds to local governments followed by sufficient autonomy and ownership in local decision making, and these to be accompanied by local participation to ensure direct accountability.

## **2.4 Indonesia's Fiscal Federalism (Takahata et al. 2021)**

○ *Overall*

- Indonesia's administrative structure is quite close to Zambia, even considering the role of the provincial governments which is like a Central government's representative for Local governments.
- Indonesia's big bang decentralisation reform is considered a success by many measures. A key reform that helped Indonesia perform well in its local service delivery is downward accountability through direct elections and citizen accountability.

○ *Revenue-related*

- Local governments have authorities to raise a portion of their revenue, but a major source of revenue is intergovernmental transfers. Municipalities and city governments raise about 10 percent and 20 percent of their total revenue on their own, respectively. The rest comes from the Central government in a mix of DAU (*Dana Alokasi Umum, or general allocation fund*), DBH (*Dana Bagi Hasil, or Revenue Sharing*), and DAK (*Dana Alokasi Khusus, or Special Allocation Fund*). Out of these DAU is the largest that essentially follows the principle of fiscal gap.
- DAU (*Dana Alokasi Umum, or general allocation fund*) is the system employed in the country to target the fiscal gap of its local governments based on a fiscal formula. This system helps absorb the revenue shock due to fluctuations in Local government revenue which is quite large at about 80 percent. A key benefit of DAU is to provide sufficient independence to local governments in decision making.

○ *Expenditure-related*

- Local governments have expenditure decision-making authority in 14 different areas including health, education. Central government is responsible for major

macroeconomic aspects. Provincial governments are primarily representatives of the Central government.

***What can Zambia learn from Indonesia's fiscal federalism?***

- ✓ Zambia can adapt from Indonesia's fiscal sharing formula.
- ✓ It can also make attempts to enhance downward accountability of its local officials.

**2.5 South Africa's Fiscal Federalism (Ashraf et al. 2016; Chakraborty et al. 2021)**

- *Overall*
  - South Africa's decentralisation efforts have had a mixed response so far.
  - Efforts are made to build local capacity for service delivery, but staff abilities are limited which results in inadequate staff establishments.
  - Unnecessarily long chains of command create additional problems for efficient service delivery at the local level.
- *Revenue-related*
  - Central government collects major proportion of total revenue, with few and small sources for Provincial government and some for Local governments.
  - Revenues are shared based on an equitable formula each for provinces and municipalities, which are updated frequently.
  - Substantial differences exist among urban and rural Local governments in terms of their dependence on transfers from Central government.
- *Expenditure-related*
  - While provincial governments are responsible for the administration of major social services such as education and health, municipal governments organise infrastructure related service provision, such as water, sewerage and electricity provision.
  - Local authorities have some amount of autonomy in local decision making which allows them to tailor public services to local needs.
  - Despite some autonomy, there are policy uncertainties due to overlapping competencies between different tiers of government, specifically reducing local autonomy. An example of this is the Central government's engagement in road construction which is an area allocated to Local governments.

***What can Zambia learn from South Africa's fiscal federalism?***

- ✓ Make efforts to build capacities in all aspects of Local governance, not just service delivery.
- ✓ Avoid overlap of functions across different tiers of government, and also create institutions that prevent local autonomy, both de-jure and de-facto.
- ✓ Expenditure assignments could involve Local as well Provincial governments, with clear division of functions, responsibilities and types of services.

## Chapter 3: Key Recommendations on Fiscal Federalism in Zambia

### 3.1 Key recommendations

Based on the learnings from the earlier chapters, this chapter briefly provides the key recommendations on what Zambia should do and what it should avoid in its journey to attainment of fiscal federalism. The recommendations outlined in Table 1 are further expanded in Chapters 4-6.

Some important points to note while referring to these recommendations are:

- Some of the recommendations below is already in practice in the current federal structure of Zambia, but might lack rigour in practice and might not include the other elements coherently.
- The following recommendations will work ***if and only if*** the recommendations in the “Don’t’s” section (Section 3.2) below are followed simultaneously.
- In the short term, assessments of fiscal federalism at local levels are most crucial to modify the systems and institutions as well as inform the capacity building in the medium term.

Table 1 brings out the short term, medium term, and long-term recommendations on three key areas of fiscal federalism. They are Revenue raising, Revenue Sharing/Appropriation, and Expenditure. Within each of these areas and for each time frame, recommendations are provided for Systems and processes, Assessment and Tracking, and Capacity Building Planning.

