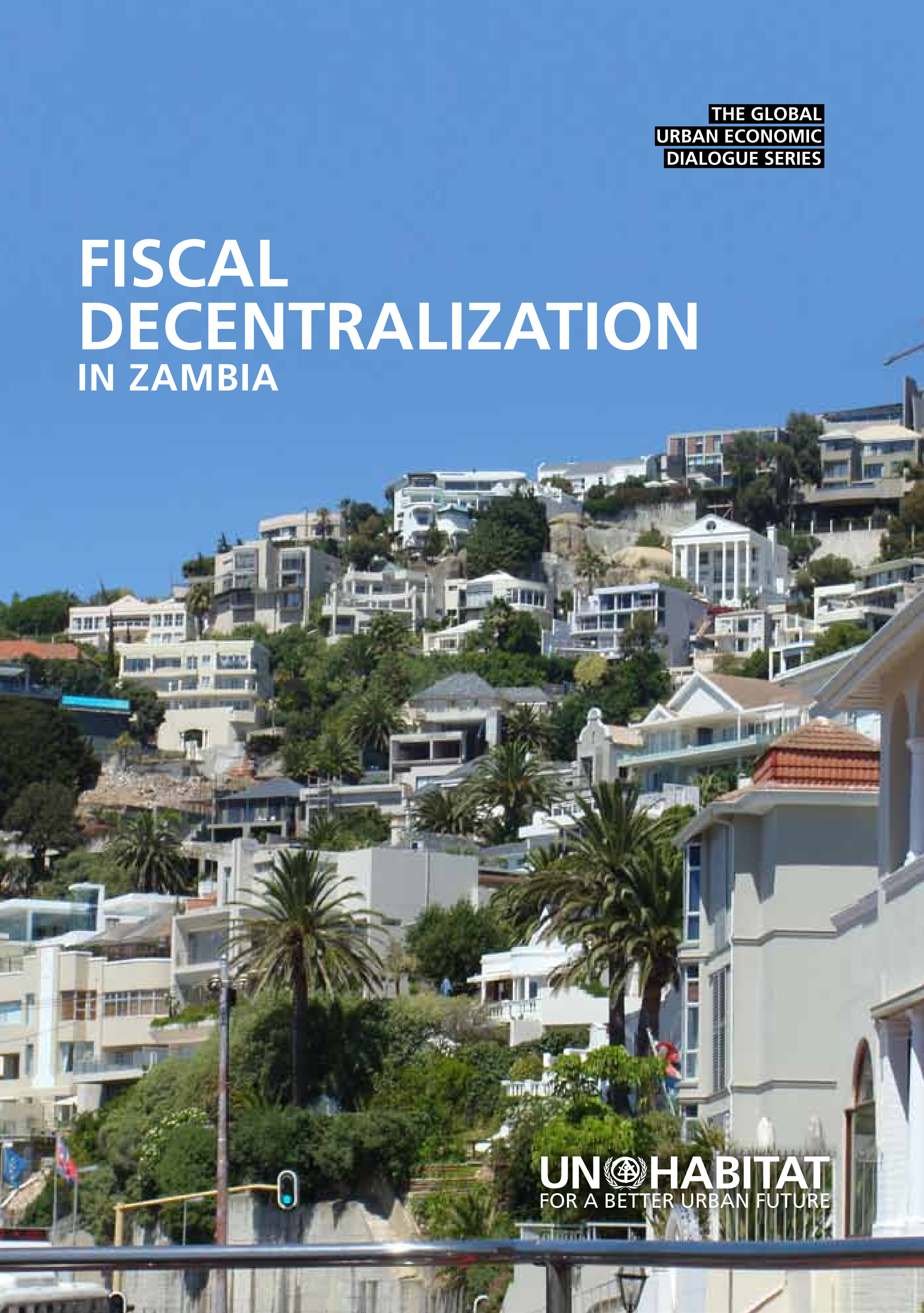
THE GLOBAL
URBAN ECONOMIC
DIALOGUE SERIES

FISCAL DECENTRALIZATION
IN ZAMBIA



UN-HABITAT
FOR A BETTER URBAN FUTURE

FISCAL DECENTRALIZATION
IN ZAMBIA

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Fiscal Decentralisation in Zambia

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FOREWORD

Urbanization is one of the most powerful, irreversible forces in the world. It is estimated that 93 percent of the future urban population growth will occur in the cities of Asia and Africa, and to a lesser extent, Latin America and the Caribbean.

We live in a new urban era with most of humanity now living in towns and cities.

Global poverty is moving into cities, mostly in developing countries, in a process we call the *urbanisation of poverty*.

The world's slums are growing and growing as are the global urban populations. Indeed, this is one of the greatest challenges we face in the new millennium.

The persistent problems of poverty and slums are in large part due to weak urban economies. Urban economic development is fundamental to UN-HABITAT's mandate. Cities act as engines of national economic development. Strong urban economies are essential for poverty reduction and the provision of adequate housing, infrastructure, education, health, safety, and basic services.

The *Global Urban Economic Dialogue* series presented here is a platform for all sectors of the society to address urban economic development and particularly its contribution to addressing housing issues. This work carries many new ideas, solutions and innovative best practices from some of the world's leading urban thinkers and practitioners from international organisations, national governments, local authorities, the private sector, and civil society.

This series also gives us an interesting insight and deeper understanding of the wide range of urban economic development and human settlements development issues. It will serve UN member States well in their quest for better policies and strategies to address increasing global challenges in these areas

Joan Clos
Under-Secretary-General
of the United Nations,
Executive Director, UN-HABITAT

CONTENTS

LIST OF ABBREVIATIONS AND ACRONYMS

Abbreviation	Full Term (extra information)
ADC	Area Development Committees
ADZ	Area Development Zone
AG	Auditor General
Cap	Chapter (usually in references to the Laws of Zambia)
CDF	Constituency Development Fund
CG	Central Government
CRC	Constitution Review Commission
CRCs	Core Recurrent Costs
DDCC	District Development Coordinating Committees
DDPI	District Development Planning and Implementation
DIP	Decentralisation Implementation Plan
DP	Decentralisation Policy
ERC	Electoral Reform Committee
FD	Fiscal Decentralisation
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GRZ	Government of the Republic of Zambia
HR	Human Resource
IFA	Intergovernmental Fiscal Architecture
IGT	Intergovernmental Transfer (Grants)
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
LED	Local Economic Development
LG	Local Government
LGAZ	Local Government Association of Zambia
LGSC	Local Government Service Commission
LuSE	Lusaka Stock Exchange
MCRC	Mung'omba Constitution Review Commission
MLGELE	Ministry of Local Government, Early Learning and Environment (until October 2011 formerly; Ministry of Local Government and Housing)

MLGH	Ministry of Local Government and Housing (October 2011, renamed Ministry of Local Government, Early Learning and Environment)
MoFNP	Ministry of Finance and National Planning
MTEF	Medium Term Expenditure Framework
NDCC	National Development Coordinating Committee
OOR	Optimized Own Resources
PAYE	Pay As You Earn
PDCC	Provincial Development Coordinating Committee
PKSOI	U.S. Army Peacekeeping and Stability Operations Institute
PPP	Public Private Partnership
PSRP	Public Sector Reform Programme
RTC	Road Traffic Commission
SNDP	Sixth National Development Plan
ToR	Terms of Reference
US $	United States Dollar
VFG	Vertical Fiscal Gap
VFI	Vertical Fiscal Imbalance
ZDA	Zambia Development Agency
ZESCO	Zambia Electricity Supply Corporation
ZICA	Zambia Institute of Chartered Accountants
ZMK	Zambian Kwacha (Zambian currency)

LISTS OF FIGURES, GRAPHS, MAPS AND TABLES

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1 LOCAL GOVERNMENT IN THE CONTEXT OF ZAMBIA

Zambia is a unitary state, the Government of the Republic of Zambia (GRZ), with two levels of government; Central and Local. The provincial level is in reality a part of the Central Government as it has no separate legal framework, assigned expenditure or revenue raising assignments to differentiate it from the Central Government. Zambia attained political independence from the British in 1964. While at the local level, Local Authorities (referred to collectively as Councils in this document) have some responsibilities for service provision, Central Government (CG) also has offices at that level to provide other services.

The Local Government Association of Zambia (LGAZ) provides, in the Councillors Orientation Manual (MLGH-LGAZ, 2006), an interesting history of pre-colonial, pre-independence and post-independence local governance in Zambia. For purposes of discussing Fiscal Decentralisation (FD) in Zambia, a brief history of the post-independence developments in local governance is outlined in this section.

Administrative Structure and Functions

While Zambia has two levels of government, Central and Local, it has four administrative levels for delivering government services as shown in Figure 1-1.

FIGURE 1-1: **Government Administrative Levels**

	Central			Local		
	Institution	**Policy Head**	**Executive Head**	**Institution**	**Policy Head**	**Executive Head**
National	Cabinet	Republican President	Secretary to the Cabinet			
	Line Ministries	Minister	Permanent Secretary			
Provincial	Provincial Administration	Provincial Minister	Permanent Secretary			
District	District Administration		District commissioner	City and Municipal Councils	Mayor	Town Clerk
				District Councils	Chairman	Council Secretary
Sub District				Wards	Councilor	

Source: Own depiction.

Professor Saasa (Saasa & Others, 1999, p. 65) adds co-ordinating organisations to his depiction of the administrative structures of the Zambian government as shown in Figure 1-2.

FIGURE 1-2: **Administrative Structure of Central and Sub-National Governments**

Level	Administrative		Decentralised	Deconcentrated & Semi-autonomous	Co-ordinating Bodies
NATIONAL	Secretary to the Cabinet	Line Ministries			NDCC
PROVINCE	Provincial Permanent Secretary	Provincial Departmental Head			PDCC (Chaired by Provincial Permanent Secretary)
DISTRICT	Line Ministry Officials		Councils	Health Boards Education Management Boards	DDCC Chaired by Town Clerk or Council Secretary

Source: (figure 3.2 (Saasa & Others, 1999, p. 65))

The functions of the different administrative levels of government, as articulated in Chapter 2 of the National Decentralisation Policy (GRZ - Cabinet Office, 2002, p. 8) are outlined below.

Central Government

National Level Institutions

At national level, there exists the Cabinet Office, which is responsible for the management and coordination of the Public Service. The Secretary to the Cabinet is head of Government Administration, which comprises sector Ministries and statutory bodies, Provincial and District administration. In order to enhance the operations at National level, Cabinet Office is expected to coordinate development activities through the National Development Coordinating Committee (NDCC).

Provincial Level Institutions

At each Provincial level, there is the Provincial Administration Headquarters headed by a Deputy Minister assisted by a Permanent Secretary responsible for the coordination of Government business in the Province. Apart from this office, there are Provincial Heads of Departments through whom functions of sector Ministries are carried out. Provincial Heads of Departments are answerable to their respective Sector Ministries on technical matters but administratively supervised by the Permanent Secretaries for the Province on day-to-day administration.

To enhance the operations of the Provincial Administration, Government through Circulars has established the Provincial Development Coordinating Committee (PDCC) as a forum for coordinating the planning, implementation and monitoring of development activities at the Provincial level. The PDCC is, however, ineffective because its creation and existence is not backed by any legal framework. Equally, the Permanent Secretaries of the Provinces, who are the chairpersons of the PDCC, have no legal powers to supervise and discipline sector ministry personnel.

District Level Institutions

At the District level, there is District Administration headed by a District Commissioner, appointed by the Republican President, who is responsible for coordinating developmental activities. District Administration comprises various sector Ministerial departments performing specified Government functions and responsible for implementing programmes and report to their respective Provincial heads of department. In order to enhance the operations of District Administration, Government through Circulars established DDCC as a forum for coordinating the planning and implementation of development activities at the District level.

The District Development Coordinating Committee is ineffective because no legal framework backs its operations. Town Clerks and Council Secretaries who, until the appointment of District Commissioners, were chairing the DDCCs had no legal backing to supervise and discipline sector Ministry personnel operating at the District level. In addition, there are semi-autonomous institutions of local governance, such as, Health and Education Management Boards created to perform specified functions on behalf of sector Ministries aimed at increasing community participation in the planning and delivery of services.

Local Government

District Level Institutions

"***As regards local Government, there is a single-tier system of local government comprising three types of councils, namely: City, Municipal and District Councils responsible for the provision of services***" (GRZ - Cabinet Office, 2002, p. 9). Until 2011, Zambia had 9 provinces and 72 councils. The councils were made of 4 City Councils, 14 Municipal Councils and 54 District Councils. Their populations as per 1990, 2000 and 2010 census are given in Table 1-1.

TABLE 1-1: **Population Distribution 1990 - 2010**

Type	# Councils	1990 Census	1990 Percent	2000 Census	2000 Percent	2010 Census	2010 Percent
City	4	1,526,645	19.68%	1,938,872	19.61%	2,862,299	21.94%
Municipal	14	2,021,327	26.05%	2,425,728	24.54%	2,958,714	22.68%
District	54	4,211,145	54.27%	5,520,991	55.85%	7,225,495	55.38%
Grand Total	72	7,759,117	100.00%	9,885,591	100.00%	13,046,508	100.00%

Source: 1990, 2000 & 2010 Census of Zambia

The 2007 council revenue budgets per type of district are given in Table 1-2.

TABLE 1-2: **District Types, Population and Budgets**

Type	# Districts	Pop 2007	Revenue Budget	Average Per District	Per Capita
City	4	2,585,271	$44,084,651	$11,021,163	$20.86
Municipal	14	2,798,817	$29,500,457	$2,107,175	$12.36
District	54	6,714,144	$20,910,983	$387,240	$3.47
Grand Total	72	12,098,232	$94,496,091	$1,312,446	$6.17

Summarised from Appendix 5, 2007 population interpolated between 2000 and 2010.

In early 2011 the government created an additional district, Mafinga. In 2012, as part of the process of decentralising the government administration and getting the government closer to the people, the government has, since its election in September 2011, created an additional province, Muchinga, and 5 additional district councils (Chikankata, Chirundu, Mulobezi, Nsama and Chilanga) bring the totals to 10 provinces and 78 councils.

The second schedule (section 61), of the Local Government Act Cap 281 prescribes sixty-three (63) functions to be performed by all Councils regardless of their status and capacity. The sixty three functions, some of which have sub-functions, are all discretionary as section 61 states "***Subject to the provisions of this Act, a council may discharge all or any if the functions set out in the Second Schedule***".

The assignment of the sixty-three functions listed under the Act without taking into account capacity, results in Councils not performing to the satisfaction of their local communities. Although councils are bodies Corporate, they also perform delegated functions of the Central Government.

The Mayor/Council Chairperson is a political head of the Council and, performs ceremonial functions. However, there is a weak link between the Mayor/Council Chairperson and the Ministry of Local Government and Housing which has led to lack of co-ordination, transparency and accountability on civic matters.

Sub-District Level Institutions

There are wards, which are sub-structures of the councils at sub-district level for the purposes of Local Government Elections only. The Registration and Development of Villages Act establishes the Ward Development Committees and Village Productivity Committees in each ward as a forum for community participation in local development activities and affairs. However, these institutions are not linked to Local Government and are no longer functional in most districts. This has led to lack of forum for community participation in decision-making on their local development activities and affairs at sub-district level.

LEGAL FRAMEWORK

Constitutional Provisions

Before the Constitution Amendment Act No. 18 of 1996 came into force, there were no constitutional references to Local Government in Zambia. The country could therefore have been administered without local government up to then.

Article 109 of Part VIII of the 1996 Constitution provides that "***There shall be such system of Local Government in Zambia as may be prescribed by an Act of Parliament. The System of Local Government shall be based on democratically elected Council on the Basis of universal suffrage***."

The Mung'omba Constitution Review Commission (MCRC), appointed in June 2003, in its report, the Report Of The Constitution Review Commission (MCRC, 2005, p. 402) stated, in respect to the above constitutional provision that: "***What this means is that the local government system in Zambia has been left to operate within the provisions of an Act of Parliament (Local Government Act Cap. 281 of the Laws Zambia), which could be changed at will to suit a given political situation. The present Act has many weaknesses. For example:***

- the Act does not expressly define the purpose and objectives of local government;
- in terms of service delivery, the Act does not set minimum standards for measuring performance in Councils;
- since governance transcends the State and its organs to include civil society, the Act does not define relationships between various stakeholders in local governance, that is, the Act does not provide for decentralisation or co-operative governance at all;
- the Act leaves out the all-important aspect of local government finance in terms of fiscal relations between Central and Local Government;
- the Act also gives the Minister so many powers over democratically elected councils that he or she can legally suspend all councillors and, with the approval of the President, dissolve all the councils and administer the whole country with appointed local government administrators; and
- the Act makes no reference to Provincial Administration or how the councils will relate with the province.

Statutory Provisions

Since becoming independent, Zambia has implemented three Local Government Reforms in which the legal framework for Local Government (LG) has been modified.

The Local Government Act - 1965 - 1980

Councils operated under the Local Government Act of 1965 from 1965 to 1980. The Act came into effect on 1st November, 1965. This Act provided for a system of local government in a multi-party environment. It provided for councillors elected by universal adult suffrage with Mayors and Council Chairmen elected by fellow councillors. It also provided for four categories of councils; City, Municipal, District and Rural.

Under the Local Government Act of 1965, the operations of councils could be further split into two sub-phases. The period 1965 to 1973 was a period of great successes in local government. During this period local councils operated electricity and water supply and sanitation services and, according to the National Decentralisation Policy, (GRZ - Cabinet Office, 2002, p. 14), "*70% percent of the income of Councils came from the Central Government through the Ministry of Local Government and Housing as grants, while 30% was met by revenue raised from local levies, fees and charges as well as specified funds from other Sector Ministries whose functions they performed*". This enabled councils to plan and implement adequate service delivery programmes.

During the period 1973 to 1980 the financial bases of councils began to deteriorate directly as a result of CG decisions. The withdrawal of the housing grant in 1973, police grant, health grant and fire grant, among others; the 1974 Rent (Amendment) Act which restricted councils from evicting defaulting tenants (until after accruing arrears in excess of three months); the declaration that undeveloped land had no value and was not rateable; the transfer of electricity distribution from Councils to the Zambia Electricity Supply Corporation (ZESCO), without transferring the liabilities that related to those services; and the withdrawal of long term capital funding all impacted negatively on the councils' abilities to deliver service.

