



REPUBLIC OF ZAMBIA

MINISTRY OF FINANCE AND NATIONAL PLANNING



INTERGOVERNMENTAL FISCAL ARCHITECTURE (IFA)

2023 - 2027

FOREWORD



This Intergovernmental Fiscal Architecture (IFA) is anchored on the National Decentralization Policy (NDP), that espouses the vision of “Citizen-driven local governance within a unitary state for sustainable development”. The Policy provides guidance necessary for effective fiscal decentralisation, which is essential for promoting good governance, economic development, and social inclusion at the local level.

This IFA is a successor to the IFA (2017–2021) which was developed to set the pace for fiscal decentralization in the country. Since its expiration in 2021, a number of new developments have occurred that have necessitated the formulation of this IFA. Some of the notable developments include the revision of the National Decentralisation Policy in 2023, the development of the Eighth National Development Plan (2022–2026), devolution of selected Central Government functions to the local authorities, increased opportunities and interest from cooperating and development partners

in supporting decentralisation, increased budgetary resources to the sub-national level, and the positive change in the political economy. Further, this updated IFA builds on the gains made from the implementation of the 2017 – 2021 IFA.

This IFA represents a significant milestone in our ongoing efforts to strengthen local governance structures and empowerment of communities. Devolving fiscal responsibilities to local authorities will not only enhance accountability and transparency but also unlock the social-economic potential at the local level. Central to this Architecture are the principles of stability, transparency, fairness, predictability and fiscal equity, which demand that resources be allocated in a manner that addresses inequalities and promotes balanced regional development. This IFA will, therefore, focus on ensuring that at local level, there is matching and equitable allocation of resources, increased mobilisation and buoyancy of own source revenues, and effective debt management to ensure undisrupted delivery of municipal services.

With appropriate levels of commitment and support from central Government, cooperating and development partners, private sector, Civil Society Organisations, local authorities, the community and other stakeholders, it is anticipated that this IFA will significantly improve implementation of fiscal decentralisation in Zambia.

I, therefore, urge all institutions and individuals charged with the responsibility of implementing the various aspects of this IFA to fully dedicate themselves to their assigned tasks, for the betterment of the livelihood of the Zambian people.

A handwritten signature in black ink, appearing to read 'Felix Nkulukusa', with a stylized flourish at the end.

Felix Nkulukusa
Secretary to the Treasury

MINISTRY OF FINANCE AND NATIONAL PLANNING

ACKNOWLEDGEMENTS



The Ministry of Finance and National Planning acknowledges the involvement of various stakeholders in the preparation of this Intergovernmental Fiscal Architecture (IFA). The collaborative and consultative process that was undertaken provided important input for the development of the IFA, particularly in the determination of stakeholder-driven solutions.

I wish to express sincere gratitude to the Secretary to the Cabinet, Mr. Patrick Kangwa, through the Decentralisation Secretariat, for the coordination role played during the development and finalisation of the IFA. Appreciation is also extended to various ministries, provinces and agencies, local authorities as well as non-state institutions, for their contributions in the development of the IFA. Your effort made the assignment less onerous to accomplish.

Gratitude also goes to the consultant, Professor Roy Kelly, for the invaluable input in setting the tone and defining the direction of this document. Special thanks go to our Cooperating Partners, particularly, United Nations Children's Fund (UNICEF) and Deutsche Gesellschaft Für Internationale Zusammenarbeit (GIZ) - Good Financial Governance Programme (co-funded by the German Federal Government and the European Union) for the financial and technical support that was rendered towards the development of the IFA.

In conclusion, I wish to acknowledge all members of staff in the Ministry of Finance and National Planning for their commitment to the development of this IFA. It is my sincere hope that this IFA fulfils the expectations of stakeholders and that it delivers on its objectives.

A handwritten signature in black ink, appearing to read 'Mwaka C. Mukubesa'.