For example, in the *Revenue Raising* category, no changes are proposed in the short term in the current and existing systems and processes. However, it is recommended to initiate discussions based on existing evidences and proposed assessment.

**Table 1: Key recommendations on Zambia’s Fiscal Federalism**

<i>Period</i>	<b>Revenue Raising</b>	<b>Revenue Sharing / Appropriation</b>	<b>Expenditure</b>
<b>Short Term</b> <i>(1-2 Years)</i>	<p><b>SYSTEMS &amp; PROCESSES</b></p> <ul style="list-style-type: none"> <li>○ No change in the short term.</li> <li>○ Initiate evidence-based discussions across different tiers.</li> </ul> <p><b>ASSESSMENT/TRACKING</b></p> <ul style="list-style-type: none"> <li>○ Assess gaps in current and potential revenue collection.</li> <li>○ A complete picture of revenue generation.</li> <li>○ Assess data needs for revenue collection.</li> <li>○ Assess current capacity and existing efforts in capacity building.</li> <li>○ Assess current infrastructure gaps.</li> <li>○ Assess information gaps between governments.</li> </ul> <p><b>CAPACITY BUILDING PLANNING</b></p> <ul style="list-style-type: none"> <li>○ Create a capacity building plan for revenue.</li> </ul>	<p><b>SYSTEMS &amp; PROCESSES</b></p> <ul style="list-style-type: none"> <li>○ No change in the short term.</li> <li>○ Initiate evidence-based discussions across different tiers.</li> </ul> <p><b>ASSESSMENT / TRACKING</b></p> <ul style="list-style-type: none"> <li>○ <b>Assess the existing fiscal gaps via:</b> <ul style="list-style-type: none"> <li>▪ Local level needs, and</li> <li>▪ Revenue generation capacities.</li> </ul> </li> <li>○ Effectiveness of own revenue utilization.</li> </ul> <p><b>CAPACITY BUILDING PLANNING</b></p> <ul style="list-style-type: none"> <li>○ Identify the data needs for revenue sharing.</li> <li>○ Identify methods of sharing information.</li> <li>○ Identify capacity needs for budget planning.</li> </ul>	<p><b>SYSTEMS &amp; PROCESSES</b></p> <ul style="list-style-type: none"> <li>○ No change in the short term.</li> <li>○ Initiate evidence-based discussions across different tiers.</li> </ul> <p><b>ASSESSMENT / TRACKING</b></p> <ul style="list-style-type: none"> <li>○ Assess current expenditures and related duplication of efforts.</li> <li>○ Assess the nature of service deliveries by LGs.</li> <li>○ Assess the citizen satisfaction with LGs</li> <li>○ Assess the awareness of the citizens on the roles and responsibilities of local governments.</li> </ul> <p><b>CAPACITY BUILDING PLANNING</b></p> <ul style="list-style-type: none"> <li>○ Create capacity needs for service delivery.</li> <li>○ Create capacity needs of middle-level officials for evidence-based supervision.</li> <li>○ Identify methods of information sharing.</li> </ul>