Local Administration Act 1980 - 1991

Councils operated under the Local Administration Act No. 15 of 1980 from 1980 to 1991. Under this Act, which operated under the one party state, party and government functions were merged and additional offices created in councils without additional financing. Ward Chairmen, elected during the single party elections, became the councillors and the District Governors, appointed by the Republican President became the Chairmen of Councils.

Some CG functions were transferred to LG without finance following these functions. These included registration of villages, construction of feeder roads and water supply schemes according to the Decentralisation Policy (GRZ - Cabinet Office, 2002, p. 4), thereby further deteriorating service provision.

Local Government Act 1991 to date

After returning to multi-party politics in 1991 the Local Government Act (Cap 281) of 1991 replaced the Local Administration Act of 1980. This Act was substantially a return to the Local Government Act of 1965. Under this Act, the operations of councils can also be split into two sub-phases. During the period 1991 to 2001 various CG policies and pieces of legislation were passed that either reduced the revenue bases of councils or imposed additional expenditure on councils.

These included the following: The complete withdrawal of government grants to Councils announced in the 1992 national budget speech. Ironically that budget was itself only balanced by inclusion of grants to the Central Government by various bi-lateral and multi-lateral partners; the 1993 transfer of motor vehicle licensing functions from Councils to the Road Traffic Commission (RTC) while the responsibility to maintain the roads remained with the council; the Presidential directive for sale of council and parastatal housing units to sitting tenants in 1996 at below market prices thereby wiping out rental income from the council revenue bases; the rating Act No. 12 of 1997 which increased the categories of properties exempt from paying rates (this was reversed in 1999 but councils had still lost substantial income).

In addition, water supply and sanitation undertakings were transferred from councils to commercial utilities, wholly owned by councils, under Statutory Instrument No. 55 of 2000, without transfer of related liabilities; the Local Authorities Superannuation Fund (Amendment) No. 27 of 1991 which made it mandatory for council employees who had spent 22 years in service of Councils to retire but did not provide for the resulting terminal payments to retiring employees. This also had a negative impact on the operational capacities of councils as key expertise was lost; and granting of backdated 50 percent salary increments to unionised council employees just before the 2001 elections without providing the required financial resources to cover those increments.

During the period 2001 to date several positive CG policies and pieces of legislation have been passed that reverse some of the negative trends of the previous 27 years. These include: the reverting of management of bus stations and collection of market levies to councils through the Markets and Bus Stations Act No 7 of 2007; the appointment of Local Government Practitioners on the Constitution Review Commission (CRC) and the Electoral Reform Committee (ERC); the extension of councillors tenure of office from three to five years; the protection of council property from seizure by court bailiffs; the enactment of the Market and Bus Stations Act; the resumption of capital and recurrent grant to councils; the approval of the Decentralization Policy (DP); and the formulation of the Decentralisation Implementation Plan (DIP).

One of the Terms of Reference (ToR) of the 2003 MCRC Commission was to "…*examine the local government system and recommend how a democratic system of local government as specified in the constitution maybe realized*". According to Simwinga (a Constitution Review Commissioner and Former Town Clerk of Kitwe City Council) in "Local Government in Zambia: Issues Relevant to the Constitution Making Process" (Simwinga, 2007, p. 16),; "*The Commission received an overwhelming 3,799 submissions on Local Government alone. Most of the petitioners called for the devolution of power and the transfer of the resources from central government to Local Authorities*". In response to this, the Constitution Review Commission (CRC, 2005a) provided in Part XII of their Draft Constitution 28 Articles, articles 230 to 257, dealing with Local Government. The Constitution of Zambia Bill presented to Parliament in 2010 (NCC, 2010) had 13 Articles from 212 to 224 dealing with Local Government. The Bill was rejected by Parliament as not representing the peoples will.

Zambia's fifth Republican President, elected into office in September 2011, His Excellency Michael Chilufya Sata in his inaugural speech to Parliament on 14th October 2011 said, relating to fiscal decentralisation, "*Our government will also devise an appropriate formula for sharing national taxes collected at the centre within the jurisdiction of every local authority in order to strengthen their revenue base and ensure that all government grants are remitted on time*." (Zambian Economist, 2011). In the 2012 Budget Address to Parliament (Scribd, 2011, p. 9) on 11th November 2011, the Minister of Finance and National Planning Hon. Alexander Chikwanda MP, stated that "*in 2012, I have increased the grants to councils by more than 100 percent to ZMK K257.1 billion (US $ 75.4 million)*" These statements seem to be a continuation of the positive trends in local government during this phase.

DECENTRALISATION

The Public Sector Reform Programme (PSRP) launched in 1993 has three components: Restructuring the Public Service; Management and Human Resources Improvement; and *Decentralization and Strengthening Local Government*. Zambia's Vision 2030 (GRZ, 2006) which sets out the long term aspirations of Zambia includes the aspiration for "Decentralized governance systems". The Sixth National Development Plan (SNDP) 2011 – 2015 (GRZ, 2011) one of the tools for implementing the Vision 2030 states "*In line with the goal to decentralise service delivery functions to the councils, focus will be on the implementation of the Decentralisation Implementation Plan (DIP). In the medium-term the Government will focus on building the necessary capacity of the councils to prepare them to carry out the devolved functions*". Thus the theme of decentralisation runs through various government pronouncements and policies.

Justification

According to the DIP (MLGH, 2006, p. 5) "*the most fundamental rationale for decentralisation in Zambia lies in its opportunity to bring the government closer to the people by providing citizens with greater control over the decision making process and allowing their direct participation in public service delivery*" The DIP has now been revised (MLGH, 2010) but essentially has the same content.

This rationale, together with the possibility of improving the effectiveness of public expenditure by targeting needs identified by the communities, runs through all the government policies and pronouncements that relate to decentralisation.

Decentralised Development Planning

As part of the preparation for addressing the Decentralisation pillar of the PSRP, Zambia undertook a decentralised planning pilot project the "*District Development Planning and Implementation in Eastern Province*" (DDPI) from 1996 to 2001. This project covered all the eight districts in the province and its immediate objectives were:

1. MLGH uses lessons learned from Eastern Province for national decentralization policy and implementation process.
2. Stakeholders involved in District development produce and maintain sustainable infrastructure using decentralized fiscal transfers of discretionary and conditional grants, participatory development planning and localized production arrangements in Eastern Province.
3. Local government demonstrates effective and responsive leadership and facilitation of the development process.

Even though, according to the project's terminal evaluation report (Rwampororo, Tournee, & Chitembo, 2002), "*the project increased capacity for service delivery of District Council staff, Councillors, District Development Coordinating Committees (DDCC) members and other relevant stakeholder groups in order for them to understand and perform their roles better*" the upscaling of lessons learned has not been possible as the underlying decentralised governance system has not been put in place to date.

Situation to Date

Zambia's Decentralisation Policy (GRZ - Cabinet Office, 2002) was approved in 2002 and officially launched in 2004. The Decentralisation Implementation Plan (DIP) 2006-2010 (MLGH, 2006) revised to cover 2009 – 2013 (MLGH, 2010) was developed in 2006 and approved in 2010. In 2006 Zambia, with the participation of various cooperating partners led by the World Bank, embarked on developing and implementing a Local Development program (LDP) aimed at operationalizing the DIP. Through its preparatory process the LDP developed and agreed on various principles in the operationalization of the DIP including the required Intergovernmental Fiscal Architecture (IFA) to address the fiscal relations of a decentralised governance system.

The delay in GRZ formally approving the DIP led to some cooperating partners, such as the World Bank, shifting the focus of their cooperation away from decentralisation to other activities. Despite this, some aspects of the IFA have been implemented and are discussed in Chapter 8.

PUBLIC EXPENDITURE RELATIVE TO GROSS DOMESTIC PRODUCT

Public expenditure as percentage of Gross Domestic Product (GDP) gives an indication of the size of the public sector in an economy. The World Bank data (World Bank, 2011) for Zambian GDP and government expenditure as a percentage of GDP for Zambia and averages for Africa are are given in Table 1-3.

TABLE 1-3: **Zambian Government Expenditure Relative to GDP (World Bank Data)**

	1998	1999	2000	2001	2002	2003
GDP US $ Million	3,237.20	3,131.34	3,237.72	3,636.94	3,716.09	4,373.86
Zambia ((Govt exp x 100)/GDP)	21.4303	17.4303	-	15.8781	15.9944	17.6443
Africa ((Govt exp x 100)/GDP)	-	-	-	-	-	-
	2004	**2005**	**2006**	**2007**	**2008**	
GDP US $ Million	5,423.20	7,156.85	10,675.37	11,410.06	14,381.87	
Zambia ((Govt exp x 100)/GDP)	20.0127	23.0007	17.0112	22.9420	-	
Africa ((Govt exp x 100)/GDP)	24.8842	24.9347	25.5451	25.3162	26.3082	

Source: (World Bank, 2011) (ADI.xlsx) GDP Series: NY.GDP.MKTP.CD; ((Govt exp x 100)/GDP) Series: GC.XPN.TOTL.GD.ZS

These data show moderate public sector expenditure in the economy. Similar "*ratios for Ethiopia, Kenya and Uganda are, respectively, 24.1 per cent (1995), 28.7 per cent (1995) and 18.1 per cent (1996)*" (Smoke, 2001, p. 9)), it would therefore seem that in this regard, Zambia is within the norm.

FISCAL DECENTRALISATION INDICATORS and PERFORMANCE

Global Indicators and Ranges

Anwar Shah (Shah, 2004, p. 15) provides various indicators for decentralisation and calculates ranges from IMF and World Bank data. These indicators and their ranges are given in Table 1-4

TABLE 1-4: **Decentralization Indicators for Developing and Transition Economies**

	Transition (1999			Developing (1997		
	Average	Max	Min	Average	Max	Min
Sub-national Expenditures						
As % GDP	10.8	20.4	5.8	7.4	18.3	0.8
As % of public sector expenditures	22.3	38.8	7.3	23.3	45.2	3.5
Sub-Nat 1 education expenditures, as % public sector education expenditures	55.9	91.4	0.2	49.8	97.5	0.2
Sub-Nat 1 health exp.. as % of public sector health expenditure	41.9	95.9	0.3	60.2	98.1	13.7
Sub-national revenues						
As % of GDP	7.9	17.1	2.9	5.3	12.5	0.5
As % of public sector revenues	18.4	36.0	5.6	16.6	39.8	2.2
Fiscal transfers						
As % of sub-national revenues	24.0	50.4	4.1	42.2	80.8	5.0
Sub-national autonomy						
Tax autonomy	55.1	91.0	29.1	40.1	76.5	7.6
Expenditure autonomy	74.0	96.2	49.6	58.0	95.0	23.4

Source: (Shah, 2004, p. 15)

LG expenditure as a percentage of public expenditure, that is expenditure of all levels of government, is often used as a proxy for the degree of fiscal decentralisation as indicated in Table 14. Smoke (Smoke, 2001, p. 10), indicates this figure at 43.5 percent for Ethiopia (1996), 21 percent for Uganda (1995) and "only" 4.2 percent for Kenya (1995). All these are within the ranges provided by Shah in Table 14 of maximum of 45.2%, average of 23.3% and a minimum of 3.5%.

1. The Zambian Indicators

The World Bank (World Bank, 2001b) provides various indicators of fiscal decentralisation for Zambia for the period 1976 to 1980. These are summarised in Table 1-5.

TABLE 1-5: **Zambia's Fiscal Decentralisation Indicators 1976 – 1980**

Indicator	1980	1979	1978	1977	1976
Sub-national expenditures (% of GDP)	1.62	1.68	2.19	2.02	1.50
Sub-national Expenditures (% of total expenditures)	4.19	5.23	6.87	5.39	3.98
Sub-national revenues (% of GDP)	1.35	1.41	1.35	1.58	1.51
Sub-national Revenues (% of total revenues)	5.13	5.94	5.19	5.91	5.94
Fiscal Transfers (% of total sub-national revenues)	34.08	27.75	26.92	31.21	3.05
General Public Services (% of total sub-national expenditures)	46.28	47.43	44.62	29.35	23.59
Vertical Imbalance (%)	43.06	32.21	22.72	35.32	3.17

Source: Extracted from (World Bank, 2001b)

More recent data are not readily available for decentralisation indicators in Zambia. In some instances this is not peculiar to Zambia. For instance regarding the indicator for total annual Local Government Revenue or Expenditure the World Bank notes that: "*While the framework for the GFS (*IMF Government Financial Statistics*) is very comprehensive, available data are much less comprehensive when analyzing decentralization. For instance, only 46 countries reported expenditures at both the national and subnational level in 1996*" (World Bank, 2001). It is feasible that some the countries that might not have reported could have this information locally. The breakdown of countries reporting indicators for decentralization in the GFS is shown in Table 1-6.

TABLE 1-6: **Countries Reporting Decentralisation Statistics in GFS**

Levels of Reporting	Number of Countries
Central and Local	32
Central and Provincial	2
Central, Provincial and Local	12
Total	46

Source: (World Bank, 2001)

The Zambian Performance

This section looks at the Zambian decentralisation performance by comparing the Zambian indicators to the established indicator ranges.

The "International Monetary Fund (IMF): Government Finance Statistics Yearbook" (IMF, 2008, p. 487) has both Zambia's CG and LG budgeted revenue for 2005. The CG revenue figure was ZMK 7,973.90 Billion ($1,992,229,856) while the LG figure was ZMK 92.7Billion ($23,160,525). This indicates that for 2005, LG revenues were less than 1.5% of general government revenues. The above IMF data series has the Zambian Central Government revenue and expenditure budget amounts for three years, 2005 – 2007, but has no Local Government revenue data for 2006 or 2007. Using the Local Government budgeted revenue of ZMK378.22 Billion ($94,496,091) from Appendix 5, the IMF Central Government expenditure for 2007 of ZMK 10,094.6 Billion ($2,522,073,704) (IMF, 2008, p. 487), would imply, even though there might be slight differences in definitions of revenue, that local government revenues were about 3.6% of total public revenues. Relating the LG revenues of 2005 and 2007 to the Zambian GDP of $13,228,627,361 and $15,932,984,420, respectively, the LG revenues were found to be 0.16% and 0.59% of the 2005 and 2007 GDPs, respectively.

The table below compares various Zambian performance indicators, for specified years, against the Shah benchmarks.

TABLE 1-7: **Zambian Decentralisation Performance**

Indicator	Benchmarks			Zambian Performance						
	Min.	Avg.	Max.	2007	2005	1980	1979	1978	1977	1976
Sub-national expenditures (% of GDP)	0.8	7.4	18.3			1.62	1.68	2.19	2.02	1.5
Sub-national Expenditures (% of total expenditures)	3.5	23.3	45.2			4.19	5.23	6.87	5.39	3.98
Sub-national revenues (% of GDP)	0.5	5.3	12.5	0.59	0.16	1.35	1.41	1.35	1.58	1.51
Sub-national Revenues (% of total revenues)	2.2	16.6	39.8	3.6	1.5	5.13	5.94	5.19	5.91	5.94
Fiscal Transfers (% of total sub-national revenues)	5	42.2	80.8			34.08	27.75	26.92	31.21	3.05

It would seem therefore that relative to the range by Shah, Zambia's level of decentralisation, as measured by LG revenues relative to total public revenue, was below the minimum of 2.2% in 2005 at 1.5% but this improved to 3.6% in 2007, however, this was still considerably below the average of 16.6%. Zambia's performance in the late 70's was much better averaging 5.62% from 1976 to 1980.

For the other indicators, the Zambian trends are that they are just above the minimum for each indicator. This indicates that is more centralised that is the norm for developing countries.

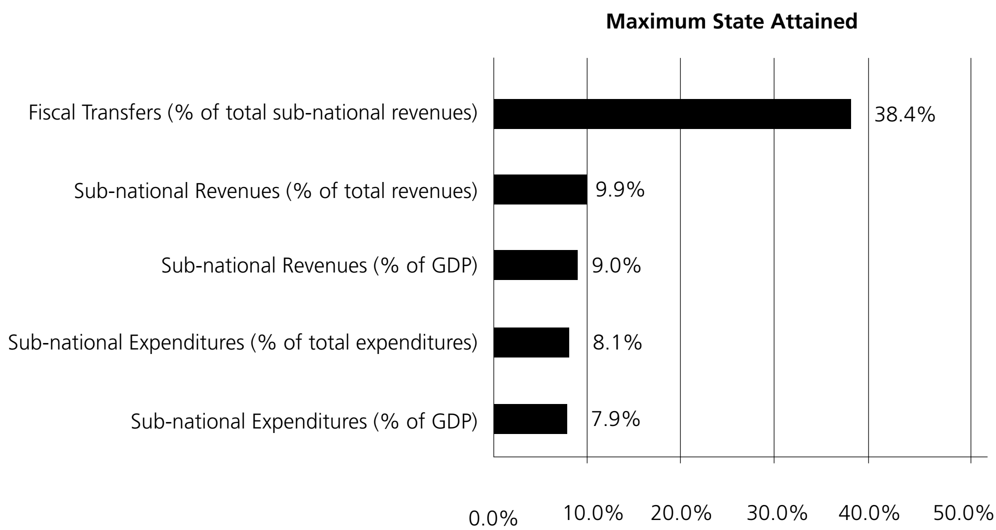
Using the minimum and maximum benchmarks to be 0% and 100% respectively, the status of each of the available Zambian indicators along the above scale is given in Table 1-8. .. The table shows that none of the available indicators went above the average, 50%, of the range and some of them, the negative values, indicate that Zambia's performance in these was even below the minimum standard.

TABLE 1-8: **Zambian Indicator Progress towards Maximum Benchmarks**

Indicator	Zambian Performance Towards Maximum Benchmark						
	2007	2005	1980	1979	1978	1977	1976
Sub-national expenditures (% of GDP)			4.7%	5.0%	7.9%	7.0%	4.0%
Sub-national Expenditures (% of total expenditures)			1.7%	4.1%	8.1%	4.5%	1.2%
Sub-national revenues (% of GDP)	0.8%	-2.8%	7.1%	7.6%	7.1%	9.0%	8.4%
Sub-national Revenues (% of total revenues)	3.7%	-1.9%	7.8%	9.9%	8.0%	9.9%	9.9%
Fiscal Transfers (% of total sub-national revenues)			38.4%	30.0%	28.9%	34.6%	-2.6%

Figure 1-3 shows the maximum percentages ever achieved, for each of the five indicators, in relation to Shah's ranges.

FIGURE 1-3: **Zambian Indicators – Maximum Attainment**



Despite most of the data being from the 1970s, the data mined for 2005 and 2007 as regards LG revenues confirms the downwards trends from 1977 onwards. Therefore, it is safe to assume that, with the exception of Fiscal Transfers, which seem to have stabilised in the 30% percentage range, Zambia has been centralising over the past three decades.