Mwaka C. Mukubesa

PERMANENT SECRETARY-BUDGET AND ECONOMIC AFFAIRS

DEFINITIONS

Autonomy:	Means independence in decision-making and in the execution of such decisions within a given framework.
Capacity:	Refers to a combination of resources, systems and authority that enables an organisation to achieve its goals.
Citizen:	Means a citizen of Zambia.
Community:	Entails a group of people with shared interests living in one place, a ward, district, province or country.
Council Area:	Refers to the district for which a council has been established under the Local Government Act.
Council:	Refers to the locally elected representative governing body of a local authority.
Decentralisation:	Means the transfer of responsibilities, authority, functions as well as power and appropriate resources to provincial, district and sub-district levels.
Deconcentration:	Refers to the transfer of functions and resources to lower-level units of the same administrative system while authority over decision making and use of such resources remains with the centre (i.e. from the headquarters of an institution or administrative system to the lower levels.) in the case of Government administration, this would entail the transfer of functions performed at headquarters of the ministry to the provincial, district and / or a sub-district office, while power and authority are retained by the centre.
Delegation:	Refers to the transfer of functions and resources to a subordinate authority with capacity to act on behalf of the superior authority without a formal transfer of authority in the same structure. Example is when an office of lower level is assigned to perform some duties or tasks by the higher office. However, the lower office will still be required to consult the higher office on matters that require decision making.
Devolution:	Entails a form of decentralisation where there is a transfer of rights, functions and powers or an office from the central government or State institution to a sub-national authority or the bringing of a service that is provided at central government level to or opening of a branch of a public office or institution at a sub- national level.
District:	Refers to a specific geographical area in a province declared under the Provincial and District Boundaries Act.
District Administration:	Refers to administrative arrangements for carrying out Central Government functions at the District Level.
Local Authority:	Means a council and its secretariat.
Local Development:	Refers to the mobilisation of human, economic, socio-cultural, political and natural resources for the improvement and transformation of livelihoods and communities at the local level.

Intergovernmental Fiscal Architecture (IFA)

Local Governance:	Entails the governance processes and institutions at the sub-national level which includes governance by and with Local Authorities, civil society and other relevant actors at the local level.
Local Government:	Means governance at the local level.
Provincial Administration:	Refers to administrative arrangements for carrying out Central Government functions at the Provincial Levels.
Public Private Partnership	Refers to a mechanism for private sector participation in the performance of public function through a project on behalf of contracting authority.
Sub-national Level:	Means an administrative division of government at the Provincial or District level.
Sub-structure:	Refers to a district, ward or village.
Ward:	Means a unit into which a district is divided for the purpose of electing councilors.

ACRONYMS

CAATs	Computer Aided Audit Tools
CAPR	Consolidated Annual Progress Report
CDF	Constituency Development Fund
CDFC	Constituency Development Fund Committee
CG	Central Government
CIA	Controller of Internal Audit
CO	Controlling Officer
CRISC	Certified in Risk and Information System Control
CSOs	Civil Society Organizations
DIP	Decentralisation Implementation Plan
DPIC	Decentralisation Policy Implementation Committee
DS	Decentralisation Secretariat
GDP	Gross Domestic Product
ICT	Information, Communication and Technology
IFA	Intergovernmental Fiscal Architecture
IFRU	Inter-Governmental Fiscal Relations Unit
IPSAS	International Public Sector Accounting Standards
LADAMM	Local Authorities Debt and Arrears Monitoring Mechanism
Las	Local Authorities
LDF	Land Development Fund
LG	Local Government
LGA	Local Government Act
LGEF	Local Government Equalisation Fund
LGSC	Local Government Service Commission
MLGRD	Ministry of Local Government and Rural Development
NAPSA	National Pension Scheme Authority
NDP	National Decentralisation Policy
OSR	Own Source Revenue
PBCG	Performance Based Capital Grant
PFM	Public Financial Management
RBM	Results-Based Management
SI	Statutory Instrument
SOPs	Standardized Operating Procedures
TC	Town Council
TSA	Treasury Single Account

ACRONYMS

TWG	Technical Working Group
VAT	Value Added Tax
WDCs	Ward Development Committees
WHO	World Health Organisation
ZDSP	Zambia Devolution Support Program
ZRA	Zambia Revenue Authority

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CHAPTER 1: INTRODUCTION

1.1. Background

Zambia has a long history regarding decentralisation which dates back to the early post-independence years. In 2002, the Government adopted its first-ever National Decentralisation Policy (NDP) which was later launched in 2004. The policy was revised in 2013 to align it to new developments, taking cognisance of the critical role of traditional leaders in national development, and the vital role of the districts in facilitating participatory development and service delivery. The revised policy provided for mayors and council Chairpersons to be elected in the council areas. A new decentralised structure of governance backed by legislation comprising four levels, namely, the national, provincial, district and sub-district levels, was also promoted. In 2023, the NDP was further revised and informed by the provisions of the Republican Constitution (Amendment) Act No. 2 of 2016 which enshrined a devolved system of governance under Article 147. The 2023 NDP envisions a “Citizen-Driven Local Governance within a Unitary State for Sustainable Development” and is founded on critical areas of Decentralised Governance; Administrative Decentralisation; Fiscal Decentralisation; and Policy Coordination and Legal Arrangements for Decentralisation.