	<ul style="list-style-type: none"> <li>o Plan for information transparency.</li> <li>o Plan for infrastructure provisions.</li> </ul>		
<b>Medium Term</b> <i>(3-10 years)</i>	<p><b>SYSTEMS &amp; PROCESSES</b></p> <ul style="list-style-type: none"> <li>- Discussions on course-corrections using evidence from the short-term assessment.</li> <li>- Incentivize Local governments to contribute at a higher rate of about 5-10 percent.</li> <li>- Standardisation of tax bases and rates.</li> <li>- Set the principles for levying taxes.</li> <li>- Digitization of all revenue raising efforts.</li> </ul> <p><b>ASSESSMENT / TRACKING</b></p> <ul style="list-style-type: none"> <li>- Evaluate capacity building efforts.</li> <li>- Evaluate the use of the infrastructure.</li> <li>- Create online tracking tools and data.</li> </ul> <p><b>CAPACITY BUILDING</b></p> <ul style="list-style-type: none"> <li>- Train local officials on (a) legally mandated rules and roles of LGs (b) approaches to improve tax base.</li> <li>- Provide ways to improve the digital literacy of local government officials</li> <li>- Provide IT infrastructure.</li> <li>- Provide support to identify sources of revenue and collection mechanisms.</li> </ul>	<p><b>SYSTEMS &amp; PROCESSES</b></p> <ul style="list-style-type: none"> <li>- Discussions on course-corrections using evidence from the short-term assessment.</li> <li>- Use evidence to update fiscal formula.</li> <li>- Implement the revised formula for all transfers.</li> <li>- Enhance the use of directly collected revenues.</li> </ul> <p><b>ASSESSMENT / TRACKING</b></p> <ul style="list-style-type: none"> <li>- Continue data collection for fiscal formula.</li> <li>- A system to track the use of funds.</li> <li>- Assessment of efficiency in budget planning vis-a-vis revenue appropriation.</li> </ul> <p><b>CAPACITY BUILDING</b></p> <ul style="list-style-type: none"> <li>- Train local officials on direct utilisation of revenues collected by them.</li> </ul>	<p><b>SYSTEMS &amp; PROCESSES</b></p> <ul style="list-style-type: none"> <li>- Discussions on course-corrections using evidence from the short-term assessment.</li> <li>- Create a list of public services that needs to be transferred to local level.</li> <li>- Enhance LG independence in services.</li> <li>- Systems to involve citizens and civil society groups in influencing public services.</li> <li>- Service charters for local governments.</li> <li>- Effective supervision and monitoring.</li> </ul> <p><b>ASSESSMENT / TRACKING</b></p> <ul style="list-style-type: none"> <li>- Assess the capacity of LGs in service delivery.</li> <li>- Track expenditures through digital means.</li> </ul> <p><b>CAPACITY BUILDING</b></p> <ul style="list-style-type: none"> <li>- Train local officials to provide services independently, and effective use of funds.</li> <li>- Infrastructures for efficient service delivery and tracking systems.</li> <li>- Use of evidence for upward accountability and downward supervision.</li> </ul>
<b>Long Term</b> <i>(after about 10 years)</i>	<p><b>SYSTEMS &amp; PROCESSES</b></p> <ul style="list-style-type: none"> <li>- Ideally, LG raises 15-20 percent of total revenue.</li> <li>- CG to consult LG in defining tax bases.</li> <li>- Clear 'digital' accounting of different types of revenues to be levied.</li> </ul> <p><b>ASSESSMENT/TRACKING</b></p> <ul style="list-style-type: none"> <li>- Online tracking tools and data systems to be in place to assess the revenue generation.</li> </ul> <p><b>CAPACITY BUILDING</b></p> <ul style="list-style-type: none"> <li>- Refresher trainings on capacity buildings by LGs on a regular basis.</li> </ul>	<p><b>RECOMMENDATIONS</b></p> <ul style="list-style-type: none"> <li>- Share revenues using the fiscal formula.</li> <li>- Update the fiscal formula regularly.</li> <li>- Share all funds using the fiscal formula.</li> <li>- LGs to increase direct use of revenues.</li> <li>- Credible accountability for directly appropriated revenue.</li> </ul> <p><b>ASSESSMENT / TRACKING</b></p> <ul style="list-style-type: none"> <li>- IT infrastructure to account for all the revenues shared and appropriated.</li> <li>- Data collection for updating fiscal formula.</li> </ul> <p><b>CAPACITY BUILDING</b></p> <ul style="list-style-type: none"> <li>- Refresher training on maintaining records of shared and appropriated revenue.</li> </ul>	<p><b>RECOMMENDATIONS</b></p> <ul style="list-style-type: none"> <li>- Clearly define service delivery responsibilities.</li> <li>- Consult civil society for service provision.</li> <li>- Middle level officials to use actionable evidence to supervise local services.</li> </ul> <p><b>ASSESSMENT/TRACKING</b></p> <ul style="list-style-type: none"> <li>- Upward and downward accountability.</li> <li>- Track expenditures and source of revenue.</li> <li>- Prevent wasteful use of funds.</li> <li>- Independent data on service deliveries, and citizen feedback.</li> </ul> <p><b>CAPACITY BUILDING</b></p> <ul style="list-style-type: none"> <li>- Refresher training on service delivery, supervision and coordination.</li> </ul>

*Note: Refer to the next two chapters for details on these recommendations*

### 3.2 DON'Ts in Zambia's decentralisation: Things to Avoid

Below are some things Zambia should avoid in its process of decentralising its governance process.

1. **Avoid 'Dummy Powers':** Positions without real decision making or execution powers at local levels can be counterproductive and can result in negative public outcomes.