CHAPTER 2 OVERVIEW OF LOCAL GOVERNMENT FINANCE

This chapter presents the concept of public finance and its role in financing the goods and services described in Chapter 1. It describes the characteristics of public finance, the market justification for public finance and compares and contrasts public finance to market based financial management disciplines such as corporate finance. It then links the concept of public finance to LG as a component of public finance and outlines how the concepts outlined, which form the theoretical framework for LG finance generally, are applied in Zambia.

PUBLIC FINANCE

Public Finance is the area of financial management that has to do with the mobilisation, stewardship and utilisation of financial resources for the provision of public goods and services. It differs from other specialisations in financial management, such as Corporate Finance or Securities and Investments, as in those other specialisations the markets, when functioning correctly, are expected to regulate the interactions between sellers and buyers. Both sellers and buyers have a choice whether to transact or not, hence the concept of willing buyer and willing seller that underpins the market concepts. Underlying the market concept is the exclusivity of entitlement to the goods and services exchanged, if one buys a pair of shoes or pays for a haircut, they have exclusive right to the goods or service acquired and those particular goods or service are not available to anybody else.

Public goods and services have two key characteristics: Non-excludability, meaning the cost of excluding non-payers from enjoying the services may be prohibitive; and Non-rivalry, meaning consumption by one does not diminish consumption by others. Such services include services like national security and defence and street lights. So even though individual choice can also be exercised, to some extent, in the choice of public goods and services, due to the non-exclusivity and non-rivalry nature of public goods and services, the market is unlikely to provide such services even if there was demand for them as the buyers would be unlikely to voluntarily pay for services to which they would not have exclusive rights. Financing the provision of such goods and services is the realm of public finance.

The provision of public goods and services is mainly through taxes and therefore public finance is the collection of financial resources, mainly through taxes, the stewardship of those resources on behalf of the public and the prudent expenditure of those resources to supply the required public goods and services. The justification for public finance is that it can, through appropriate policies, contribute to the efficient **allocation,** equitable **distribution** of the goods and services and to the **stabilisation** of the economy (Musgrave, 2004)..

Allocation

Since public goods and services are non-exclusive, and therefore benefit all consumers, whether they have paid or not, people will not voluntarily directly pay for such services to which they do not have exclusive rights. If such services are not paid for then they cannot be provided; no roads, no street lights and no national security.

Thus for public goods and services the ballot box becomes the proxy for the market mechanism for allocating goods and services as voters "*will find it in their interest to vote such that the outcome will fall closer to their own preferences*" (Musgrave, 2004, p. 8).. Thus it becomes the responsibility of the government elected on the platform of providing a specific bundle of goods and services to find the mechanisms to do so irrespective of whether such goods and services are produced by the government or the private sector.

Distribution

How the public goods and services can be distributed equitably among the beneficiaries is a matter for consideration in public finance. Whereas public goods and services are non-exclusive, and therefore everybody is free to enjoy them, the spatial distribution of these goods and services may create conditions that may exclude some from the ability to enjoy them. The benefits of street lights in one neighbourhood may not necessarily equally accrue to residents of another neighbourhood.

Spatial considerations may also mean that street lights may be a key priority in one neighbourhood but not in another. Public policy and public finance can be tools for dealing with the equitable distribution of public goods and services.

Stabilisation

Public policy and public finance can be tools for macro-economic stability targeting such issues as unemployment, inflation, foreign exchange rates and economic growth through the use of fiscal and monetary policies. "*Stabilization of the economy is a prerequisite for economic growth" (PKSOI, 2009, p. 135), see also (Ocampo, 2005) "Macroeconomic stabilization policy can be broadly summarized as methods to mitigate short-run business cycle fluctuations around some long-run growth path using different policy instruments. Two policy tools are often emphasized in the literature: fiscal policy – the way that governments choose aggregate expenditure and tax collection; and monetary policy – the way central banks change the amount of money supply via the price of money – interest rates*". (Liu P. , 2010, p. 8).

In his address to the National Assembly for the 2012 GRZ budget the Minister of Finance and National Planning stated "*Mr. Speaker, macroeconomic policy under the new administration will be geared towards maintaining a stable macroeconomic environment conducive to investment, inclusive growth and employment creation*" (GRZ - MoFNP, 2011, p. 4). He set targets in respect of GDP growth (7%), inflation (7%), fiscal deficit (4.3% of GDP) and gross international reserves (4 months import cover). He also articulated the tools for achieving the targets; limiting money supply growth, enhancing effectiveness of monetary policy, maintaining a flexible exchange rate and financial sector regulatory framework. The budget extract attached as Appendix 3 provides the rationale, objectives and policy tools proposed to be used by GRZ for achieving macro-economic stability.

On 27th March 2012 the Bank of Zambia announced that it would introduce a benchmark interest rate called the Bank of Zambia Policy Rate from the beginning of April, see Appendix 4 for the full announcement. On 30th March the Central Bank News reported that "*The Bank of Zambia announced it would set its new monetary policy benchmark interest rate at 9.00%. The move marks a transition in the Bank's monetary policy, from money supply targeting to an interest rate target system. The overnight lending facility rate is due to be set at 250 basis points higher than the policy rate. The new interest rate level represents significant tightening, and compares to previous interest rate levels of around 6 percent. The*

Bank of Zambia's adoption of a monetary policy benchmark interest rate follows similar moves by Uganda and Angola last year." (Central Bank News, 2012).

LOCAL GOVERNMENT FINANCE AS AN ASPECT OF PUBLIC FINANCE

Why Local Government Finance?

The issues

Given that public finance covers the provision of public goods and services, it can be assumed that it fully addresses the issues related to LG finance which has to do with the provision of public goods and services at the local, rather than national, level. Except for city states, this is only correct to some extent. Since LGs operate within environments created by CGs and both provide public goods and services, issues arise regarding which bundle of services are best provided by which level of government (expenditure assignment), which revenues are best collected by which level of government (revenue assignment) and how do these assignments of expenditures and revenues match. With specific reference to Zambia, the expenditure and revenue assignments are discussed in Chapter 6 and Chapter 7 respectively. Ensuring that LGs' assigned responsibilities are commensurate with their assigned resources is the central theme of Fiscal Decentralisation.

Some goods and services are clearly best suited to be provided by CG, National Defence and Security for instance, others are best suited to LG, street lights and refuse removal, for instance. However, there are several goods and services that are somewhat less clear which is why LG setups are different from country to country.

Definition

Local government finance "*is about the revenue and expenditure decisions of municipal governments. It covers the sources of revenue that are used by municipal governments – taxes (property, income, sales, excise taxes), user fees, and intergovernmental transfers. It includes ways of financing infrastructure through the use of operating revenues and borrowing as well as charges on developers and public-private partnerships. Municipal finance also addresses issues around expenditures at the local level and the accountability for expenditure and revenue decisions, including the municipal budgetary process and financial management*". (UN-HABITAT, 2009, p. 1)

The Role of Local Government Finance in Zambia

In reviewing the role of Local Government finance in Zambia it is useful to use the public finance context outlined earlier relating to the contribution of public finance to the efficient **allocation,** equitable **distribution** of the goods and services and to the **stabilisation** of the economy

Allocation

Zambia is a diverse country; from high rainfall areas in the north to sandy almost desert like areas in the west, from densely populated areas in the urban centres to sparsely populated areas in the rural areas. There are therefore considerable spatial variations in demand for local public goods and services. It would not be efficient for CG to provide these area specific goods and services and therefore, given a multi-level government system, as the case is for Zambia, these area specific preferred bundles of goods and services are better provided by LG.

Distribution

Income inequalities in many places within the same LG areas, urban and peri-urban areas for instance, mean that some services, for which basic access levels have been determined, cannot be provided to all areas on the basis of ability to pay. If, however, those services are not provided they impact the whole LG area. For Zambia, the case of cholera outbreaks is a case in point. If proper water supply and sanitation services are not provided for the peri-urban areas, these outbreaks, even though they may start in the peri-urban areas, can quickly cross over to the urban cores of the cities even if these are well served in terms of water supply and sanitation.

LGs have the ability to cross-subsidise these services by charging higher tariffs for the higher consumption in the urban cores of the LG areas and lower tariffs in the peri-urban areas. They also have the discretion to use the general rate fund resources, collected mostly from the properties in the urban core, for providing services in the peri-urban areas.

This re-distribution of allocated services within the LG areas can more efficiently be done at the local level.

Stabilisation

Stabilisation mostly relates to macro-economic issues. Due to the macro nature of the issues involved, national, this function of public finance is primarily a central government and central bank function.

REVENUE SOURCES FOR LOCAL GOVERNMENT IN ZAMBIA

The major revenue sources for councils in Zambia, apart from the intergovernmental transfers, are Rates (property tax), Levies (taxes on local, usually, business activities), User Charges, Personal Levy (a Local tax on personal income) and Licences (business permits). The relative significance of these sources is somewhat different between the different types of councils; City, Municipal and District with rates (73%), User Charges (70%) and Levies (60%) being by far the leading source for each category respectively as shown in Table 2-1.

TABLE 2-1: **Performance of Council Revenue Sources -2006**

Type of Council	# of Respondent Councils	Revenue Sources					Sub-Total	Average Per Council
		Property Rates	Levies	User Charges	P. Levy	Licenses		
City	2	$4,481,707	$434,835	$1,018,633	$42,545	$97,069	$6,074,789	$3,037,395
		73.8%	7.2%	16.8%	0.7%	1.6%	100.0%	
Municipal	3	$128,723	$85,605	$656,718	$25,381	$41,345	$937,772	$312,591
		13.7%	9.1%	70.0%	2.7%	4.4%	100.0%	
District	4	$40,948	$379,140	$95,416	$51,840	$57,840	$625,184	$156,296
		6.5%	60.6%	15.3%	8.3%	9.3%	100.0%	
Total	9	$4,651,378	$899,580	$1,770,768	$119,766	$196,254	$7,637,745	$848,638
		60.9%	11.8%	23.2%	1.6%	2.6%	100.0%	

Compiled from data collected during (MoFNP-MLGH, 2008)

CHAPTER 3 THE CONCEPT OF FISCAL DECENTRALISATION

This chapter discusses the framework for sharing the responsibilities and resources discussed in Chapter 2, between different levels of governments, fiscal federalism. It applies the concepts within this framework to the process transferring more of those responsibilities those that can be so transferred to lower levels of government, fiscal decentralisation.

WHAT IS FISCAL FEDERALISM AND FISCAL DECENTRALISATION?

Fiscal Federalism

Fiscal federalism is the term used to describe the "*general normative framework for the assignment of functions to different levels of government and appropriate fiscal instruments for carrying out these functions. It explores, both in normative and positive terms, the roles of the different levels of government and the ways in which they relate to one another through such instruments as intergovernmental grants*" (Sharma, 2003, p. 177) The concept applies to most countries not just federations, since most countries, other than City States such as the Vatican or Singapore, have more than one level of government.

A central theme of fiscal federalism and decentralisation, therefore, is the existence of a multi-level government.

Fiscal Decentralisation

Within this context, fiscal decentralisation (FD) refers to the applications of the norms of fiscal federalism to the process of devolving service delivery responsibilities (expenditure assignments) and the fiscal means to perform those responsibilities (revenue assignments) to lower level governments.

Thus fiscal federalism is 'centralisation – decentralisation' neutral while fiscal decentralisation applies these neutral norms in the process of decentralisation. In '*The Federal Approach to Fiscal Decentralisation: Conceptual Contours for Policy Makers*' (Sharma, 2003), Sharma lists some concepts that contribute to the creation of the right framework for decentralisation. These are discussed within the Zambian context in the next section.

THE NEED FOR FISCAL DECENTRALISATION IN ZAMBIA

The decentralization policy defines the need for decentralization in Zambia as stemming "*from the need for the citizenry to exercise control over its local affairs and foster meaningful development which requires that some degree of authority is decentralised to provincial, district and sub-district levels as well as Councils, in the background of centralisation of power, authority, resources and functions, which has in turn subjected institutions at provincial, district and sub-district levels to absolute control by the centre. In order to remove the absolute control by the centre, it is necessary to transfer the authority, functions and responsibilities, with matching resources to lower levels*". (GRZ - Cabinet Office, 2002, p. 6)

This need "*for the citizenry to exercise control over its local affairs*" has been a result of deteriorating local service delivery over the years arising primarily from reduced local revenue bases and unpredictable IGTs and the resultant loss of human resource capacity as the reduced revenue bases could not sustain the required human resource recruitment, development and retention.

The status of the available decentralisation indicators, as outlined in Chapter 1, would also seem to support the need for more decentralisation..

Zambia's Decentralisation Policy itemises challenges within the current centralised framework which the decentralisation process is expected to address in respect of:

1. **The Institutional Arrangements**: Challenges include; parallel administrative structures at district level, absence of sub-district level coordination structure and lack of clear lines of authority and reporting relationships between district, provincial and national authorities;
2. **Development Planning**: Challenges include; weak linkages between district planning and national budgets and lack of local people involvement in the planning process;
3. **Human Resource Development and Management**: Challenges include; lack of a comprehensive National Training Policy, lack of capacity for councils to pay skilled labour and lack of staff recruitment guidelines for councils;
4. **Infrastructure Development and Management**: Challenges include; Lack of clear and comprehensive infrastructure development and management policy, lack of adequate human and financial resources and absence of a preventive maintenance culture;
5. **Financial Mobilisation, Utilisation and Management**: Challenges include; Lack of a clear IGTs allocation formula, unpredictable timing and value of IGTs, out-dated financial regulations;
6. **Local Government Electoral System**: Challenges include lack of provisions for; making the Mayor / Chair Person accountable to the electorate, empowering the Mayor / Chair Person to enforce implementation of council resolutions and empowering the Mayor / Chair Person to enforce discipline (currently no-executive Mayor / Chair Person); and
7. **Legal Framework**: Challenges include; lack of appropriate legislation to support and guide decentralisation and bureaucratic provisions requiring Central Government approval of council by-laws and budgets.

All these challenges have contributed to poor levels of service provision at local levels resulting in the need "*for the citizenry to exercise control over its local affairs*" as demonstrated by the "overwhelming" submission on local government to the 2003 MCRC reported by Simwinga (Simwinga, 2007, p. 16) and more recently, discussions on the Barotse Agreement (Kunda & Lewanika, 1964) as a way for devolution[1].

FISCAL DECENTRALISATION CONCEPTS

Finance Follows Function

This means that when functions are assigned, or there are changes in assigned functions, to the different levels of government, those assignments must be accompanied with revenue raising authority to those levels of government and, if necessary, equalisation mechanisms to ensure adequate resources are available for undertaking the assigned responsibilities.

1 *See also the following for discussions on the agreement: http://en.wikipedia.org/wiki/Barotseland , http://www.statehouse.gov.zm/index.php/component/content/article/48-featured-items/2636-bre-hands-over-barotse-report-to-president-banda and http://www.lusakatimes.com/2012/01/08/conspiracy-theories-kk-abrogated-barotse-agreement/*

From the discussions in 0, it is evident that this concept has not been fully addressed in the past. Present efforts in the development of the IFA are aimed at addressing this shortfall.

Informed Public Opinion

In Zambia a key underlying rationale for decentralisation is to encourage meaningful local participation in matters of development that affect them. For this to happen there must be local availability and access to the right information to enable the local community to develop meaningful public opinion and to decide local priorities.

An uninformed community is unlikely to make informed choices.

Mechanisms for Articulating Local Priorities

While in Zambia it is assumed that Councillors afford the community the means for articulating their priorities, formal systems for ensuring that this is so, are not in place. Some council wards are extremely large geographically and sub-ward structures, such as the area development committees (ADC) used in the DDPI, are not in place. These mechanisms for making local priorities known must be in place to ensure that the matters reaching the council chambers are in line with the local priorities decided upon by an informed community.

Other key community pillars, such as the business community and civic society, must also have means to articulate their needs. Their needs might create the basis for Local Economic Development (LED).

Adherence to Local Priorities

There should be incentives for the councils and the elected officials to be responsive to community priorities and accountable to the community for delivering on those priorities. Part of that incentive is the level of community participation in monitoring the delivery of services. The DDPI had a system of public display of council monthly activities and financial data to enable the community track council activities and validate them as these were undertaken in the community.

When elected officials and council officers are obliged to publicise information on their activities and given an informed local community, they are less likely to deviate from the agreed local priorities as the informed local community will note these variations and apply appropriate injunction.

Incentives for Participation

For the community to participate there must be incentives for that participation. The ADC participation in the DDPI was secured by the boreholes and feeder roads developed from which the participants could see the tangible output of their participation. (Sharma, 2003, p. 39) states that "*Writers on institutional economics have long observed that people's willingness to participate varies according to their perception of how much impact such participation will have*".

Local Government Fiscal Responsibility

Zambia's Medium Term Expenditure Framework (MTEF) for Councils (MLGH, 2009) has the following three objectives; Overall fiscal discipline, Allocative efficiency and Operational efficiency. However the "*Effective incentive and sanctions frameworks need to be in place to ensure accountability*" (MLGH, 2009, p. IX) cited as one of the key features of an effective MTEF are not yet in place. Fiscal indiscipline can cause economic destabilisation but it is "*argued that destabilization effects of decentralization arose mainly from inappropriate incentives than any problem inherent in decentralization*" (Sharma, 2003).

Instruments to Support Decentralisation

The Decentralisation Policy is a statement of political objectives. To achieve those objectives other instruments relating to the creation of an enabling environment require to be in place. These instruments are discussed as part of the enabling environment in Chapter 4.

ISSUES FOR CONSIDERATION

Matching the assigned functions (expenditure assignment) to the fiscal means to perform those functions (revenue assignment) and developing the means for addressing fiscal imbalances that may arise between these assignments is at the core of fiscal decentralisation. Fiscal imbalances may relate to vertical as well as horizontal imbalances.

Vertical Imbalance

Vertical Imbalance refers to fiscal imbalances between the different levels of government. This occurs when, at any level of government, the expenditure assignments are greater than the fiscal means to discharge these assignments or, rarely, the available fiscal means are in excess of the requirements for discharging the expenditure assignments.