Under decentralised governance, the NDP underscores the importance of citizens’ participation in democratic governance at the local level to ensure accountable devolved governance. In terms of administrative decentralisation, it highlights the necessity to transfer various functions to lower levels, promote local economic development planning, and strengthen human resource management and institutional capacity at the local level. The fiscal decentralisation dimension emphasises the need to allocate appropriate expenditure responsibilities and sources of revenue to the local level, along with a system of inter-governmental fiscal transfers for decentralised functions. Furthermore, the NDP emphasises the critical role of enhanced financial management, accounting policies and systems, and robust local level debt management in achieving decentralisation objectives.

In 2017, Government made important first steps in the fiscal decentralisation process by approving the Intergovernmental Fiscal Architecture (IFA). Development and subsequent approval of the previous IFA was informed by the provisions of the 2013 NDP to provide a stable, transparent and predictable fiscal arrangement. The measures focused on the four pillars of fiscal decentralisation which are:

- i) Assignment of expenditure responsibilities;
- ii) Assignment of revenue responsibilities;
- iii) Intergovernmental transfers; and
- iv) Local government borrowing and debt management.

Progressive strides were made in 2021, which included amendments to various pieces of legislation such as the Public Finance Management Act No.1 of 2018 and the National Planning and Budgeting Act No.1 of 2020, aimed at improving oversight of public finance management and planning and budgeting processes across various levels of government. The Rating Act No. 21 of 2018 was revised to improve the property tax collections for local authorities. Additionally, Government’s resolve to expand the scope and budgetary provision of the Constituency Development Fund (CDF) and consistency in the release of the Local Government Equalisation Fund (LGEF) provided a critical milestone in strengthening of the local authority fiscal landscape and attainment of local level development.

Further, the Local Government Finance and Audit Section under the Ministry of Local Government and Housing was transferred to the Office of the Auditor General in order to enhance capacity

and ensure timely auditing of books of accounts of the local authorities.

In 2021, the Debt Management Strategy for Local Authorities (2021–2025) was approved to ensure debt sustainability and financial stability over the medium to long term. Further, local authority financial management and accountability capacities were strengthened and harmonised for both accounting and budgeting systems.

Notwithstanding past achievements, challenges still remain in the implementation of fiscal decentralisation and public finance management. While devolution of selected central government functions commenced in 2023 through issuance of Cabinet Office Circular No. 2 of 2023, additional functions are yet to be transferred to the local authorities in line with the subsidiarity principle where specific functions should be performed as close to people as possible. Vertical and horizontal allocation of public resources fall short of equity. Local authority sources of revenue including mechanisms for generating such revenue, have continued to be of concern and require reviewing for enhanced revenue mobilisation and improved service delivery at the local level. In addition, local authorities in Zambia are grappling with substantial debt and arrears mainly arising from statutory obligations to the Zambia Revenue Authority (ZRA) and the National Pension Scheme Authority (NAPSA) which, if not addressed, threaten the effective delivery of municipal services to the communities.

This IFA, therefore, provides a comprehensive strategic framework to actualise implementation of fiscal decentralisation and public finance management. This is important for securing a stable, transparent and predictable fiscal arrangement towards full actualisation of devolution. The IFA identifies and addresses fiscal decentralisation and public finance management challenges experienced during implementation of the previous IFA. The IFA also takes cognisance of changes that have taken place in the political and socio-economic environment including the revision of the NDP and the increased scope and budgetary allocation for the CDF.

This document is divided into seven chapters. Chapter One is the Introduction while Chapter Two provides the Situation Analysis. The Third Chapter outlines the Overall Goal, Rationale, and Guiding Principles for the Architecture. Chapter Four presents the IFA Objectives and Measures whereas Chapter Five outlines the Institutional and Implementation Arrangements. Chapter Six presents the Resource Mobilisation and Financing Modalities. Lastly, Chapter Seven outlines the Monitoring, Evaluation and Risk Management Framework for the IFA.