- *Example:* Reservations for women in local positions in countries like India and Nepal has resulted in influx of women who serve as placeholders without *de-facto* power.
  - *Zambian example:* Traditional Chiefs influence decisions strongly than the elected Member of Parliaments (Baldwin 2019), and can sometimes be de-facto more powerful than elected officials (Bertelsmann Stiftung 2022).
2. **Avoid 'Financial Void':** Delays in transfers to local levels may result in a vicious cycle of reduced service delivery and lower development. Even the most well-planned activities can fail if there are financial constraints. Unpredictability affects both efficiency and fiscal control.
- *Example:* Financial delays in the U.S. state budget led to high borrowing costs and negative impacts for about ten years (Andersen et al. 2014).
  - *Zambian example:* Delayed disbursement of CDF funds could have resulted in accumulation of incomplete projects a local level (Casey et al. 2021).
3. **Avoid 'Generalising':** One size does not fit all. While the general principle might be common for each constituency, reforms must be contextualised to each LG's requirements.
- *Example:* The Washington Consensus policies were not quite suitable for the Latin American countries (Murphy 2013).
  - *Zambian example:* Intergovernmental transfers may not account for the differences in the development needs of the districts in the Northern and the Western province.
4. **Avoid 'Working in Silos':** There should be convergence across departments, both horizontally and vertically. Horizontally, departments that are responsible for providing overlapping services should jointly set benchmarks, create and deliver services. Vertically, the information and feedback should flow in both directions.
- *Example:* Convergence across different institutions can help with various local level policies such as road construction, health and nutrition, or reduction of child marriage (UNICEF 2020).
  - *Zambian example:* An example of effective convergence in the Zambian case is that of Mumbwa District Nutrition Coordination Committee (Francis 2018).
5. **Avoid 'Layers of Approval':** Cut out any extra layers of approvals between Local and Central government. They may result in unnecessary delays and potential leakages thereby directly affecting service delivery at local levels.
- *Example:* In the Indian state Bihar, leakages and inefficiencies were reduced by reducing the number of officials involved in approving expenditures for an employment programme (J-PAL 2018).
  - *Zambian example:* One of the reasons for delays in various services, such as construction projects, could be due to the presence of inefficiencies in approvals (Aigbavboa 2014).
6. **Avoid 'Grey Areas of Functions':** Do not have any ambiguity in who will do what in the fiscal federalism structure. This may not only lead to the under-provision of services with ambiguous functions, it might also result in excess-provisioning or in double-taxation.
- *Example:* In South Africa, the Central government makes large discretionary expenditures in road construction which is an area assigned to Local governments (Ashraf et al. 2016).
  - *Zambian example:* Ministry of Lands and Natural Resources as well as local councils have land management responsibilities, resulting in duplication of efforts (USAID 2018).

7. **Avoid 'Overriding Decisions'**: Each layer of government must have a sense of independent responsibility for their jurisdiction. The *Locus of decision-making and accountability* should be well-defined and then well-respected.
  - *Example*: In the newly decentralized regime, the Central government in Nepal continues to consolidate decision-making powers through the inherited centralized institutions.
  - *Zambian example*: The requirement of various approvals by the Ministry of Local Government, such as council decisions and adjustment of tax rates, may result in major delays (Resnick 2019).
  
8. **Avoid 'Influence of Individual Agendas in Policy Process'**: It is hard to detach individual politics from public policies. Avoid setting up mechanisms that promote such an environment. For instance, bureaucrats should be accountable to policy decisions and not to an individual or a group of individuals driven by personal goals.
  - *Example*: Strong evidence exists on ethnic favouritism in Kenya. Higher expenditures and better roads were observed in the districts that shared ethnicity with the president (Burgess et al. 2015).
  - *Zambian example*: Local bureaucrats and politicians have different incentives which results in conflicting decisions for local services (Resnick 2019)
  
9. **Avoid 'False Accountability'**: Avoid setting up accountability measures that do not tie to policy outcomes, and can be easily bypassed. For instance, tax auditors should not be hired by those who are being audited, or a measure of citizen participation in meetings should not be meeting notes.
  - *Example*: In the Indian state Gujarat, researchers have shown the biasness in pollution audit reports due the auditors getting paid directly by the firms they audited (Duflo et al. 2013).
  - *Zambian example*: LGs share reports which cannot be verified by CG. (*Anecdotes from a distinguished Zambian official interaction in the course of the writing the policy paper*)
  
10. **Avoid 'Data & Report Floating'**: Data collection should happen as per need and in a user-friendly format. Avoid collecting data that is not tied to a policy goal. Link data collection to the objectives of a program or policy. Avoid creating long reports that are hard to read or use.
  - *Example*: Numerous examples exists on the challenges faced by time-constrained policymakers in using data for action. Researchers have been finding ways to support by reducing the cost of effort in using data.
  - *Zambian example*: "*There have been development datasets on debt management. We also have a software to collect this data. It is supposed to be giving information. We launched it last year but not getting much information from the data to be used in policy making*" (*Anecdotes from a distinguished Zambian official interaction in the course of the writing the policy paper*).