This imbalance can be caused by one or both of the following conditions; inappropriate allocation of revenue powers and spending responsibilities, that is, fiscal asymmetry with Vertical Fiscal Imbalance (VFI); or a desirable revenue-expenditure asymmetry but with a fiscal gap that needs to be closed, that is, fiscal asymmetry without fiscal imbalance but with a Vertical Fiscal Gap (VFG). Meaning the right functions have been allocated on the basis of which level of government can best deliver which service and the right fiscal means have been allocated on the basis of which level of government can best collect which revenues and still the rightly allocated revenue sources are inadequate to undertake the rightly allocated functions.

There are two ways of addressing issues of vertical imbalances; assignment of additional (or less) local revenue raising powers and / or, increase (or reduction) in intergovernmental fiscal transfer to councils. Relating to which of the two options is readily feasible for addressing vertical imbalances (Bhal, 2000, p. 2) notes "*In developing and transition countries, there are limited choices for the delegation of taxing autonomy to local governments. The alternative is to leave the bulk of revenue raising power at the central level, and to provide a subsidy to local government revenues to accommodate the mismatch. The result is that transfers comprise a major component of subnational government revenues. As local governments grow into the ability to use modern instruments of local taxation, the importance of transfers diminishes. In the U.S., for example, transfers finance less than one-fourth[2] of all state and local government expenditures and subnational governments have access to a wide variety of consumption and income taxes.*"

Increased local revenue raising powers

While VFIs can normally be resolved by increased local revenue raising powers, however, issues of local fiscal capacity may mean that this might not be readily feasible. An additional factor that limits the viability of increased local revenue raising powers is the major differences in local revenue bases between the councils. These differences in local revenue bases also contribute to the horizontal imbalance.

Increased intergovernmental transfers

Increased IGTs while more particularly suited to addressing VFGs can be used to address VFIs. The major differences in local revenue bases between the councils in Zambia means that correctly utilised IGTs can be used for purposes of equalisation to enable councils with differing revenue bases undertake their bundle of assigned functions.

2 *Underlining ours*

Horizontal imbalance

Horizontal fiscal imbalances refer to imbalances between the same levels of government. This occurs when LGs with similar expenditure assignments have different local resource endowments therefore creating LG fiscal disparities which differently affect the ability of the individual LGs to discharge their functions. According to (Boadway & Shah, 2007, p. 19) citing (Shankar & Shah, 2003) such fiscal disparities if large "*can be politically divisive and may even create threats of secession (Shankar and Shah 2003). This threat is quite real: since 1975 about 40 new countries have been created by the break-up of existing political unions. Fiscal equalization transfers could forestall such threats and create a sense of political participation, as demonstrated by the impact of such transfers on the separatist movement in Quebec, Canada*"

These imbalances can be addressed through IGTs as the central government has the ability to provide the required mechanisms for implementing fiscal equalisation transfers.

IGTs must therefore take account of both the vertical and horizontal imbalance in their design and application.

APPLYING THE CONCEPTS IN ZAMBIA

The concepts outlined in the preceding section create the basis for effective fiscal decentralisation. In applying these concepts in Zambia, there are issues that reduce the effectiveness of FD efforts. While some of these issues, such as; finance not following function, the lack of mechanisms for clearly articulating local priorities and the differences in local revenue bases, have been highlighted in the preceding sections, there are others which have not explicitly been highlighted. Some of these are outlined below.

Instability of Expenditure Assignments

Chapter 1 has outlined the frequent changes that have happened in LG in Zambia which have had implications for the functions councils are expected to undertake. These have included assignment of new functions, such as; registration of villages, construction of feeder roads and water supply schemes and withdrawal of other functions, such as; electricity supply, water and sewerage services and motor vehicle licensing

This instability in functions means that the assignment of the fiscal means should also have been changing to keep pace. This did not happen.

The Cost of Undertaking the Functions

In determining fiscal imbalances a key parameter is the cost of undertaking the assigned functions. This cost has two components; the bundle of functions that have to be undertaken and the minimum required level of service. In the Zambian context none of these have been clearly articulated.

Functions

Section 61 of the Local Government Act Cap 281 of the laws of Zambia lists sixty three discretionary functions. While this discretion is important, in view of the wide variety of circumstances and local priorities among councils, determining how much they may cost is not feasible as they are not defined. It is possible that a minimum bundle of services for the different types of councils could be defined, but this has not been done yet.

Service level determination

Since the minimum bundle of services has not been determined, determining the level of provision of these services is not possible. The minimum standard of some services, such as water supply, have been determined as a result of other activities so at least the cost of these can be determined if it is agreed that these should form the basic mandatory bundle of services to be provided.

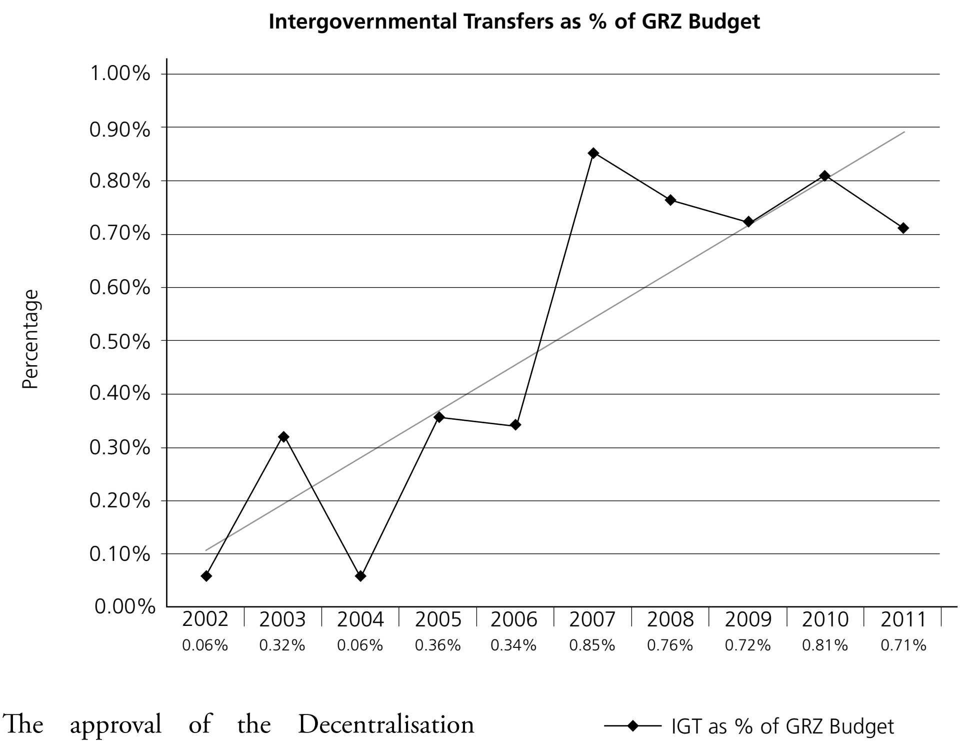
Instability of Revenue Assignments

While the revenue sources have remained reasonably stable, there has been considerable instability in their applications as this is determined and approved by CG. The declaration of land as having no value for rating purposes and the exemption of various types of property from rates (now both reversed), the write-off of council rental houses, the reversal of certain levies after initially being approved (for instance the Truck Levy for Kapiri Mposhi, a major truck route intersection and the Bicycle Levy in Chipata both reversed after being approved) among others, have meant that while these sources are available, their yield is highly subject to the whims of CG. Alternative sources to cover the lost revenue were not provided.

Current Status

Even though the decentralisation implementation process has not fully gotten underway and some of the normative concepts outlined in this chapter are not fully adhered to yet, some work in this direction has been on-going. An area in which this is evident is in the underlying upward trend in the percentage of IGTs in the GRZ budget as shown in Figure 3-1. The percentage, albeit still small at less than 1%, is growing.

FIGURE 3-1: **Trends in IGTs 2002 - 2011**



The approval of the Decentralisation Implementation Plan and its articulation of most of the foregoing concepts create a road map for monitoring progress.

CHAPTER 4 ELEMENTS OF FISCAL DECENTRALISATION

This chapter describes the interrelated components that make up a system of FD within conceptual framework discussed in chapter 3.

The key elements of fiscal decentralisation are; assignment of expenditure responsibilities to sub-national government levels, assignment of tax and revenue sources to sub-national government levels, Intergovernmental fiscal transfers and sub-national government access to development capital. There are, however, other necessary elements that must operate in concert with the foregoing to create the optimal operating environment for fiscal decentralisation. From available literature, see for instance (Smoke, 2001) and (Bahl, 2009) these other elements include an enabling environment that includes; locally elected council, locally appointed Chief Officers, budget autonomy, hard budget constraints / fiscal discipline.

(Bahl, 2009, p. 7) gives the following examples of fiscal decentralisation that addressed only some of these necessary elements whilst overlooking the others:

- Russia has reformed its intergovernmental fiscal system to replace ad hoc grants with a formula based transfer, but has not removed its extensive system of expenditure mandates. Clearly there are gains in transparency, but this has not been accompanied by increased local discretion as to the expenditures of these monies.
- South Africa has assigned significant non-property taxing powers to subnational governments, including a payroll and turnover tax, and has granted local governments some borrowing powers. However, the government still has not put in place a hard budget constraint for local governments to force efficient use of these instruments.
- China's 1994 fiscal reform dramatically changed the national revenue sharing system, gave local governments more control over the administration of locally assigned taxes, and changed the balance of revenue availability between the two levels of government. However, no commensurate changes in expenditure assignment were made.

The elements of fiscal decentralisation are outlined below.

THE KEY ELEMENTS / PILLARS

Expenditure Assignments and Autonomy

The principles

The assignment of functional responsibilities between the different levels of government is the first pillar of fiscal decentralisation in so far as it articulates which level of government does what. Everything else is structured around ensuring the necessary conditions for undertaking the assigned functions.

The subsidiarity principle, which suggests that responsibility for providing government goods and services should be assigned to the lowest level of government that can most efficiently provide those goods and services, underlies fiscal decentralisation. Given the geographical coverage of sub-national governments, as sub-sets of the areas covered by national governments, it seems logical that functions that have national coverage, such as national defence, are best assigned to national governments. In the same vein, functions that have major spill over effects into neighbouring jurisdictions might most efficiently be provided by higher levels of government. Even though the allocations of responsibilities are different in different countries due to factors such as history, culture and politics, according to (Smoke, 2001, p. 21) "*Many countries do follow these principles in a broad way*"

The issue of autonomy is important as councils must respond to local priorities for fiscal decentralisation to be meaningful. The underlying need for decentralisation is for the local communities to have a say, within the agreed institutional and legal framework, in determining their local affairs. There are however, as (Smoke, 2001, p. 18) notes, "*some national priorities that should take precedence, and some types of supply-side standards may be appropriate for certain services and activities*". Some of these national priorities like feeder roads and water supply and sanitation, which are prioritised at national level for implementation at local level, happen also to be high on local priorities. Others like village registration might not be so.

Applying the principles in Zambia

The Local Government Act defines the functions that LG can undertake. As far as allocating responsibilities between central and local government in Zambia Chitembo (Chitembo, 2002, p. 12) shows the allocation as outlined in Table 4-1. State enterprises include LG owned enterprises such as the Water and Sewerage Companies.

TABLE 4-1: **Expenditure Responsibilities**

Responsibilities	Central Government	State Enterprise	Local Government
Drainage			
Education			
Electricity			
Environment			
Fire Fighting			
Health			
Housing			
Land Development			
Markets			
Recreation Facilities			
Roads (District)			
Roads (National)			
Sewerage			
Solid Waste			
Street Lighting			
Telephones			
Water supply			

Source: (Chitembo, 2002, p. 12)

In so far as the functions assigned to councils in the Local Government Act are discretionary and not mandatory, there is local autonomy in Zambia in determining which of the functions will be undertaken, how they will be undertaken and how they will be prioritised according to local needs by each council. This is as it should be as the local circumstances and needs of individual councils differ considerably. For instance while both Mpika, the largest district before the creation of Mafinga District, and Monze are both district councils, Mpika had a population density of 4.7 people per square kilometre in 2007 compared to Monze which had almost 8 times more, at 38.4 people per square kilometre. The logistics of providing services to the two councils are likely to be completely different. Table 4-2 provides a summary of the two district profiles.

TABLE 4-2: **Population Densities Mpika and Monze**

Name	Population 2007	Area	Density 2007	Budget 2007	Per Capita 2007
Mpika	191,856	40,659	4.72	$392,440.15	$2.05
Monze	186,218	4,850	38.40	$510,580.08	$2.74

Summarised from Appendix 5

These compare to the national average of 16.10 people per square kilometre in 2007 (17.3 in 2011) and that of Lusaka, the most densely populated district, of 4,293.04 per square kilometre in 2007 (4,841.6 per square kilometre in 2010 (CSO, 2011)). These capacity differences are not only between councils of different types; cities, municipalities and districts, or restricted to district councils alone. For instance the differences in revenue raising capacities relative to population sizes, among the four cities are substantial. In 2007 Kitwe was budgeting to raise almost four times more per Capita than Lusaka as shown in Table 4-3.

TABLE 4-3: **Per Capita Revenue Budgets for Cities**

Type	Population 2007	Area in Square Km	Average People Per Square KM	Council Budget 2007	Average Budget Per Capita 2007
Kitwe	478,302	777.04	615.545	$18,179,939.54	$38.01
Livingstone	130,410	694.88	187.672	$2,806,117.05	$21.52
Lusaka	1,545,496	360.00	4,293.037	$17,740,826.98	$11.48
Ndola	431,063	1,102.97	390.822	$5,357,767.15	$12.43
Grand Total	2,585,271	2,934.89	880.876	$44,084,650.72	$17.05
				Standard deviation	$10.65

Summarised from Appendix 5

The foregoing capacity differences create an inherent complication in determining, nationally, which level of government can most efficiently provide which goods and services.

An additional complication in Zambia is that functions are sometimes assigned by the national government without involvement, or consideration of the capacities, of Councils and without consideration for the concept of *finance following function*. For instance, until the mid-nineties water supply and sanitation was provided by councils in the urban areas but by Central Government in the rural areas. As a result of on-going water sector reforms, these services are now provided by commercial utilities wholly owned by councils, in most cases by more than one council where the utilities cover more than one council area, in urban areas (cities and municipal councils) while rural councils now provide this service within their jurisdictions**.** No specific needs assessment has been undertaken to identify the council specific needs of these rural councils to provide this service and to provide targeted capacity support for this additional function.

Other than for water supply, in which national supply-side standards are articulated, by the National Water Supply and Sanitation Council (NWASCO), there are hardly any other services provided by councils in Zambia that have national standards. This lack of both minimum bundle of services to be provided and, national service standards on those and other services provided by councils, makes service level performance comparisons between authorities problematic.

The determination of which level of government does what, in Zambia, must therefore take into account these capacity differences and cluster councils by capacity. Each cluster should then be assigned a minimum bundle of services they must provide. Capacity development ladders must then be clearly defined and capacity development activated developed and deployed to graduate councils upwards over a period of time.

LG expenditure assignments in Zambia are discussed in more detail in Chapter 6.

Local Revenue Source Assignments and Autonomy

The next logical pillar is revenue source assignment. The fiscal decentralisation dictum that *finance follows function* alludes to this relationship. It is logical in that until functions are assigned, it is not possible to determine with any certitude what financial resources will be required to undertake an unidentified function.

In arriving at the revenue needs of councils (Bahl & Martinez-Vazquez, 2006) suggest a logical three point approach; clearly assigning a package of expenditure responsibilities to local authorities, establishing the cost of providing a minimum level of assigned services / responsibilities and assessing issues related to affordability.

In the Zambian context this discussion is complicated by the lack of clarity regarding the minimum bundle of services to be provided and the minimum standards to be attained in providing each of the services in that bundle. The issue of affordability further compounds the complication, given not only the poverty levels in general but also the differences between rural and urban poverty and population density levels.

The assignment of revenue sources in Zambia allows councils to charge for various services and administrative functions. The key sources of revenue as listed in Table 4-4 are: rates (property tax), personal levy (personal income tax), levies (usually some sort of business levy), user charges and (business) licences. These sources are all appropriate for councils as they are immobile and are unlikely to cause inter-jurisdictional conflict. However they all suffer from lack of buoyance which adversely affects the revenue yield over time. Chitembo: (Chitembo, 2002, p. 13) comparisons of the of the elasticity CG and LG taxes is given in.

TABLE 4-4: **CG and LG Tax Bases**

Central - Local Government Comparative Sources of Income				
	Source	**Elasticity**	**Source**	**Elasticity**
Taxes	Income Tax PAYE	90	Income Tax Personal Levy	45
	Property Transfer Tax	100	Property Tax Rates	65
	Value Added Tax	100		
	Company Tax	85		
	Fuel Levy	100		
	Custom Duty	100		
	Excise Duty	100		
Others	Fines	65	Fines	50
	Motor Vehicles Licences	65	Market Fees	50
	Donors	20	Grants	0
	Commercial Undertakings (ZIMCO)		Commercial Undertakings (Clothing Factory)	
	User Fees	65		

Subjective inflation elasticity indicators

0 - 40	Does not respond to inflation at all
40 - 60	Requires outside overt action to increase yield in response to inflation (ie Statutory instrument etc)
60 - 80	Requires local overt action to increase yield in response to inflation (ie Council resolution)
80 - 100	Responds automatically to inflation

Source: (Chitembo, 2002, p. 13)

Other than rates and personal levy, the other sources comprise of a miscellany of charges. For instance levies for one local authority may include pole levy (charged on electricity poles), charcoal levy and bicycle levy In addition to the five listed broad categories there are various permits and charges for various civic registrations such as fire registration, marriage registration, health permits whose cost of administration (and compliance where this is mandatory) would probably exceed the revenue yield. For an example of the revenue sources of Lusaka City Council see Appendix 6.

While the revenue sources are well documented there is little local autonomy in administering them as each single one of them requires approval by the Minister responsible for LG. This approval is sometimes late and sometimes withdrawn after approval. In addition to this administrative requirement for ministerial approval, some of the revenue sources have design features that reduce their potential yield. A summary of the key issues relating to some of these revenue sources as presented in a "*Consultancy on the Revenue Base of District Councils*" (MoFNP-MLGH, 2008). LG revenue sources are discussed in Chapter 7.

Intergovernmental Fiscal Transfers

IGTs are a key pillar of fiscal decentralisation as they address the fiscal gaps described in chapter 3. In line with the view that expenditure assignments determine revenue assignments, (Boadway & Shah, 2007, p. 16) observe that "For *enhancing government accountability to voters, it is desirable to match revenue means (the ability to raise revenues from own sources) as closely as possible with expenditure needs at all levels of government.*

However, higher-level governments must be allowed greater access to revenues than needed to fulfill their own direct service responsibilities, so that they are able to use their spending power through fiscal transfers to fulfil national and regional efficiency and equity objectives".