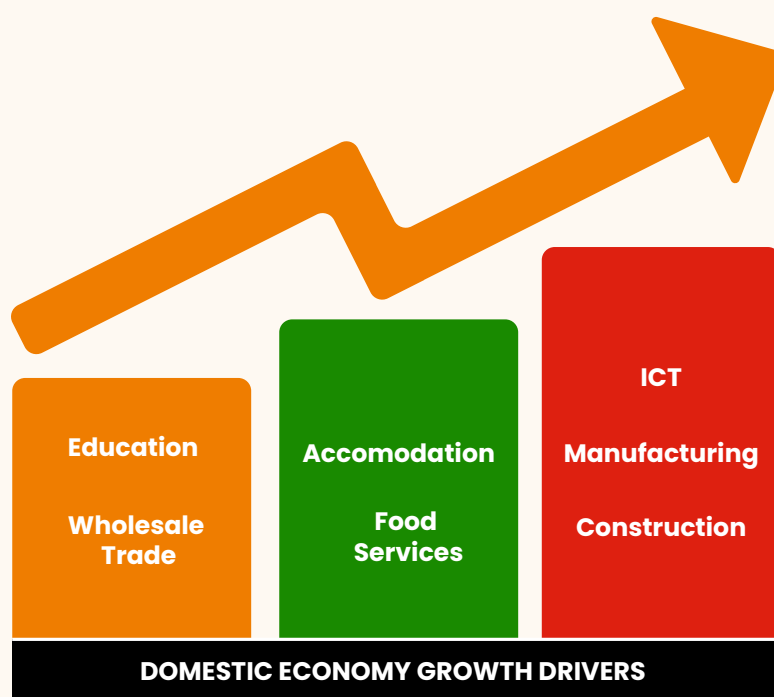
CHAPTER 2 : SITUATION ANALYSIS

2.1. Macro-Economic Environment

The macroeconomic environment between 2017 and 2021 influenced the implementation of the IFA. Several key factors, including global economic trends, commodity price fluctuations, domestic revenue mobilization, fiscal deficits, and inflation, shaped the decentralization process, impacting both opportunities and challenges in its execution.

The decline in global economic growth from 6.0 percent in 2021 to a projected 3.1 percent in 2023, coupled with the drop-in copper prices from US\$9,295 to US\$8,527 per ton, had direct implications on the IFA. Given that copper exports were a major source of government revenue, the fluctuating prices constrained the central government's ability to provide adequate intergovernmental transfers to local authorities. The rise in crude oil prices from US\$67.8 per barrel in 2021 to US\$80.9 in 2023 also contributed to the rise in operational costs of local authorities.

Despite the global downturn, the domestic economy recorded positive growth, with GDP expanding to 6.2 percent in 2021, 5.2 percent in 2022, and a forecasted 4.6 percent in 2023. Growth was mainly driven by ICT, education, wholesale trade, accommodation and food services, manufacturing, and construction sectors. This diversification in economic growth created an opportunity for the IFA by expanding the tax base at subnational level. However, since the mining sector faced contractions due to adverse weather and operational challenges, regions heavily dependent on mining revenues experienced fiscal constraints, reducing the effectiveness of the IFA.



The government pursued an expansionary fiscal policy between 2021 and 2023, focusing on increasing domestic revenue collection. Combined revenues and grants grew from K98.9 billion in 2021 to K 122.1 billion in 2023, reflecting improved tax collection. While this increase in revenue could have supported the implementation of the IFA, the high fiscal deficit of 9.0 percent of GDP in 2021, 8.2 percent in 2022, and 5.7 percent in 2023 suggests that much of the resources were used for debt servicing and recurrent expenditure rather than enhancing fiscal transfers to local governments.

Inflation remained volatile, falling from 22.1 percent in 2021 to 9.9 percent in 2022 but rising again to 13.1 percent in 2023, primarily due to the depreciation of the kwacha. Higher inflation eroded the purchasing power of local government budgets, making it more expensive to deliver decentralised public services.

The increase in public debt and arrears of 20 percent in 2021, 12.1 percent in 2022, and 13 percent in 2023 indicates that the government faced fiscal pressures, potentially reducing its ability to increase funding for local governments. The rising debt burden may have also constrained the fiscal space for decentralization reforms, delaying the full implementation of financial autonomy for local governments.