## Chapter 4: Revenue-specific: Next steps for the Zambian fiscal federalism

This chapter details out the recommendations made in Table 1 in the previous chapter. Specifically, it provides the details for the Revenue specific recommendations.

### 4.1 Short-Term (1-2 years)

In the short-term, defined as 1-2 years, the Zambian government should focus on assessing the current capacities of revenue generation at different tiers and from different sources. A major goal must be to assess the existing **fiscal gap** at each tier which requires assessment of the potential revenue generation capacities, the actual revenue generation, and the expenditure needs. It is recommended to avoid making any major changes to the revenue system without a proper assessment.

#### 4.1.1 What is to be assessed?

There are four important aspects of the revenue side of the Fiscal Federalism. The Zambian government needs to put efforts in understanding all these components before taking measures to improve its Revenue system:

- a. the capacities required for revenue generation at different tiers of government,
- b. the actual revenue generated over time across all LGs,
- c. the ways of appropriating the revenue, i.e., directly appropriated at the source of collection or shared by the Central government, and
- d. the information gaps that exist at different tiers.

#### 4.1.2 How to assess?

Following are some of the key steps that must be taken up in order to assess the existing situation of the public revenue in Zambia. Note that these steps are not exhaustive, they can be followed in any order, and should be contextualized, where needed:

- Step 1: Form a committee that would have representation from different tiers as well as from the civil society.
- Step 2: Define goals for the committee based on the 'what' sub-section above (Subsection 4.1.1).
- Step 3: Initiate the assessment of revenue generation capacities at different tiers that would include the following: (a) existing capacities to collect revenue; (b) types and amount of revenue collected; (c) types of data that exists and those that are required for revenue collection and tracking the same; (d) characteristics of different tiers that explain the potential difference in capacities and revenue raised, such as IT infrastructure.
- Step 4: The committee must also evaluate the effectiveness of the existing capacity building programs. This can be done by directly observing the existing capacity building programmes as well as through key stakeholder interviews.
- Step 5: An important goal must be to understand the different sources of public revenue generated in the country by different tiers, administrative regions, and allocation sectors. This must also include the ways in which different portions of revenue is appropriated in the

country. More specifically, a critical assessment of the existing revenue sharing must happen which must account for the fiscal gap across different local governments.

- Step 6 [Information gaps]: Assess the differences between the required information on the revenue system and the available information for daily operations. For instance, the Central Government would need information on revenue collection while local government would need information on what kind of revenue they should be focusing on. Creating channels of information transmission will be key to successful decentralization.
- Step 7: Using the information collected in the above steps, a plan should be created to bridge the gap in the capacities of Local governments in raising revenue, maintaining records, the need for additional infrastructure to raise revenues, such as IT systems. The plan must also include the implementation agenda in the medium term.

#### **4.2 Medium Term (3-10 years)**

Over the medium term, the country must use the evidence generated in the short-term to design the ways of transferring higher revenue-related responsibilities to its lower tiers. The recommended targets below are based on the experience of developing countries such as India, Indonesia and Brazil. New measures can be taken by experimenting in few locations followed by scaling up.

##### **4.2.1 What is to be done?**

- While the Central Government collects majority tax revenue, local governments should be incentivised to contribute at a higher rate of about 5-10 percent or higher. Note that this is practiced in various developing nations.
- Standards for tax bases and tax rates must be determined at the central level, in addition to the principles for levying taxes at different levels.
- Revenue sharing must happen using a fiscal formula that relies on the concept of fiscal gap of Local governments. The fiscal formula should serve dual objectives of incentivising revenue collection by Local governments as well as equitable distribution of resources.
  - The fiscal formula should be used to share almost all kinds of funds including CDF.
- Reduce information gaps identified at different tiers over the short-term. For instance, during our interview with central Zambian officials we found that information sharing by local governments is not as desired. So, there is a need to create a system to fill this gap.