Optimal revenue allocation therefore includes ensuring a revenue surplus at higher levels of government to enable IGTs. The use of IGTs in Zambia is discussed in Chapter 8.

Access to Capital Funds

The long term nature of developments undertaken by LGs requires access to long term capital funds as these developments are unlikely to be financed from LGs recurrent revenues. The access of Zambian LGs to capital funds is discussed in Chapter 7.

THE ENABLING ENVIRONMENT

Fiscal Decentralisation is about the transfer of political power to local communities. The correct policies, legal and institutional frameworks, together with the political will to implement them form the overarching framework within which the fiscal decentralisation process can be implemented.

Policy Framework

Articulation of an appropriate and comprehensive policy for decentralisation provides a statement of the political intent and coverage for decentralisation. A review of the Decentralisation Policy in Ghana, *Joint Government of Ghana and Development Partner Decentralisation Policy Review - Final Report*, notes that while Ghana had been implementing various activities in support of decentralisation further real progress would "*require policy clarification to guide implementation, particularly the linkages between the local government reform in a narrow sense and the overall decentralisation linkages with the sectors*" (Nordic Consulting Group, 2007, p. i)

Zambia has a well-articulated decentralisation policy (GRZ - Cabinet Office, 2002) and now a Decentralisation Implementation Plan (MLGH, 2006) which covered the period 2006 – 2010. However the plan was only approved in 2010. The 8 year timespan between policy formulation and implementation plan approval would seem to indicate that the process of persuading the CG to devolve functions to the local level was rather hesitant despite the policy intent.

Legal Framework

Councils being creatures of statutes require appropriate legal mandates to carry out their assigned functions. An evaluation of the decentralization process in Rwanda, *Revised Fiscal and Financial Decentralization Policy*, notes that among the "*challenges hampering optimal functioning of the decentralization framework*" was a legal framework which lacked clarity and coherence between documents (MINECOFIN, 2011, p. 5). The Ghanaian constitution provides that "*Parliament shall enact appropriate laws to ensure that functions, powers, responsibilities and resources are at all times transferred from central government to local government units in a coordinated manner*" (Nordic Consulting Group, 2007, p. i).

The 28 Articles provided in Zambia's Draft Constitution (CRC, 2005a) were intended to create the appropriate legal framework for fiscal decentralisation as the current legal framework does not do so. As the DIP notes "*The current policies and pieces of legislation governing the operations of the public service, in general, and Sector Ministries/Departments, in particular, were developed without devolution but with deconcentration in mind. Some of them are at variance with the requirements of the Decentralization Policy*" (MLGH, 2010, p. 13). The eight components of the DIP include a review of the legal and regulatory framework for enhancing fiscal decentralisation. These components are listed below (MLGH, 2010, p. 12).

(a) Sensitisation and Civic Education

(b) Legal and Regulatory Framework

(c) Institutional and Human Resource Capacity Building

(d) Local Development Planning and Budgeting

(e) Financial Management and Accounting

(f) Fiscal Decentralisation and Revenue Mobilisation

(g) Sector Devolution

(h) Infrastructure Development and Services Provision

(i) Monitoring and Evaluation

Locally Elected Councils

A key rationale for fiscal decentralisation is the "*opportunity to bring the government closer to the people by providing citizens with greater control over the decision making process and allowing their direct participation in public service delivery* (MLGH, 2010, p. 6). This greater control over the decision making process includes the ability for citizens to "appoint" their local representatives, through elections. "*If the local leadership is appointed by higher levels of government, their accountability will be upwards and not downward to the local population*"(Bahl, 2009, p. 5).

In Zambia, Section 12 of the Local Government Act Cap 281 provides that Councillors will be elected in accordance with the Local Government Elections Act Cap 282. Section 14 of the Local Government Elections Act Cap 282 provides that a person registered as a voter in a ward or a rate payer in the area of the council is entitled to vote for a councillor. The law therefore provides for locally elected councils.

Locally Appointed Chief Officers

Locally appointed Chief Officers are necessary for effective fiscal decentralisation for the same reason that locally elected councils are necessary, local accountability. (Shah, 2005, p. 72) observes that "*higher-level government political and administrative appointments created a hierarchical structure in Bangalore that made local governments more responsive to central and regional government demands than they were to the needs of local constituents*" and that "*it is apparent that local-level responsiveness is enhanced where politicians and administrators are appointed locally*" (Shah, 2005, p. 73).

Section 90 of the Local Government Act provided that Councils could appoint and discipline officers. Section 92 however, provided that the Minister may "*make regulations governing service with a council and the powers and duties of councils with regard to their officers and employees" through the issuance of a Statutory Instrument*".

The Local Government Act has now been amended by the Local Government (Amendment) Act No. 6 of 2010 which, among other things, provides for the Local Government Service Commission (LGSC), appointed by the President, whose mandate includes the appointment and discipline of council officers. This development is somewhat contrary to (Shah, 2005), (Bahl, 2009) and to (Boadway & Shah, 2007, p. 9) who describe a new public management framework which "*seeks to strengthen accountability for results by changing the management paradigm in the public sector from permanent appointments to contractual appointment and continuation of employment subject to fulfillment of service delivery contracts*"

The LGSC arrangement is more suited to the deconcentrated form of decentralisation rather than the devolved form preferred in Zambia's Decentralisation Policy.

Fiscal Discipline

Fiscal discipline, as implemented through regulations relating to the development and implementation of hard budget constraints, is an element of fiscal decentralisation since "*local officials, especially elected local officials with short time horizons, much prefer to finance expenditures with grants from higher level governments than to raise taxes, and much prefer borrowing vs. financing services with current revenues*" (Bahl & Martinez-Vazquez, 2006, p. 39). According to "(Liu & Webb, 2011) lack of fiscal discipline can lead to macroeconomic instability.

In Zambia, budget constraints are imposed by the CG by establishing a resource envelope within the MTEF in which council must budget and operate. However, the absence of a basis for properly costing the expenditure assignments as described above means that these constraints may be somewhat arbitrary.

Political Accountability

Since the rationale for decentralisation is to allow greater participation of the local communities in affairs of local governance, it seems logical to assume that the primary accountability of the decentralised local government systems must be to the local communities. According to (Bahl & Martinez-Vazquez, 2006, p. 15) "*Accountability to local voters is perhaps the most crucial element of a decentralized system, and the one that ties together all the other components of decentralization design*". It "*is enhanced through the appointment of officials through open politically contested elections, as well as by other institutions including, proper publicity, internal control and external audit and evaluation of budgets, a free press, and the participation in the public discourse of non-governmental organizations*".

Along similar lines (Liu & Webb, 2011, p. 13) state that fiscal responsibility framework "*requires annual publication and legislative discussion of a fiscal plan and budget, and often this is for multiple years on a rolling basis. The presentation may have to include full costing of any new spending programs or tax changes. Fiscal transparency includes having an audit of subnational financial accounts, making periodic public disclosures of key fiscal data, or exposing hidden liabilities*".

In order for the local communities to hold councils to account, they must be well informed. Elements of the accountability framework are discussed below.

Appointment of local officials

While councillors are locally elected, officers are centrally appointed. Centrally appointed officers have a higher incentive to be accountable to the appointing authorities, vertical accountability, rather than to the local communities, horizontal accountability. This dilutes to some extent the underlying rationale for fiscal decentralisation.

Planning and budgeting

In Zambia, wards represent the lowest sub district structure in which the local communities can formally articulate, through their councillors, their views and priorities. In some cases, especially in rural areas, these wards can cover large areas. The District Development Planning and Implementation (DDPI) project implemented in Eastern Province from 1996 to 2001, developed a strong development planning system that started at sub-ward levels, the Area Development Zone (ADZ). The delayed implementation of the decentralisation policy has meant that the lessons learnt from the DDPI have not been upscaled. As a result the designing and implementation of "a mechanism to ensure a "*bottom up" flow of integrated development planning and budgeting from the District to the Central Government*" (MLGH, 2010, p. 16) is now one of the components of the Decentralisation Implementation Plan (DIP).

Public disclosures of fiscal data

The DDPI developed and implanted a system of displaying, on a monthly basis, the fiscal activities of the councils involved. As a result of the community awareness activities of the DDPI, the local communities were able to access this data and provide feedback. The lessons learnt from there should be included as part of component 1: "Sensitisation and Civic Education" of the DIP.

Section 43(2) of the Local Government Act provides that the accounts of a council and its supporting documents "*shall at all reasonable times be open to the inspection of any councillor and of any interested person*". Even though this right exists, it is hardly ever exercised by the councillors and interested persons.

Evaluation of fiscal performance

Section 55 of the Local Government Act provides for a 30 day period, after the annual statutory (external) audit is conducted and before the External Auditor finishes the audit, during which the public can examine and question the audit. The accountability impact of this provision is however compromised as currently for most councils these audits are in considerable arrears and public awareness of this provision is somewhat low and the right to inspect is hardly ever exercised, not even by the NGOs who are usually vigilant in these matters.

External audit

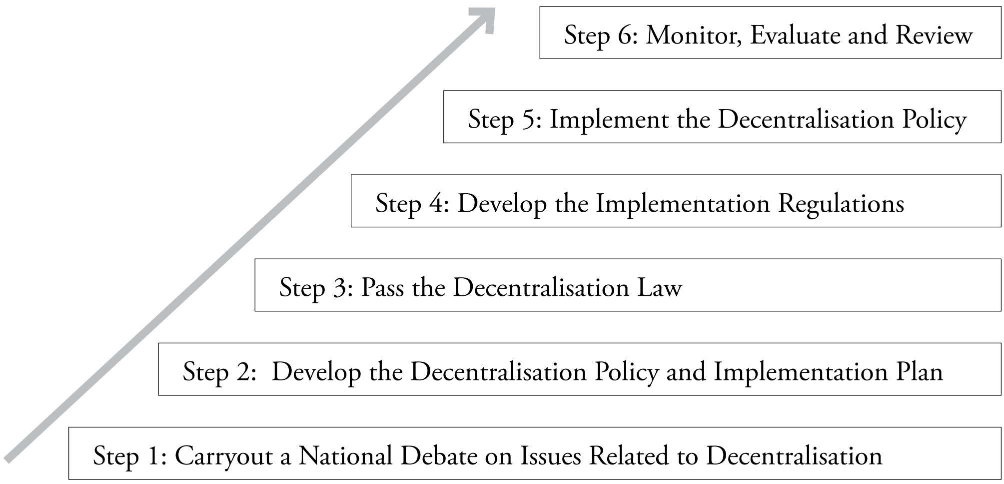
Section 43(3) of the Local Government Act provides that the accounts of a council must be presented to the council within six months of the end of the year to which they relate. Section 52(1) provides that the Minister appoint an auditor to audit the accounts of councils. Currently the Auditor General (AG), being responsible for auditing all public institutions, audits councils directly or through audit firms registered with the Zambia Institute of Chartered Accountants (ZICA) who undertake the audits on the AG's behalf.

These audits are in most cases in arrears as the preparation of accounts by the councils is not done within the specified six month period.

SEQUENCING THE ELEMENTS

Given the high number of elements in the decentralisation process, how they are implemented as cosequencie for the possible outcomes as some elements create preceding conditions for others. In '*Sequencing Fiscal Decentralization*' Bahl and Martinez-Vazquez (Bahl & Martinez-Vazquez, 2006, p. 1), suggest that "*the sequencing of decentralization policies is an important determinant of its success. The consequences of a poorly sequenced decentralization program can range from minor delays and complications to ineffectiveness and subsequent failing support of decentralization efforts, macroeconomic instability, and fundamental failure in public sector delivery. At a minimum, the strategy of "making it up as we go" will not lead to the same structure of decentralization as will a planned strategy*". They suggest the six step sequence as shown in Figure 41. They also note that countries do not generally follow optimal sequencing. From Figure 4-1 it is clear that after nearly 20 years, Zambia is just on the second of the six step sequence.

FIGURE 4-1: **Sequencing Fiscal Decentralisation (Adapted from Bahl & Martinez-Vazquez (2006, p. 4))**



Maping these steps to the current situation in Zambia shows that the bulk of the work is yet to be undertake. This mapping is shown in Table 4-5.

TABLE 4-5: **Sequence Steps and the DIP Components**

Sequence Steps	DIP Component
Step 1: Carryout a National Debate on Issues Related to Decentralisation	Continuation of component a) Sensitisation and Civic Education
Step 2: Develop the Decentralisation Policy and Implementation Plan	Policy and Implementation done.
Step 3: Pass the Decentralisation Law	Part of b) Legal and Regulatory Framework, yet to be done
Step 4: Develop the Implementation Regulations	Part of b) Legal and Regulatory Framework, yet to be done
Step 5: Implement the Decentralisation Policy	c) Institutional and Human Resource Capacity Building d) Local Development Planning and Budgeting e) Financial Management and Accounting f) Fiscal Decentralisation and Revenue Mobilisation g) Sector Devolution h)Infrastructure Development and Services Provision
Step 6: Monitor, Evaluate and Review	i) Monitoring and Evaluation

Source: DIP Components from (MLGH, 2010)

CHAPTER 5 FACTORS DETERMINING THE ALLOCATION OF FISCAL RESOURCES AT DIFFERENT GOVERNMENT LEVELS

The primary determinant of the allocation of fiscal resources at different levels of government is the allocation of fiscal responsibilities which should, ideally, be based on the principle of subsidiarity. Chapter 4 in general and the section on *Local Revenue Source Assignments and Autonomy* in particular provide the normative framework for assigning fiscal resources to LGs. The fiscal resources actually available to LGs in Zambia are described in Chapter 6 for local resources and Chapter 8 for IGTs. This chapter discusses the factors that determine the actual allocation of fiscal resources to different levels of government.

FISCAL RESOURCES

Fiscal resources are the resources available to governments to undertake their fiscal responsibilities. Jamie Boex (Boex, 2009, p. 12) states that "*public finance management requires that public resources are properly allocated vertically between different levels or tiers in the intergovernmental structure, and horizontally across the national territory, in such a manner that resources arrive at the service delivery units within the various subnational jurisdictions in proportion to their relative need*". This need arises primarily from the expenditure assignment. Where these resources "arrive" from is then a result of revenue assignments and IGTs. There are, however, other factors that impact on this "arrival" which then also become determinants. These include; fiscal capacity and political will. These other determinants are discussed below within the context of assigned expenditure responsibilities.

FISCAL CAPACITY

Fiscal capacity refers to the ability of groups, institutions and governments to generate revenue which, for governments, is determined by: tax base, ability to pay, fiscal effort and tax burden.

Tax Base

Given that all levels of government rely on the same tax base, broadly income (both personal and corporate), economic activity (sales tax, value-added tax, etc.) and general wealth (property tax), which level of government actually collects revenues from which source is dependent on which sources can easily be mapped to the jurisdictional boundaries of the sub-national levels (spatial considerations) `and thereby reduce inter-jurisdictional conflicts and which can be more efficiently collected by which level.

Spatial considerations

Spatial considerations include which source can be directly related to which service and at what level of government is that service provided. In this regard relative immobile bases, such as property render themselves more towards LG than national defence.

Efficiency considerations

Efficiency considerations include issues related to cost of collection which in turn are influenced by institutional frameworks in place and the fiscal effort described below.

Ability to Pay

The ability to pay is determined by per capita income. How much can feasibly be paid by the tax payer has implications for revenue yield, the resources that can actually "arrive" at the service delivery unit.

Fiscal Effort

Fiscal effort is the amount that can be collected by a government with a given fiscal capacity. It is usually expressed as a percentage of the amount that can be collected relative to the fiscal capacity and is determined by administrative and technical capacity of the tax collectors to manage the taxation process; tax assessment, billing, collection and enforcement.

(Smoke, 2001, p. 2) states that "*In many developing countries, a general lack of managerial and technical expertise has precluded or been used as an excuse to avoid the formation of local government institutions and an effective working relationship between the central and local governments*". A lack or perceived lack of capacity can be used to influence decisions related to fiscal decentralisation.

In Zambia this perceived lack of capacity is compounded by the perception that if CG evolves functions to LGs, it is the councils in their present form that will now be tasked to undertake these functions. This assessment is incorrect to the extent that at local level there already exists capacity in the CG structures that must be taken into account that is currently no so taken. There are Doctors and Teachers under the sector Ministries, at district level, who would still practice their professions at that level.

Tax Burden

Who actually pays the tax, where they are domiciled and what services are likely to be provided from that tax have implications for who collects the tax.

POLITICAL WILL

Allocation of fiscal resources is ultimately a political decision. CGs may be inclined to centralise fiscal resources as much as possible, to give them more leeway in how this is spent, while political pressure from the constituents may require greater allocations and predictability of fiscal resources to enable local prioritisation of development and accountability to the local constituents. (Smoke, 2001, p. 3) observes that "*The most important reason local governments have been neglected in developing countries is that strong central governments often oppose decentralization. Some reasons for this reluctance are legitimate, such as the need for nation building in ethnically fragmented societies and central macroeconomic control in fragile economies. Equally important, however, is the reality that the governing elite, who may be dominated by particular ethnic groups, fear the loss of power and wealth inherent in meaningful decentralization. In addition, central ministries and/ or political parties that control substantial resources rarely want to share them with autonomous local governments*" In Zambia the situation during period 2006 to 2011 when a considerable number of councils were under the control of the opposition party, which is now in government, may have contributed to the slowing down of the decentralisation process for the reasons that Smoke observes.

THE NEED FOR A STRONG CG

Paradoxically, while discussions relating to fiscal decentralisation tilt in favour of strong LGs for its success, the decentralisation process can, in some cases as shown in the preceding paragraph, be hampered by a CG that is not strong or that feels threatened. In '*The Federal Approach to Fiscal Decentralisation: Conceptual Contours for Policy Makers*' (Sharma, 2003) argues that one of the conditions for successful fiscal decentralisation is a strong central ability to monitor and evaluate decentralisation and that decentralisation "*unless carried out under the aegis of a reasonably strong centre, is doomed to fail. A weak centre is prone to get manipulated by the strong coalitions and interest groups.*" (Sharma, 2003, p. 181). Given, however, the rapidly changing national operating landscapes in which some (previously) national functions like "*suppression of money laundering, drug smuggling and terrorism*)" will, in the global borderless world, will pass beyond national borders at the same time as decentralisation devolves functions downwards, the role of the centre will change from command and control to stewardship and leadership. These changes are outlined in Table 5-1.

TABLE 5-1: **Emerging Governance Structure (from (Sharma, 2003, p. 183)**

20th Century	21st Century
Unitary	Federal/Confederal
Centralized	Globalized and Localized
Centre Manages	Centre leads
Bureaucratic	Participatory
Command and Control	Responsive and accountable
Input controls	Results matter
Top down accountability	Bottom up accountability
Internally dependent	Competitive
Closed and slow	Open and Quick
Intolerance of risk	Freedom to fail/succeed

CHAPTER 6 LOCAL AND MUNICIPAL GOVERNMENT FUNCTIONS AND EXPENDITURES

LEGAL PROVISIONS

Section 61 of the Local Government Act provides that "*Subject to the provisions of this Act, a council may discharge all or any of the functions set out in the Second Schedule*." The second schedule provides 63 different functions, some of them with sub-functions. These functions cover a diversity of areas, for instance, administrative functions, "*1. To establish and maintain offices and buildings for the purpose of transacting the business of the council and for public meetings and assembles*"; agricultural functions "*5. To establish and maintain farms and allotment gardens*", commercial functions "*24. To brew beer*" and, "*59. To undertake mining operations*." Others cover public order, public health, community development, education in addition to the more traditional ones of roads, street lighting, water supply and sanitation. As per the wording of section 61, all the functions are discretionary.

In addition to the functions provided in section 61 of the Local Government Act, other laws provide additional functions. These include: Cap 282. Local Government Elections Act, Cap 283. Town and Country Planning Act, Cap 284. Local Authorities Superannuation Fund Act, Cap 286, Provincial and District Boundaries Act, Cap 287. Chiefs Act, Cap 288. District Messengers Act, Cap 289. Registration and Development of Villages Act, Cap 290. Markets Act (now replaced by the Markets and Bus Stations Act No 7 of 2007), Rating Act No. 12 of 1997 and Cap 326 Personal Levy Act.

Other than the administrative functions which every council needs to undertake to remain functional, the discretionary nature of the law means that each local authority can in effect, choose which functions to undertake given the local conditions and priorities. This is in line with both the concepts of fiscal decentralisation relating to local priorities and to the diversity of socio- economic and environmental conditions of the various councils. The priorities of one council may not necessarily be the priorities of another.

Currently the legal framework has not yet been revised to bring it into line with the intent of the Decentralisation Policy and therefore the legal basis for the devolution of functions to LG is still missing even though some devolution can still be achieved under the current framework. The functions listed Table 41 are still, to a large extent, legally the same authorised to date.

FUNCTIONS CURRENTLY UNDERTAKEN

While some functions previously undertaken by LGs, such as roads, have been take away and centralised, others, such as water supply and some aspects of sanitation, have been reformed to be managed by commercial entities wholly owned by LGs. In most cases one Commercial Utility (CU) is responsible for water supply and sanitation of several LGs and is owned by those LGs.

The remaining common functions include, housing, street lighting, drainage, registration of births, marriages and deaths, provision of parks and open spaces, zoning, pest control, markets, bus stations, refuse removal and preventive health. This list is not exhaustive. Under the current legal framework any of these functions, and any other currently carried out by LGs, can be withdrawn or reformed out of LG mandate.

A perception survey carried out during a (MoFNP-MLGH, 2008, p. 4) found that residents expected and prioritised the following services from councils "*Water and sanitation, Refuse collection, Roads, Markets, Cleaning, Plot allocation and Street lighting were the most frequently mentioned services and also the most highly ranked in terms of desirability*". Appendix 7 gives the stakeholder responses sorted by total weight.

SHARED FUNCTIONS

Arising from the discretionary nature of functional assignments to LGs, reduced and inelastic LG revenue sources and Zambia's increasing liberalisation of the economy, more functions are now shared with the CG and / or with the private sector. Thus currently the private sector can and do provide university education, previously a preserve of CG in competition or cooperation with the CG. In the same manner housing can and is provided by LGs, CG and the private sector.

In order to formalise the process of working leveraging synergies between the private sector and government, both CG and LG, Zambia has developed Public Private Partnership (PPP) Policy and enacted a law, the Private Public Partnership Act No. 14 of 2009, to provide the necessary policy guideline and legal framework for such activities. PPPs are implemented in various ways from outsourcing of service provision, such as refuse collection, outsourcing of revenue collection functions for a fee, such as collection of parking fees, to development of infrastructure such as bus stations on a Build Operate and Transfer (BOT) basis

ISSUES TO RESOLVE

Zambia has not defined a common basket of services which LGs must provide and has therefore, except for water supply, not set minimum standards for those services. This lack of a common basket of reference services and minimum standards has adverse implications in the determination of the fiscal gaps required for developing the appropriate IGTs.

CHAPTER 7 LOCAL AND MUNICIPAL GOVERNMENT REVENUES AND SOURCES

This chapter discusses local revenue sources as intergovernmental transfers are covered in Chapter 8. The local revenue sources include local taxes and charges. The sources are;

- Property Rates - a tax based on the value of property;
- Levies – ad valorem taxes on commercial / business activities which include such levies as grain levy (for farmers), billboards and even sand levies (for the construction industries);
- User Charges- such as market fees for market traders, parking fees or transport fees;
- Personal Levy – a personal income tax; and
- Licenses – fees paid for permits to operate business / commercial enterprises.

INTERNATIONAL DECLARATIONS ON LOCAL GOVERNMENT FINANCE

At its 31st World Congress held in June 1993 in Toronto, Canada, the International Union of Local Authorities (IULA), outlined some principles of LG finance which cover the foregoing, in article 8 The resources of local authorities of their declaration (IULA, 1993). These principles were re-affirmed, with some slight re-wording, by the United Nations Centre for Human Settlements (Habitat) and World Associations of Cities And Local Authorities Coordination (WACLAC), the successor to IULA in May 1998 (GDRC, May) in part C Article 9 - Financial resources of local authorities of a proposed World Charter on of Local Self Government. These principles, as re-worded in 1998, are reproduced below:

1. Local authorities shall be entitled to adequate financial resources of their own, of which they may dispose freely within the framework of their powers.
2. Local authorities' financial resources shall be commensurate with their tasks and responsibilities.
3. A reasonable proportion of the financial resources of local authorities shall derive from local taxes, fees and charges of which they have the power to determine the rate.
4. Taxes which local authorities shall be entitled to levy, or of which they receive a guaranteed share, shall be of a sufficiently general, buoyant and flexible nature to enable them to keep pace with their responsibilities.
5. The protection of financially weaker local authorities requires a system of vertical and horizontal financial equalisation.
6. Local authorities shall participate in framing the rules governing the general apportionment of redistributed resources.
7. As far as possible, financial allocations to local authorities shall respect their priorities and shall not be earmarked for specific projects. The provision of grants shall not remove the basic freedom of local authorities to exercise policy discretion within their own jurisdiction.

8. For the purpose of borrowing for capital investment, local authorities shall have access to the national and international capital markets.

LG REVENUES IN ZAMBIA

LG revenues in Zambia are made up of local taxes, user fees, administrative charges/ permits / licenses and grants for operational needs and borrowing, through CG and capital grants for capital developments. The tax and user fee rates all have to be approved by the Minister and in some cases these rates have been reversed by the Minister after approval.

An overview of the top three major sources of revenue and their contribution to total revenue for some councils in Zambia in 2006 is given in Table 7-1 adapted from table 5-5 (MoFNP-MLGH, 2008, p. 20).

TABLE 7-1: **Revenue Composition 2006**

Council	Source 1	% of total	Source 2	% of total	Source 3	% of total	Top 3 Total
Livingstone	Rates	46.70%	Personal Levy	2.90%	Permits	2.00%	51.60%
Kitwe	Rates	38.40%	Flat Rate	15.00%	Bus Station Fees	9.80%	63.20%
Chipata	Other Fees	39.10%	Rates	9.40%	Grain Levy	7.60%	56.10%
Solwezi	Fees	37.80%	Licenses	9.20%	Rates	3.80%	50.80%
Mongu	Market fees	14.40%	Land	11.40%	Rates	9.40%	35.20%
Chibombo	Levies	41.30%	Charges	7.20%	Personal levy	5.30%	53.80%
Monze	Rates	13.70%	Sales	8.30%	Fees Charges	6.80%	28.80%
Mpika	ZESCO	12.40%	Licenses	5.20%	Packing	1.50%	19.10%
Kasempa	Levies	6.20%	Personal Levy	4.40%	Transport	0.40%	11.00%
					Top 3 Average		41.07%

Even allowing for the highest IGT transfer of 22 percent of total revenue, see Chapter 8, noted by (MoFNP-MLGH, 2008), these top sources including IGTs contribute, on average, less than 65 percent of total of LG revenues. The remaining 35 percent is contributed by a myriad of sources whose individual yields might be negligible which may need a review of for possible consolidation as no cost-benefit analysis is usually done on some of these sources. The various major revenue sources are described below:

LOCAL TAXES

Traditionally there were two major local taxes in Zambia, rates (property tax) and personal levy (a personal income tax). The inelasticity of these taxes have resulted in LGs in Zambia imposing various business levies effectively turning some administrative charges, such as business permits, into ad valorem taxes.

Rates

Rates are the top ranked source of revenue for most major local authorities in Zambia. For Lusaka City Council rates represented 92 percent of local tax revenues and 39 percent of all revenues for 2005 compared to 26 percent and 9 percent respectively for Chipata Municipal Council, a provincial capital, and 3 percent and 1 percent respectively for Petauke District Council, a typical rural district, according to a 2006 study (MLGH - GTZ, 2006). For rural councils rates are a relatively new source of revenue which has replaced the withdrawn beer surtax grant. In addition to being new for rural councils, these councils also have a higher proportion of CG and agricultural properties, which are exempt from rates, than do the major councils.

However, the yield and elasticity of this source are compromised by procedural complexities of administering it. The current system is based on absolute valuations of every individual property every five years. The system for approving the valuation roll and thereafter the annual rate levy is complicated and cumbersome and has proved to be technically impossible to implement effectively, given that there are now 78 councils that must be revalued every five years (more than 15 valuations per year) with less than 50 registered valuation surveyors in Zambia.

The three key determinants of revenue yield from rates are the valuation roll status, the rate levies used and the collection efficiency. A study on rates and the valuation roll process (MLGH - GTZ, 2006) found that while the collection efficiency for rates was improving during the period 2001 to 2005 from 47 percent to 79 percent for the sampled councils, the valuation roll, which is supposed to be updated every 5 years, was for those councils on average 6 years overdue. The status of the valuation rolls for those councils is given in Table 7-2.

TABLE 7-2: **Valuation Roll Arrears**

	Date	Age	Overdue
Lusaka City Council	1995	11	6
Chipata Municipal Council	1998	8	3
Katete District Council	1992	14	9
Petauke District Council	1992	14	9
Solwezi Municipal Council	1992	14	9
Kitwe City Council	2003	3	-2
Kalomo District Council	1993	13	8
	Average	11	6
		Standard Deviation	4.16

Source: (MLGH - GTZ, 2006, p. 10)

This meant that those councils were operating on valuation rolls that were 11 years old. The report also identified fifteen different steps that were required from the time the councils decides to undertake the valuation to the time the valuation roll is implemented, and this is before the process of getting the rate levy approved is started. In addition the rate levies, or rate poundage, had tended to remain the same for the councils over the five years to 2005. Upward adjustments of the rate levy have to be approved by the Minister. The combination of an old value base and static rate levy meant that not only was the revenue inflation inelastic but also, in excluding property developments in the intervening 11 years, provided an unofficial "tax break" for these new properties

In trying to get around the procedural difficulties of the Rating Act, a quick fix solution, the Flat Rate Tax, was introduced by councils to apply to property not yet on the valuation roll. This was subsequently declared to be in conflict with the main act the Rating Act and stopped by 2005 by the CG.

Personal Levy

Section 3(1) of the Personal Levy Act Cap 326 provides that persons with an annual income in excess of ZMK 300,000 ($60) will pay one percent of their income as personal levy to a maximum levy of ZMK 15,000 ($3). These rates were fixed in 1994 and effectively mean any income in excess of ZMK 1,500,000 ($300) per year is not taxable. According to both (LGAZ, 2010) and (MoFNP-MLGH, 2008) Personal Levy provides about 5% of the total revenue of councils. Being number 4 on revenue source rankings in Table 21 and providing, on average 5% of total revenues would seem, given that some LGs might have more than 10 different sources of revenue, to indicate LGs may have many sources of revenue whose contribution to total revenues are negligible.

Apart from the fact that the tax is a duplication of the nationally administered personal income tax of Pay As You Earn (PAYE); it has other attributes that are inconsistent with taxation in general and local taxes in particular. Firstly, is highly regressive as while a person earning ZMK 1,500,000 ($300) per year will pay ZMK 15,000 ($3) or one percent of their earnings, a person earning the new minimum threshold for PAYE of ZMK 24 Million ($ 4,800) per year will also pay ZMK 15,000 ($3) or 0.06% of their earning. Secondly, it is not buoyant as having been fixed in Zambian Kwacha terms in 1994 it does not automatically respond to inflation or to increased productivity. Finally, with the increasing incidences of both worker commutation, the Copperbelt for instance has seven urban councils within 70 kilometres of each other, and businesses operating in more than one local authority area but officially domiciled in one, the question of to which authority are individual workers supposed to pay becomes a possible issue for inter-jurisdictional conflict.

Business Levies

Business levies, normally some ad valorem tax, on business activities of all types have proliferated as sources of revenue for LGs in the last 10 years or so. These include levies on agricultural produce of various types (grain levy for instance), on collection of natural resources (caterpillar and sand levies), on types of business operations (bicycle levy in a district where bicycle taxis were the norm, truck levy in a district which is a major truck stop), and on some types of commercial infrastructure (on cellular phone communication masts and ZESCO electricity poles). While they are mostly levied on the movement of commercial goods from or through a council jurisdiction (grain levy, sand levy) others are on economic infrastructure (Electricity pole levy and Cell phone tower levy). The levy charged is different from council to council even for the same charge. One council charged, in 2008, a productivity levy in a commercial farming area of 0.08% of farm turnover while another charged 1% cotton levy (MoFNP-MLGH, 2008, p. 26).

These levies have proliferated as a response to loss of revenue sources described in Chapter 1and any visible commercial activity is prone to be levied. It seems no specific analysis is undertaken by each council before implementing them as noted in (MoFNP-MLGH, 2008, p. 26), there is "*something akin to a "herd mentality" when it comes to levies. As one council identifies another candidate source for a levy and gets a bye law approved by the Minister of Local Government and Housing under Part VIII of the Local Government Act, most other councils quickly follow suit and submit similar bye laws for their own councils to use to raise revenue. Thus, it was reported that Mambwe District Council was the first to get a ZESCO pole levy bye law approved by the Minister and was quickly followed by most other councils*". The report further notes that "*The proliferation of levies is causing some discomfort for the business sector. As a result, Chibombo district has - following dialogue between the council and the commercial farmers - led to a substitute "productivity" levy being introduced, technically estimated at 0.08% of farm turnover. This was bought (*sic*) in to minimise the nuisance effect of multiple agricultural levies by their replacement with a single levy*."

The significance of these levies can be seen from Table 21 and Table 71 where they are in the top three in most cases.

OTHER LOCAL REVENUE SOURCES

Fees and User Charges

LGs provide various services for which both the user and quantum of use can be identified and whose consumption excludes consumption by another user at the same time. For these services which include market stalls, parking spaces, refuse collection and public restroom facilities, users seem to accept the concept of paying if the service provided is up to the required standard. Table 21 highlights their significance. A recent trend in the provision of these services has been the outsourcing of the service provision, such refuse collection in Lusaka and / or the revenue collection, such as parking fees in some towns, and charging the outsourced service provider a fee for the opportunity to provide the service.

Business Licenses

LGs were, in the recent past, collecting a myriad of business licences and permits from all sorts of enterprises operating within their jurisdiction. These included trading, professional, fire and liquor licences. LGs were often not the only business licensing entities in a particular sector. Other government agencies, especially in the tourism and the extractive resources industries, were also collecting various licences and permits from enterprises operating within their sector of concern. The myriad of licences tended to violate a cannons of taxation, convenience, which may have tended to undermine licence-payer voluntary compliance due to high compliance costs (in terms of time and money. Of late the concept of a general business licence to cover the myriad of licenses previously charged is being implemented

There is some confusion relating to business licences and permits in respect to their revenue raising function on the one hand and their business regulation aims on the other.

CAPITAL FUNDS

The long-term nature of some of the services provided by councils such as the physical infrastructure of roads, street lights, water supply and reticulation systems, and so on, imply that it might not be feasible to finance the capital development of these services from recurrent income. In this regard access to investment funds is essential. However this access requires a regulatory framework to ensure that councils do not borrow beyond their capacity to repay or for covering recurrent expenditure needs.

Section 47 of the Local Government Act in Zambia allows councils to borrow for discharging their functions while section 48 forbids them from borrowing or receiving grants from foreign governments or institutions. Up to the end of the seventies councils were able to borrow, with CG sanction, from their pension fund; the Local Authorities Superannuation Fund. However the Local Authorities Superannuation Fund (Amendment) No. 27 of 1991 which made it mandatory for council employees who had spent 22 years in service of Councils to retire and an earlier CG decision in the late eighties to cancel the transferable Local Government Service and to allow officers to take early retirement put such a stress on the fund that it is no longer a source of such funding. There is currently no major municipal credit institution in Zambia.

The lack of long term investment funds in Zambia and the prohibition on foreign funding to councils have meant that to a large extent funds for capital developments have had to come from or through the CG. Some councils have utilised the available short term commercial credit to develop infrastructure such as sites and service which are then taken up by private developers for further development. The councils use the proceeds from the private developers to redeem their short term borrowing[1]. As an additional route for leveraging synergies with the private sector, Zambia has developed a Public Private Partnership (PPP) Policy; see "*Public Private Partnerships*" (Zambia Development Agency, 2008) for a write-up. Both CG and LG are

1 *In the mid-eighties Kitwe City Council used a variation of the theme by borrowing from a local commercial bank sufficient money for building fifty medium cost houses in Riverside Extension for sale to the public. During the three year loan tenure they created a revolving fund and built and sold more than three hundred houses before redeeming the loan thereby increasing their rate base.*

exploiting this approach for infrastructure development.