##### **4.2.2 How this can be done?**

- *Inclusive process*: All the measures suggested above should be done in consultation with provincial ministries and local governments.
- *Test and Implement*: For any new measure, initial 1-2 years should be utilized for pilot testing.
  - The pilot locations can be selected based on the success of the capacity building efforts in the short-term.
- *Infrastructural support*: Infrastructure at different levels should be made available in order to digitize all revenue raising efforts.
  - Online tracking tools and data systems, such as dashboards, that are accessible to each tier and the civil society should be created.
  - An assessment should also be carried out to evaluate the use of such infrastructure.



- *Capacity building:* 1. Provide continuous trainings on digital literacy to local governments; 2. Train local officials on direct appropriation of revenue.
- *Fiscal Formula:* This should be updated using the data procured in the short term on the potential revenue raising capacity and the developmental needs of each local level. World Bank's resource illustrates more on such formulas of fiscal transfers (Boadway and Shah 2007). Alternatively, an existing example, such as Indonesia, can be followed.
- *Systems [Information transmission]:* Create systems to track the shared funds as well as the revenue appropriated directly. The new systems should be geared towards reducing the information gaps identified in the short term.
- *Continued assessments:* 1. It is recommended to continue the data collection for informing the revenue-sharing formula and to continue assess local governments' efficiency in budget planning vis-a-vis revenue appropriation.

### **4.3 Long Term (after about 10 years)**

In the long term, the country would want to move towards the path of the developed countries that have a strong local governance system. This helps their central governments to focus efforts in the areas most efficiently served by them.

#### **4.3.1 What is to be done?**

- Independent tax collection and direct appropriation by local governments is important for incentivizing them to function efficiently. Ideally, the central government must raise 80-85 percent of total national revenue, while the local governments may raise 15-20 percent.
- Central government could consult the Local governments while defining its tax rates.
- All intergovernmental transfers, including the CDFs, should happen using the most up-to-date fiscal formula that is driven by recent data.
- A proportion of the revenue collected should be allowed to be appropriate directly by the relevant tier. LGs should be able to appropriate 30-40 percent of its own revenue. As far as possible, the purpose of revenue collection should be pre-defined.
- All tax collection and revenue appropriation should be digitally accounted for.

#### **4.3.2 How this is to be done?**

- Track revenue generation and direct appropriation at different tiers via online tracking tools
- Ensure 'credible' accountability for the directly appropriated revenue.
- Refresher trainings and continuous improvements in the existing infrastructure must be made in order to facilitate tracking of revenue generation and utilization.

## Chapter 5: Expenditure-specific: Next steps for the Zambian fiscal federalism

In this chapter, we detail out the expenditure specific recommendations as pointed out in Table 1 in Chapter 3.

### 5.1 Short Term (1-2 years)

Like the revenue-related actions in the short term, even for expenditures, the suggestion is to spend efforts in thoroughly assessing the status-quo. Involve and initiate discussions across different tiers using the information generated through an assessment exercise.

- It is recommended to take an assessment of the current nature of expenditures at different levels through
  - Identifying inefficiencies or duplication of efforts across tiers through data analysis.
  - Detailed assessment of the current nature of service delivery and capacities of different tiers in providing services. This should also identify areas that have inefficient overlaps between different stakeholders.
  - Assessing citizen involvement and their satisfaction with the current state of services and identifying the ways in which they hold their local governments accountable.
  - Finally, citizen knowledge on the roles and responsibilities of local governments in service delivery must be tested.
- Identification of the capacity needs
  - Of local bodies to deliver different public services.
  - Of middle-level officials, such as the provincial ministries, to monitor, supervise, and evaluate the delivery of services as well as to use actionable evidence.

### 5.2 Medium Term (3-10 years)

Over a medium-term, start by holding discussions across different bodies to carry out course-corrections based on the short-term assessments. Steps must be taken to clearly distinguish roles and responsibilities across different tiers for providing public services. The fundamental principle should be to assess the cost efficiency of providing service at different levels. For instance, a national level service such as the border defence, should be a central government matter, but primary schooling and health services could be provided exclusively at council level.

#### 5.2.1 What can be done?

- After creating the list of services and the responsible tiers/offices, the functions must be exclusive carried out by the offices responsible and any possibilities of overriding must be avoided.
- Create systems to involve citizens and civil society groups in credibly influencing public services, such as, management committees. Credible accountable institutions are important.