The Lusaka Stock Exchange (LuSE) is providing some platform for accessing development funds but experiments with Municipal Bonds from 2004 have not, to date, proved successful as noted by the Zambian Economist (Zambian Economist, 2010). They have, to a large extent, been shelved for the time being. This source however, requires further exploration as, given its function, the councils should be able to, collectively or even on an individual council basis, access some form of development finance from LuSE subject to meeting its various requirements.

All long term loans acquired by LGs in Zambia are acquired through MoFNP. The budgetary provisions for these loans in the CG budgets are shown in Table 7-3 .

TABLE 7-3: **GRZ Budget for MLGH Loans 2006 – 2012 (US $ 000)**

Head	Department	2006	2007	2008	2009	2010	2011	2012
20/04	Physical Planning and Housing	$2,046	$9,222	$2,323	$1,875	$1,965	$2,350	$2,223
20/05	Administration	$392	$807	$0	$0	$0	$0	$0
20/06	Infrastructure and Support services	$69,820	$98,967	$127,416	$47,664	$111,101	$132,282	$60,895
20/09	Decentralisation Secretariat	$0	$0	$0	$8,526	$1,251	$1,887	$4,395
	Total	$72,258	$108,997	$129,738	$58,064	$114,318	$136,519	$67,513

Source: Summarised from GRZ Budget Estimates 2006 - 2011

The IGTs are discussed in Chapter 8

CHAPTER 8 INTERGOVERNMENTAL FINANCIAL RELATIONS AND TRANSFERS

THE TRANSFERS

Trends and Values

The Grants included in the 2011 GRZ estimates for Councils are $30.77 Million or 0.71 percent of the total government budget of $4,323.65 Million. Between 2002 and 2011 this has fluctuated considerably both in terms of value and as a percentage of GRZ budget as shown in Table 8-1.

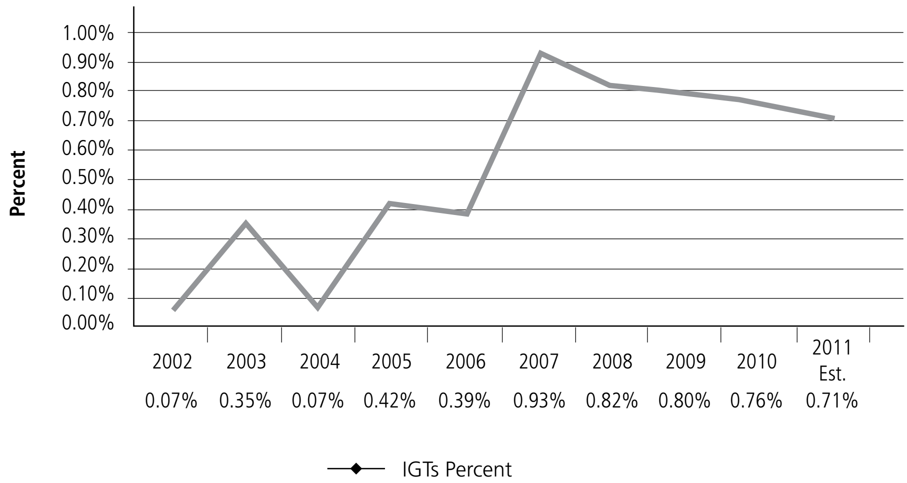
TABLE 8-1: **Total GRZ Expenditure and Budgeted Intergovernmental Transfers 2002 – 2011 (US $ Million)**

	2002	2003	2004	2005	2006
Govt Exp	$1,157.79	$1,348.72	$1,443.55	$1,865.00	$2,505.72
IGTs	$0.79	$4.70	$1.05	$7.84	$9.71
Percent	$0.07%	$0.35%	$0.07%	$0.42%	$0.39%
	2007	**2008**	**2009**	**2010**	**2011 Est.**
Govt Exp	$2,768.65	$3,420.15	$2,744.12	$3,676.26	$4,323.65
IGTs	$25.66	$28.03	$21.86	$28.06	$30.77
Percent	$0.93%	$0.82%	$0.80%	$0.76%	$0.71%

Source: Adapted and summarised from (MoFNP-MLGH, 2008) and GRZ Budget Estimates 2006 - 2011

The percentage which is showing an upward trend is in line with the more positive Central Government policies and pieces of legislation referred to earlier for the period 2001 to date. This trend is shown in Figure 8-1.

FIGURE 8-1: **IGTs as Percent of GRZ Expenditure**



The fluctuation and unpredictability in the value of IGTs in Zambia is compounded by additional unpredictability of the allocation of these amounts to the different councils. A 2008 study of council revenue bases, (MoFNP-MLGH, 2008), found that as a percentage of total council revenue for the fifteen councils reviewed, IGTs accounted for between 7 and 20 percent for the period 2002 to 2006. Table 82 extracted from that report shows these fluctuations between the different councils and within the councils from year to year.

While no data are readily available regarding total council revenues or expenditures, various documents indicate that IGTs as a percentage of total council revenues are below twenty five percent. The Commonwealth Local Government Forum (CLGF, 2007) put this figure at about 3 percent for that time, while *Hoffman and Gibson* (Hoffman & Gibson, 2005, p. 7) put it at 15 percent and (MoFNP-MLGH, 2008, p. 13) which reviewed data from fifteen Councils in Zambia for a five year period, 2002 – 2006, at an annual averages between 8 and 22 percent. All of these are well below the level of 70 percent indicated in the Decentralisation Policy (GRZ - Cabinet Office, 2002) and below the average 42.2% average in Table 14.

The (MoFNP-MLGH, 2008) also noted major variations both in amounts during the five year period and in allocations to and between the fifteen councils. Table 8-2 is extracted from that report.

TABLE 8-2: **National Support as Percentage of Total Council Revenue**

	2002	2003	2004	2005	2006
Kasempa	70.66%		4.73%		48.41%
Kaoma			36.32%	10.94%	4.98%
Solwezi	2.50%	36.48%	9.12%	39.69%	25.87%
Mongu	15.99%	0.00%	2.91%	44.85%	25.12%
Kitwe	19.86%	0.50%	1.84%	11.01%	4.42%
Petauke	42.04%	26.92%	32.36%	27.26%	
Livingstone			3.20%	13.96%	6.12%
Chipata	4.56%	0.48%	8.96%	20.08%	7.88%
Monze			1.58%		29.36%
Chibombo		2.83%	10.26%	14.89%	18.56%
Mkushi	19.76%	0.16%	9.95%	0.85%	11.60%
Mpika	6.50%	2.69%	15.16%	30.47%	19.04%
Kasama	4.52%	0.00%	6.16%	24.47%	13.85%
Average	20.71%	7.78%	10.97%	21.68%	17.93%

Source: (MoFNP-MLGH, 2008, p. 14)

These variations are also noted in JICA review (JICA, 2007, p. 15) which shows IGTs (National Support) as being on average 14.5 percent with a range of 2 percent to 18% as shown in Table 8-3.

TABLE 8-3: **National Support (source (JICA, 2007)**

	National support (million kwacha)	National support as % of the total (average)
All local Authorities	261.2	14.5
Municipal and City	470.5	4.2
Municipal and City excluding Lusaka and Livingstone	147.7	2.0
Rural District	191.5	18.0
Lusaka & Livingstone	3053	10

Source: (JICA, 2007, p. 15)

Comparisons

The foregoing level of IGTs are below the level of 70 percent of total councils revenues indicated in the Decentralisation Policy (GRZ - Cabinet Office, 2002). (Boadway & Shah, 2007, p. 1) state that "*intergovernmental fiscal transfers finance about 60 percent of subnational expenditures in developing countries and transition economies and about a third of such expenditures in member countries of the Organisation for Economic Co-operation and Development (29 percent in the Nordic countries, 46 percent in non-Nordic Europe)*"

(Smoke, 2001, p. 20) notes that the "*function off-loading and local revenue inadequacy are major concerns in many developing countries. Both Ethiopia and Uganda recognize that effective local governments must have adequate resources to meet their responsibilities under decentralization. Accordingly, both countries have developed significant transfer programmes that account for substantial proportions of total central revenues (around 30 per cent in Uganda and more than 40 per cent in Ethiopia)*[1]". .

Zambia's IGTs compared to total council income, at just under 22 percent, are below those indicated by (Boadway & Shah, 2007, p. 1) of 60 percent of sub-national government expenditure for developing countries. Zambia's IGTs compared to central government expenditure at less than 1 percent are also well below those indicated by (Smoke, 2001, p. 20) of 30 percent for Uganda . It would seem, therefore, that even taking into account the different local government arrangements, Zambia's IGTs are below the norm and still below its levels of the of 70 percent of total councils revenues indicated in the Decentralisation Policy (GRZ - Cabinet Office, 2002) which were closer to the norm.

1 Underlining ours

THE INTERGOVERNMENTAL FISCAL ARCHITECTURE (IFA)

In trying to address the issues of the fiscal gap at local level, Zambia developed the Intergovernmental Fiscal Architecture (IFA) in 2006 - 2007. The IFA had four components; Restructuring, Recurrent, Capital and Devolution Grants. According to an analysis by the Local Government Association of Zambia (LGAZ, 2007), taken together, these four elements were to constitute the Intergovernmental Fiscal Architecture (IFA) that would form the backbone of successful decentralization in Zambia.

While the IFA had the support of various stakeholders and cooperating partners, led by the World Bank, the slow rate of progress on the implementation of the Decentralisation Policy led to some loss of support with the World Bank redirecting its participation more towards water supply and sanitation and away from decentralisation. The components of the IFA are outlined below.

Restructuring Grant

This was expected to be a one-time grant which was meant to facilitate the financial restructuring of councils by clearing retrenchment, retirement costs and other debts.

It was also aimed at assisting councils to prepare restructuring plans which were to cover the:

(a) specification of the core business of each council based on consultation with communities;

(b) definition of the human resource (HR) and systems required to carry out the defined core business, and define that core recurrent costs (CRCs); and

(c) determination of the optimized own resources (OOR) the LG can generate, compare to CRCs and define the fiscal gap (FG), if any: OOR – CRCs = FG

Even though the restructuring plans, being part of the implementation of the Decentralisation Policy, have no yet been fully drawn up, the grants have been implemented. Even though this was supposed to be a one-time grant, for the period 2007 – 2009 ZMK 25.0 billion (about US $ 6 Million at 2007 exchange rates) per annum had been allocated for the restructuring grant. The grant is still on-going as at 2011 even though now in dollar terms it is about US $ 5 Million, see from Table 84. .

Recurrent Grant

This grant is a conditional recurrent grant intended to support the recurrent costs of all eligible councils, and replaced the previous ad hoc general purpose grant given to councils. Councils which would have successfully implemented the restructuring reforms described above would become eligible. An allocation of ZMK50.0 billion (about US $ 12.5 Million) per annum was provided for this grant.

Capital Grant

This is a conditional, formula-driven grant, and serves as a means by which resources for development are channelled to local authorities. Councils that had restructured and were meeting their recurrent grants were eligible to access this grant. ZMK10.0 billion (about US $ 2.5 Million at 2007 exchange rates) per annum was allocated for the 2007-2009 period.

Devolution Grant

All councils that had successfully implemented the package of reforms under the three grants above would then be eligible to receive devolved staff, funding and functions from sector line agencies. As sector functions are devolved, the Recurrent and Capital Grants would be adjusted to reflect the additional expenditure and investment responsibilities transferred to the Local Authorities. Table 8-4 shows the composition of the IGTs in the 2011 GRZ budget. The table shows that while the capital, restructuring and recurrent grants are budgeted for by GRZ, the devolution grant is not included, perhaps indicating that no council has yet become eligible.

TABLE 8-4: **Composition of IGTs 2010 - 2012 (US $)**

Activities	2010	2011	2012
01 Capital Grants - Councils	$0	$5,002,105	$25,108,400
02 Grants in Lieu of Rates	$4,560,909	$5,002,105	$5,108,400
03 Restructuring Grants - Councils	$4,560,909	$5,002,105	$5,108,400
04 Recurrent Grants - Councils	$14,376,733	$15,767,457	$16,102,515
06 Constituency Development Fund (CDF)	$20,731,404	$22,736,842	$24,020,000
Programme Total	**$44,229,995**	**$53,510,615**	**$75,447,715**
Net Transfer (Less CDF)	$23,498,551	$30,773,773	$51,427,715
Increase		31%	67%

Source: 2010 actual MLGH, 2011 & 2012 GRZ Budgets

The Constituency Development Fund (CDF) is a transfer through Councils for undertaking developments in various electoral constituencies. The Councils have little say in what the developments should be. The Grants in lieu of rates are grants paid to Councils to reimburse councils for rates income lost due to exemption by the Central Government of Central Government from paying property tax to councils.

ISSUES WITH IFA

The conceptual framework and content of the IFA are in line with the normative concepts of intergovernmental transfers with respect to vertical fiscal gaps. The implementation of the IFA has, however, not been in line with the concepts as while some of the transfers contained in the IFA have been made, some of the conditions precedent to those grants, such as the specification and costing of core services, have not been determined. It is therefore not possible to determine the value of the required grants, vis-à-vis issues of fiscal discipline, as the basis for such determination does not yet exist. The delay in implementing the Decentralisation Policy has meant that conditions for determining and allocating these grants are ad-hoc.

The IFA has not addressed the issues of horizontal fiscal imbalances and the fiscal equalisation measures necessary to address these. The basis used by the MLGH in distributing the allocated funds to councils has not been clearly articulated.

The Local Government Association of Zambia (LGAZ, 2007) noted that while council indebtedness needed to be addressed, that indebtedness was, in most cases a result of; debt between CG and LG which may need to be addressed structurally, not through simple payment of grants. It also noted the inadequate management capacity which needed to be addressed to ensure that once solvent, the councils do not slip back into insolvency.

CHAPTER 9 CONCLUSIONS AND RECOMMENDATIONS

The Decentralisation Process

Zambia, a unitary state with two levels of government, has been decentralising since the early-1990s when it embarked on the Public Sector Reform Programme (PSRP) launched in 1993 had as one of its three pillars, *Decentralization and Strengthening Local Government.* Progress has been slow and erratic as, for instance, the decentralisation policy which was to be in place by the end of the *District Development Planning and Implementation in Eastern Province* (DDPI), undertaken between 1996 and 2001, and which should have created the basis for upscaling lessons from the DDPI, was not in place at that time. The policy was finally approved in 2002 and officially launched in 2004. The Decentralisation Implementation Plan (DIP) 2006-2010 (MLGH, 2006) revised to cover 2009 – 2013 (MLGH, 2010) was developed in 2006 and approved in 2010. A review of the Decentralisation Policy and the DIP indicates that Zambia has reasonably articulated its policy direction and how to implement the policy, but has not, made adequate progress in effecting these documents. Thus almost 20 years have passed from the PSRP to the DIP and the decentralisation process is still in its early stages, at step 2 of 6 according to sequence of steps suggested in (Bahl & Martinez-Vazquez, 2006).

A review of the various available decentralisation indicators reveals that in effect, Zambia has been centralising in the last three decades. Some components of the Decentralisation Process, such as the IFA, have been implemented but as the implementation has been ad hoc, some conditions precedent have not been fully addressed and some concepts, such as finance follows function, have not been followed, the impacts of implementing those components have been somewhat diluted. This dilution creates a situation which can be used to increase the perception that decentralisation does not work as pointed out by (Bahl & Martinez-Vazquez, 2006) who argue that correctly sequencing the implementation of decentralisation can be a major determinant of its success.

Recent CG pronouncements, such as the approval of the DIP, and actions, such as the 67% increase in IGTs, seem to indicate a renewed effort to drive the decentralisation process forward. However as noted in the preceding paragraph this renewed effort will not provide optimal impacts unless they implementation is done in a coordinated manner and the data required for tracking the decentralisation indicators generated and monitored. The DIP provides such a coordinating framework.

LESSONS LEARNED

Lessons to be relearned from the DDPI

The DDPI generated various key lessons that should have been fed into the decentralisation process had the policy been in place. These lessons covered most of the issues covered in Chapter 3 including mechanisms for articulating local priorities, enforcing adherence to local priorities and incentives for local community participation. These lessons require to be relearned as the process for which they were initially learned nearly 20 years ago is now in progress.

Decentralisation Indicators

The process of decentralisation is complex. Developing and monitoring data for decentralisation indicators provides a means for tracking progress along the decentralisation process. This is not currently done but should be at the centre of the core activities of the Decentralisation Secretariat

Sequencing

Implementing fiscal decentralisation in an ad hoc manner considerably reduces the chances for success and provides reasons for not decentralising. A comprehensive implementation framework, such as the DIP, will also create stable conditions for the current unstable expenditure assignments, even as additional functions are devolved to LGs.

Given however that the Implementation Matrix attached to the DIP seems indicate that activity on all the eight components will start at the same time, in 2009, and in view of the DIP having been approved in December 2010, the implementation of the DIP itself might require urgent review.

Service level determination

Enforcing fiscal discipline without determining the core services to be delivered and the minimum service delivery standards is not easily feasible as the basis for determining the required hard budget constraint will, under those circumstances, be arbitrary. While the DIP does not directly with issue of core service level determination, the (LDP) aimed at operationalizing the DIP, does so.

The role of CG

The role of the CG in the fiscal decentralisation process is critical. The CG must facilitate the building of LG capacity and provide the framework for providing incentives for LGs to behave responsibly. These incentives can be built into the IGTs.

Given the differing capacities of LGs, CG activities must including bundling LGs into capacity clusters to enable capacity needs assessments of the different clusters and to deliver targeted capacity building activities.

RECOMMENDATIONS

Lessons to be relearned from the DDPI

The DDPI generated various key lessons that require to be relearned. It is therefore recommended that as part of the implementation process the lessons of the DDPI be relearned and implemented.

Decentralisation Indicators

The Ministry of Local Government and Housing being the only point at which national data on LG activities can be aggregated must be an the centre of developing data for decentralisation indicators. It is therefore recommended the the Decentralisation Secretariat unit in the ministry undertakes this role as a matter of priority

Sequencing

In view of the low and possibly negative impact of the ad hoc measures implemented so far, it recommended that henceforth, the implementation of the decentralisation policy be done in line with the sequencing of activities outlined in the DIP in order to optimise the impact of the resources used in the process.

It is also recommended that the DIP itself be reviewed to ensure that the lessons relearned from the DDPI, the concepts articulated in the LDP and the appropriate sequencing of activities are taken into account in implementing the decentralisation process.

Service level determination

In order to create the basis for enforcing fiscal discipline it is recommended that the bundle of core services to be delivered for each level of council should be identified, the minimum service delivery standards of those services and their cost of delivering these services should be determined.