- Minimum standards, or a service charter, for each type of services at all tiers should be predefined and followed. Higher level officials should supervise and monitor service provision using data and evidence.

### **5.2.2 How this can be done?**

It is recommended

- To train public officials to provide services independently. They must also be trained on efficient use of funds for administrative and development expenditures.
- To train middle level officials and instil systems to make use of evidence for upward accountability and downward supervision.
- Introduce systems of tracking expenditures at all tiers through digital means.
- Provide infrastructures and design systems, both for efficient service delivery and for tracking them at local levels.
- Create citizen awareness about all of the above measures and inform them about the kinds of services government is providing.
- Simultaneously, assess the capacity of different tiers of government in service delivery.

## **5.3 Long Term (after about 10 years)**

In the long term, the country may want to have a system of local governments that are as efficient and as independent as in developed country settings. In short, each tier is sufficiently independent in carrying out their functions, there is transparency regarding their functioning which is also verifiable through data, and systems exist to integrate different tiers.

### **5.3.1 What can be done?**

- All the functions and responsibilities that can be efficiently carried out by a tier, should be transferred to them in the longer term. They should be followed in *de facto* and in *de jure*.
- Citizens and civil society groups should be involved regularly and consulted for effective service delivery.
- Middle level officials should be using actionable evidence to supervise local level officials.

### **5.3.2 How this is to be done?**

- Ensure that both upward and downward accountability exists for all kinds of services and functions of local governments.
- Create a system that will help track every Zambian kwacha in the system through digital innovations and robust IT infrastructure.
- Regularly carry out data collection and analysis to seek citizen feedback.
- Make sure that the audits conduct by the Auditor General's office or other such offices also has implications for poor service delivery.
- Provide refresher trainings to local officials and frontline workers for satisfactory service deliveries. Also, provide refresher trainings to middle line workers for effective supervision.

## Chapter 6: Evaluation specific: Next steps for tracking the progress of the Zambian fiscal federalism

### 6.1 Next steps for Zambia

A country in the process of transitioning to effective fiscal federalism, it is important to continuously assess what is working and what is not for the country. This assessment needs robust data and evaluation that is evidence driven. Evidence is key to implementing policies, to assess their effects, and to course-correct. It is ideal if all of this is done by an autonomous body, without any political influence.

The autonomous body should consist of data experts and social scientists, both internal and external. The external members could also comprise of researchers outside Zambia. The goal for the autonomous body should be two-fold:

#### 6.1.1 Regularly churn-out data for effective governance:

- a. Independent surveys: The autonomous body should commission data collection to capture citizen feedback on services at various levels. It should also include information on challenges faced by citizens in their day-to-day livelihoods and economic activities. One of the widely-known examples of such an exercise is India's [National Sample Surveys](#) carried out by the Central Statistical Office.
- b. Administrative data: Administrative data is as important as the independent surveys. For instance, our discussion with Zambian officials revealed that the Central Government doesn't have clear idea on what proportion of total national expenditure is carried out by local governments. Once the data systems are in place to capture revenue, expenditure and service-related information of local governments, the autonomous body can use them to combine with independent surveys. A useful example of open administrative data of local levels is from Indonesia which is available on the [World Bank website](#).

#### 6.1.2 Produce periodical analysis:

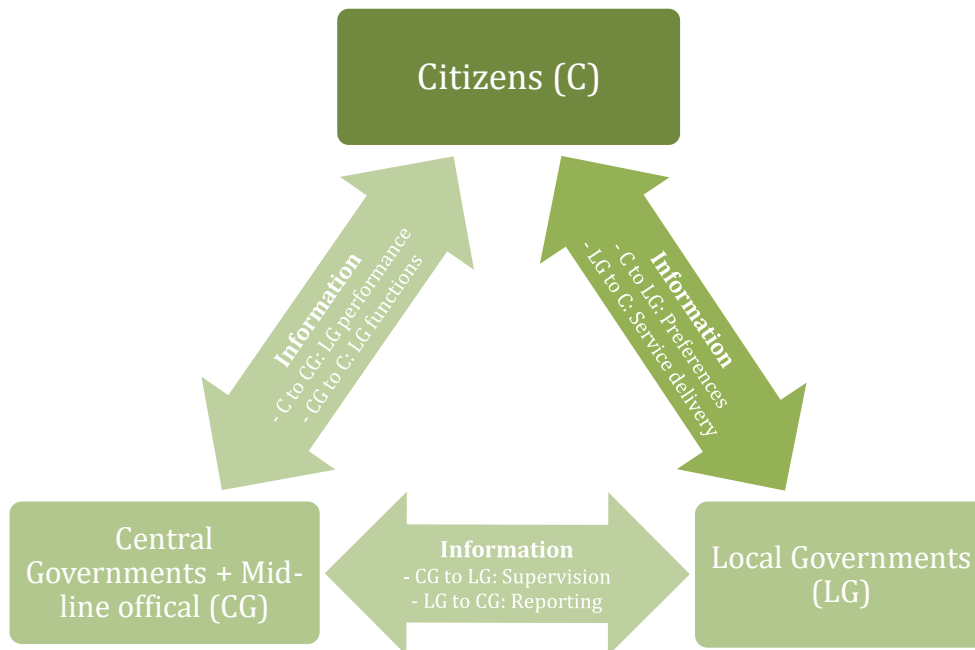
- a. Descriptive analysis: A combination of independent surveys and administrative data can be used to produce quick-frequent-short reports on various aspects of decentralization. These are brief insights that can be useful by the policymakers for policy decisions. These reports can also be made publicly available to invite other research and civil societies to participate in such an exercise.
- b. Causal analysis: Causality is important to establish a directional effect of a policy on developmental outcomes. Otherwise, it is as good as being directionless primarily driven by multiple assumptions. The government can take support of the autonomous body to plan evaluations of prospective fiscal federalism policies before implementing them at a large scale. This can be done by pilot testing the planned policies in a sample of councils and comparing them with similar councils, so-called counterfactuals, created through a randomization exercise. There are other methods of causal analysis that can also be utilized to convincingly associate any relationship as a causal relationship.

## Conclusion

To conclude, Figure 2 below highlights the importance of information in ensuring an effective fiscal federal structure. Considering the current information gaps between the Central and the Local governments in Zambia, as well as between the citizens and the government, information will be a key driving factor. The measures proposed in Chapter 6 will be important in ensuring smooth information flow between key stakeholders of the fiscal federal structure.

Finally, to repeat from the first chapter, a successful decentralisation would be the one that respects the following key elements: discretion to each tier of government, upward as well as downward accountability for all government actions, and above all, sharing of relevant governance information among all entities including citizens.

**Figure 2: The role of Information in Fiscal Federalism**



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## Annexure 1: Summary of service provision and responsibilities by Central and Local government in Zambia

Services	Delivering authority		Remarks
	National government	Local government	
<b>GENERAL ADMINISTRATION</b>			
Police	■		
Fire protection		■	
Civil protection	■		
Criminal justice	■		
Civil status register	■		
Statistical office	■		
Electoral register		■	
<b>EDUCATION</b>			
Pre-school (kindergarten and nursery)		■	
Primary	■		
Secondary	■		
Vocational and technical	■		
Higher education	■		
Adult education	■		
<b>SOCIAL WELFARE</b>			
Family welfare services	■		
Welfare homes	■		
Social security	■		
<b>PUBLIC HEALTH</b>			
Primary care	■	■	
Hospitals	■		
Health protection	■	■	
<b>HOUSING AND TOWN PLANNING</b>			
Housing	■	■	
Town planning	■	■	
Regional planning	■	■	
<b>TRANSPORT</b>			
Roads	■	■	
Transport		■	
Urban roads	■	■	
Urban rail	■		
Ports	■		
Airports			
<b>ENVIRONMENT AND PUBLIC SANITATION</b>			
Water and sanitation		■	
Refuse collection and disposal		■	
Cemeteries and crematoria		■	
Slaughterhouses	■	■	
Environmental protection	■	■	
Consumer protection			
<b>CULTURE, LEISURE AND SPORTS</b>			
Theatre and concerts	■	■	
Museums and libraries		■	
Parks and open spaces	■	■	
Sports and leisure	n/a	■	
Religious facilities			
<b>UTILITIES</b>	n/a		
Gas services	n/a		
District heating		■	
Water supply		■	
Electricity			
<b>ECONOMIC</b>			
Agriculture, forests and fisheries	■	■	
Local economic development/promotion	■	■	
Trade and industry	■	■	
Tourism	■	■	

■ sole responsibility service ■ joint responsibility service ■ discretionary service

Source: The Local Government system in Zambia. [http://www.clg.org.uk/default/assets/File/Country\\_profiles/Zambia.pdf](http://www.clg.org.uk/default/assets/File/Country_profiles/Zambia.pdf)

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