The role of CG

The role of the CG in the fiscal decentralisation process is critical in the developing requisite policy and legal frameworks and tracking progress in the decentralisation process. This role should be clarified and the CG must develop the requisite capacity to fulfil this role.

APPENDICES

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APPENDIX 2: **Zambia Exchange Rates and Inflation**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Inflation (%)	22.2	21.5	18	18.3	9.1	10.7	12.4	13.4	8.5	
Average Exchange Rate ZMK per US $	K4,398.60	K4,733.30	K4,778.90	K4,463.50	K3,603.10	K4,002.50	K3,745.70	K5,046.10	K4,823.60	K4,750.00

APPENDIX 3: **GRZ Budget 2012: Address to Parliament**

PART II: MACROECONOMIC OBJECTIVES, POLICIES AND STRATEGIES IN 2012

Macroeconomic Objectives

27. Mr. Speaker, macroeconomic policy under the new administration will be geared towards maintaining a stable macroeconomic environment conducive to investment, inclusive growth and employment creation.

28. Sir, the specific macroeconomic objectives in 2012 will be to:

    (a) achieve real Gross Domestic Product growth of above 7.0 percent;

    (b) attain end-year inflation of no more than 7.0 percent;

    (c) limit overall fiscal deficit to 4.3 percent of GDP and domestic borrowing to 1.3 percent of GDP; and

    (d) maintain gross international reserves of at least four months of import cover.

Monetary and Financial Sector Policies

29. Mr Speaker, monetary policy in 2012 will remain focused on the maintenance of single-digit inflation. In line with this objective, the Bank of Zambia will continue to use market-based instruments to limit money supply growth. The Central Bank will also continue to work towards enhancing the effectiveness of the monetary policy. In this regard, the option of adopting an interest rate-based framework will be explored further.

30. Sir, a flexible exchange rate regime has worked well for Zambia by absorbing external shocks that could have been harmful to trade, employment and inflation. In this regard, the Government will ensure that determination of the exchange rate remains market based while supporting the competitiveness of our exports. To minimize the impact of rapid movements in the exchange rate, the Bank of Zambia will maintain its policy of intervention to smoothen volatility.

APPENDIX 4: **Bank of Zambia Policy Rate Announcement**

BANK OF ZAMBIA

PRESS RELEASE

Introduction of the Bank of Zambia Policy Rate

The Bank of Zambia wishes to announce the introduction of a BOZ Policy Rate, with effect from April 2, 2012. A Policy Rate is utilised to influence monetary and credit conditions in an economy. This Policy Rate will, in this regard, allow the Bank of Zambia to signal an increase or a decrease in the price of credit in the market. To announce changes to the BOZ Policy Rate, the Bank of Zambia will be issuing a monthly communiqué covering, among other things, factors taken into account when arriving at its decision on the BOZ Policy Rate as a means of explaining its monetary policy stance. The first BOZ Policy Rate shall be announced on Thursday, March 29, 2012.

The Bank of Zambia has, over the past few years, been working with commercial banks to design a transparent framework for determining interest rates in Zambia. Transparency in the interest rate determining behavior among commercial banks is very important as it implies openness, effective communication and accountability.

The Bank of Zambia expects that the following benefits, among others, will accrue:

(a) The Policy Rate will allow the Bank of Zambia to clearly signal its monetary policy stance to the market, providing financial market participants with a credible and stable anchor for the setting of interest rates on their credit products;

(b) The increased reliance on interest rate policy-based instruments is expected to provide a relatively more transparent and efficient process through which the Bank of Zambia can better anchor inflation expectations; and

(c) Following this reform, it is expected that the standard practice of quoting the price of loans and similar credit products by all commercial banks will be the BOZ Policy Rate plus a margin. The margin will be set by commercial banks on the basis of their risk premium assessments. This transparent way of pricing credit products will enhance many stakeholders' business planning processes and assist in efficiently managing their financial commitments. Further, this will enable borrowers to understand the basis upon which commercial banks price their credit products.

The public is hereby advised that the Bank of Zambia, in collaboration with other stakeholders, will continue to work on building an effective and efficient financial system which is expected to benefit all stakeholders accordingly.

For any further information, please contact:
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APPENDIX 5: **District Population and Budgets 2007**

Province	District Name	Type	1990 Census	2000 Census	2010 Census	2010 Density	Square Km	ZMK District Fund Budget	ZMK Per Capita	US $ District Fund	US $ per Capita
Central	Chibombo	District	158,382	241,612	293,765	21.9	13,414	K2,700,000,000.00	K11,174.94	$674,578.39	$2.79
Central	Kabwe	Municipal	169,026	176,758	202,914	129.1	1,572	K8,001,675,581.00	K45,269.10	$1,999,169.41	$11.31
Central	Kapiri Mposhi	District	110,762	194,752	240,841	14.0	17,203	K2,306,176,020.00	K11,841.60	$576,183.89	$2.96
Central	Mkushi	District	76,747	107,438	151,803	8.6	17,652	K3,328,541,090.00	K30,981.04	$831,615.51	$7.74
Central	Mumbwa	District	148,927	158,861	218,328	10.3	21,197	K5,144,862,356.00	K32,385.94	$1,285,412.21	$8.09
Central	Serenje	District	107,974	132,836	160,152	6.9	23,210	K1,773,876,134.00	K13,353.88	$443,192.04	$3.34
Copperbelt	Chililabombe	Municipal	65,218	67,533	90,530	88.2	1,026	K5,430,660,000.00	K80,414.91	$1,356,816.99	$20.09
Copperbelt	Chingola	Municipal	168,999	172,026	210,073	125.2	1,678	K13,921,540,000.00	K80,926.95	$3,478,211.12	$20.22
Copperbelt	Kalulushi	Municipal	69,597	75,806	96,206	132.7	725	K12,479,274,000.00	K164,621.19	$3,117,869.83	$41.13
Copperbelt	Kitwe	City	347,024	376,124	522,092	671.9	777	K72,765,208,000.00	K193,460.69	$18,179,939.54	$48.33
Copperbelt	Luanshya	Municipal	144,815	147,908	153,117	188.8	811	K9,792,728,000.00	K66,208.24	$2,446,652.84	$16.54
Copperbelt	Lufwanyama	District	51,745	63,185	75,542	7.7	9,811	K1,950,815,460.00	K30,874.66	$487,399.24	$7.71
Copperbelt	Masaiti	District	84,831	95,581	102,503	19.0	5,395	K1,139,941,500.00	K11,926.44	$284,807.37	$2.98
Copperbelt	Mpongwe	District	38,718	64,371	91,765	11.0	8,342	K1,395,348,703.00	K21,676.67	$348,619.29	$5.42
Copperbelt	Mufulira	Municipal	152,735	143,930	161,601	98.7	1,637	K13,957,990,000.00	K96,977.63	$3,487,317.93	$24.23
Copperbelt	Ndola	City	334,777	374,757	455,194	412.7	1,103	K21,444,463,000.00	K57,222.31	$5,357,767.15	$14.30
Eastern	Chadiza	District	66,681	83,981	104,255	40.5	2,574	K989,791,700.00	K11,785.90	$247,293.37	$2.94
Eastern	Chama	District	55,172	74,890	101,412	5.8	17,485	K351,380,911.00	K4,691.96	$87,790.36	$1.17
Eastern	Chipata	Municipal	261,100	367,539	452,428	67.6	6,693	K12,537,863,661.00	K34,113.02	$3,132,508.10	$8.52
Eastern	Katete	District	143,952	189,250	240,818	60.4	3,987	K2,256,639,459.00	K11,924.12	$563,807.49	$2.98
Eastern	Lundazi	District	179,414	236,833	314,281	22.4	14,030	K2,016,886,808.00	K8,516.07	$503,906.76	$2.13
Eastern	Mambwe	District	60,016	70,425	71,074	13.4	5,304	K832,094,400.00	K11,815.33	$207,893.67	$2.95
Eastern	Nyimba	District	38,300	47,376	85,684	8.2	10,449	K899,221,309.00	K18,980.52	$224,664.91	$4.74
Eastern	Petauke	District	200,058	235,879	337,779	39.4	8,573	K2,198,792,000.00	K9,321.69	$549,354.65	$2.33
Luapula	Chienge	District	47,290	83,824	109,147	27.5	3,969	K1,605,561,931.00	K19,153.96	$401,139.77	$4.79
Luapula	Kawambwa	District	85,307	102,503	130,680	14.0	9,334	K1,061,025,000.00	K10,351.16	$265,090.57	$2.59
Luapula	Mansa	Municipal	132,500	179,749	217,603	22.0	9,891	K13,266,718,915.00	K73,806.91	$3,314,608.10	$18.44
Luapula	Milenge	District	20,045	28,790	43,649	7.0	6,236	K1,261,381,475.00	K43,813.18	$315,148.40	$10.95

Province	District Name	Type	1990 Census	2000 Census	2010 Census	2010 Density	Square Km	ZMK District Fund Budget	ZMK Per Capita	US $ District Fund	US $ per Capita
Luapula	Mwense	District	86,326	105,759	117,990	17.6	6,704			$0.00	$0.00
Luapula	Nchelenge	District	72,761	111,119	147,927	36.2	4,086	K1,296,132,436.00	K11,664.36	$323,830.71	$2.91
Luapula	Samfya	District	120,264	163,609	191,980	18.6	10,322	K1,258,107,100.00	K7,689.72	$314,330.32	$1.92
Lusaka	Chongwe	District	95,738	137,461	187,969	21.7	8,662	K4,132,632,000.00	K30,064.03	$1,032,512.68	$7.51
Lusaka	Kafue	District	117,354	150,217	242,754	25.8	9,409	K3,624,653,000.00	K24,129.45	$905,597.25	$6.03
Lusaka	Luangwa	District	17,070	18,948	25,294	7.3	3,465	K743,102,000.00	K39,217.96	$185,659.46	$9.80
Lusaka	Lusaka	City	761,064	1,084,703	1,742,979	4,841.6	360	K71,007,660,000.00	K65,462.77	$17,740,826.98	$16.36
Northern	Chilubi	District	44,350	66,338	76,911	16.5	4,661	K663,052,883.00	K9,995.07	$165,659.68	$2.50
Northern	Chinsali	District	89,779	128,646	147,845	9.6	15,401	K1,370,443,919.00	K10,652.83	$342,396.98	$2.66
Northern	Isoka	District	82,563	99,319	164,410	17.8	9,237	K1,895,734,000.00	K19,087.32	$473,637.48	$4.77
Northern	Kaputa	District	53,403	87,233	113,485	8.7	13,044	K1,432,047,000.00	K16,416.34	$357,788.13	$4.10
Northern	Kasama	Municipal	125,492	170,929	238,035	22.1	10,771	K1,889,124,000.00	K11,052.10	$471,986.01	$2.76
Northern	Luwingu	District	72,164	80,758	134,426	15.1	8,902			$0.00	$0.00
Northern	Mbala	Municipal	110,980	149,634	213,254	25.6	8,330	K2,475,579,246.00	K16,544.23	$618,508.24	$4.13
Northern	Mpika	District	123,099	146,196	211,425	5.2	40,659	K1,570,741,704.00	K10,744.08	$392,440.15	$2.68
Northern	Mporokoso	District	54,888	73,929	100,933	8.4	12,016	K1,704,988,287.00	K23,062.51	$425,980.83	$5.76
Northern	Mpulungu	District	44,533	67,602	96,322	9.8	9,829	K2,496,381,081.00	K36,927.62	$623,705.45	$9.23
Northern	Mungwi	District	74,735	112,977	144,537	14.8	9,766	K1,296,000,000.00	K11,471.36	$323,797.63	$2.87
Northern	Nakonde	District	49,879	75,135	118,017	25.5	4,628	K2,923,970,000.00	K38,916.22	$730,535.92	$9.72
North-Western	Chavuma	District	27,944	29,941	33,893	7.9	4,290	K461,476,990.00	K15,412.88	$115,297.19	$3.85
North-Western	Kabompo	District	25,151	71,238	91,160	6.3	14,470	K995,285,800.00	K13,971.28	$248,666.03	$3.49
North-Western	Kasempa	District	60,164	51,904	65,730	3.2	20,541	K558,306,016.00	K10,756.51	$139,489.32	$2.69
North-Western	Mufumbwe	District	42,261	44,002	55,099	2.7	20,407	K1,139,840,737.00	K25,904.29	$284,782.20	$6.47
North-Western	Mwinilunga	District	93,941	117,505	132,688	6.3	21,062	K1,018,324,734.00	K8,666.22	$254,422.17	$2.17
North-Western	Solwezi	Municipal	137,728	203,797	239,051	7.9	30,260	K13,662,474,890.00	K67,039.63	$3,413,485.29	$16.75
North-Western	Zambezi	District	51,027	64,963	88,841	6.3	14,102	K1,366,652,380.00	K21,037.40	$341,449.69	$5.26
Southern	Choma	Municipal	170,687	204,898	244,180	33.5	7,289	K3,190,352,815.00	K15,570.44	$797,090.02	$3.89
Southern	Gwembe	District	39,785	34,133	52,711	13.6	3,876	K809,814,839.00	K23,725.28	$202,327.26	$5.93
Southern	Itezhi	District	31,424	43,111	64,593	4.0	16,148	K892,563,646.00	K20,703.85	$223,001.54	$5.17
Southern	Kalomo	District	127,762	169,503	254,211	16.9	15,042	K1,345,450,493.00	K7,937.62	$336,152.53	$1.98

Province	District Name	Type	1990 Census	2000 Census	2010 Census	2010 Density	Square Km	ZMK District Fund Budget	ZMK Per Capita	US $ District Fund	US $ per Capita
Southern	Kazungula	District	45,157	68,265	98,292	5.8	16,947	K1,034,596,768.00	K15,155.60	$258,487.64	$3.79
Southern	Livingstone	City	83,780	103,288	142,034	204.4	695	K11,231,483,500.00	K108,739.48	$2,806,117.05	$27.17
Southern	Mazabuka	Municipal	162,321	203,219	261,268	41.9	6,236	K4,416,983,000.00	K21,735.09	$1,103,556.03	$5.43
Southern	Monze	District	133,671	163,578	195,921	40.4	4,850	K2,043,596,768.00	K12,493.10	$510,580.08	$3.12
Southern	Namwala	District	61,848	82,810	101,589	17.9	5,675	K1,085,803,213.00	K13,111.98	$271,281.25	$3.28
Southern	Siavonga	District	37,497	58,864	89,787	23.2	3,870	K1,675,031,477.00	K28,455.96	$418,496.31	$7.11
Southern	Sinazongwe	District	71,659	80,455	102,207	21.0	4,867	K1,288,362,570.00	K16,013.46	$321,889.46	$4.00
Western	Kalabo	District	103,878	114,806	132,968	7.6	17,496	K942,330,241.00	K8,208.02	$235,435.41	$2.05
Western	Kaoma	District	116,616	162,568	179,326	7.7	23,289	K1,506,037,389.00	K9,264.05	$376,274.18	$2.31
Western	Lukulu	District	54,053	68,375	83,902	5.2	16,135	K942,330,241.00	K13,781.80	$235,435.41	$3.44
Western	Mongu	Municipal	150,129	162,002	178,454	17.7	10,082	K3,052,614,179.00	K18,843.06	$762,676.87	$4.71
Western	Senanga	District	98,804	109,119	126,974	8.2	15,485	K1,227,441,050.00	K11,248.65	$306,668.59	$2.81
Western	Sesheke	District	68,424	78,169	94,612	3.2	29,566	K3,017,845,800.00	K38,606.68	$753,990.21	$9.65
Western	Shang'ombo	District	46,852	70,049	85,288	5.9	14,456	K724,797,000.00	K10,347.00	$181,086.07	$2.59
	Zambia		7,759,117	9,885,591	13,046,508		751,463	K378,220,602,605.00	K38,259.79	$94,496,090.59	$9.56

Source: Adapted and compiled from data collected for (MoFNP-MLGH, 2008) and (CSO, 2011)

APPENDIX 6: **Sources of revenue – Lusaka City Council**[1]

Major Source:-

- Property Rates
- **General Revenue**
  - Personal Levy
  - Licenses
  - Billboards

Other sources:

- Parking fees
- Market levies
- Ground rent
- Lusaka Clothing Factory (manufacture and sale of school and Industrial uniforms etc)
- Bus stations (Inter-City and Kulima Tower)
- Miscellaneous e.g.
  - Meat Inspections
  - Plan scrutiny fees
  - lease of commercial properties
  - funerals etc.

1 *Source: Local Government Association Website accessed on 15th January 2012 at: http://www.lcc.gov.zm/index.php?option=com_content&view=article&id=62&Itemid=90*

APPENDIX 7: **Required Services and Ranking**

SN	Service	Count	Average	Total
1	Water & Sanitation	11	92.29	1,015.22
2	Refuse Collection	10	84.85	848.49
3	Roads[1]	9	77.75	699.72
4	Markets	9	74.80	673.19
5	Cleaning	8	79.51	636.11
6	Plot / land allocation	8	75.42	603.39
7	Street Lighting	9	65.63	590.69
8	Health	6	88.89	533.33
9	Fire services	6	82.92	497.50
10	Toilets	5	86.17	430.83
11	Town Planning	5	81.11	405.56
12	Housing	6	65.83	395.00
13	Infrastructure	4	81.08	324.31
14	Drainage	4	79.69	318.75
15	Security	4	75.69	302.78
16	Bus Stations	4	60.00	240.00
17	Recreation/social amenities	5	46.94	234.72
18	Electricity	2	86.11	172.22
19	Social Services	2	77.78	155.56
20	Environmental	2	75.00	150.00
21	Street Names	2	68.75	137.50
22	Licenses	2	66.96	133.93
23	Car parking /garages	1	100.00	100.00
24	Education	1	100.00	100.00
25	Revenue Collection	1	95.00	95.00
26	Truck And Bus Station	1	87.50	87.50
27	Bridges/culverts	1	75.00	75.00
28	Food security	1	25.00	25.00

Where:

- **Count** - is the number of councils in which the service was mentioned.
- **Average** - is the service's average importance rating by all participating councils on a scale where Vital service - 100; Very Important Service - 75; Important service - 50; Moderately important service - 25; and Nice to have service - 0
- **Total** - is the product of count and average

Source: (MLGH - GTZ, 2006, p. 5)

1 *"Drainage" and "Bridges/culverts" although listed separately in table 3-1, could legitimately be seen as a subset of "roads". Similarly, not all of the above categories are mutually exclusive e.g. "infrastructure" is a general term for several other categories in Table 3-1, including roads.*

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