2.2. Policy Context

Zambia's aspiration to secure a fully decentralised and democratically elected system of governance dates back to the 1960s when the country attained its independence. Since then, the country has implemented various forms of decentralisation aimed at facilitating the participation of citizens in decision-making towards improved service delivery and enhanced local development. In 2002, the country adopted the first National Decentralisation Policy (NDP), which was later launched in 2004. In pursuit of the country's desire to fully decentralise her governance system, the policy was in 2023 revised to align it to the Constitution (Amendment) Act No. 2 of 2016 and is founded on critical areas of Decentralised Governance; Administrative Decentralisation; Fiscal Decentralisation; and Policy Coordination and Legal Arrangements for Decentralisation. Through the fiscal decentralisation component, the NDP seeks to enhance financial capacities at the local level and promote prudent financial management and accountability in local authorities and sub-national structures in order to enhance service delivery.

Key milestones achieved through implementation of the NDP include, the election of mayors and council chairpersons and the establishment of the Ward Development Committees (WDCs) and Constituency Development Fund Committees (CDFCs) by legislation to strengthen citizen participation in local development. The role of traditional leaders in local governance was also strengthened through their participation in the House of Chiefs, in Councils, and in the Constituency Development Fund Committees and Ward Development Committees. Another achievement was the increased allocation of human and financial resources to the lower levels for enhanced service delivery and local development. Government also commenced the process of devolving, with matching resources, selected central government functions to the local authorities. Through the issuance of Circular No. 2 of 2023, Government transferred eight (8) functions and attached over thirty-four thousand (34,000) central Government staff.

Notwithstanding these achievements, the country is yet to fully decentralise all identified functions and responsibilities from central Government to local authorities and other sub-national structures in line with the Constitution (Amendment) Act, No. 2 of 2016.

2.3. Legal Context

The constitution provides a concrete foundation for each of the four pillars of fiscal decentralisation as espoused in this IFA, including local public financial management. Article 151 (1) (f) states that "a sound financial base is established for each local authority with reliable and predictable sources of revenue." The reference to "each local authority" emphasises that every local authority has unique social and economic profiles and needs. Therefore, each local authority requires a different configuration of its revenue base. "A sound financial base" refers to the specification of revenue sources including own source revenues, as well as intergovernmental transfers and

local borrowing to finance assigned expenditure responsibilities.

Regarding expenditure assignment, Article 147 (2) in the Annex of the Constitution lists fifty-two (52) functions to be performed exclusively by local authorities. On the revenue assignments, the Constitution grants taxing powers to the different levels of government and creates the basis for local authorities' OSRs. Article 161 provides that "A local authority is competent to levy, impose, recover and retain taxes, as prescribed". The Constitution further defines taxes as including "rates, levies, charges, tariffs, fees, tolls, and duties". Various laws, including the Local Government Act No. 2 of 2019 and the Rating Act No. 21 of 2018, also authorise these local revenue sources.

In the context of intergovernmental transfers, the Constitution in Article 198(b)(ii), entrenches the concept of 'vertical and horizontal balance' asserting that "revenue raised nationally is shared equitably among the different levels of government". This necessitates a resource allocation mechanism that ensures alignment between expenditure responsibilities and revenue at both central and local government levels. Further, Article 147 (3)(d) provides for the "equitable distribution and application of national resources to the sub-structures," which requires the design of a transfer system that ensures adequacy, equity and fairness in the allocation of resources across local authorities.

The Constitution, under Article 163, establishes the Local Government Equalisation Fund (LGEF). The Fund is operationalised through the Local Government Act No. 2 of 2019 as a general-purpose grant to be used for recurrent expenses. The Constitution under Article 162 further establishes the Constituency Development Fund (CDF) which is operationalised through the CDF Act No. 1 of 2024. In addition to the LGEF and CDF, Central Government may provide additional funds and grants to a local authority as stipulated in Article 163.

Regarding local authority borrowing, the Constitution prescribes the regulation of raising loans, grants and other financial instruments by local authorities in Article 164(d). Section 48 of the Local Government Act No.2 of 2019 and Section 26 (2) of the Public Finance Management (PFM) Act No.1 of 2018 provides that a public body, including a local authority may borrow to carry out its functions by way of a loan, issuance of stock, bonds, a mortgage, a temporary loan or overdraft from a bank or other sources with the written authority of the Secretary to the Treasury. The Public Debt Management Act No.15 of 2022 sets the fiscal rules for contracting debt for all public bodies including local authorities.

In terms of local government public financial management, Article 164 (c) provides for financial controls and accountability of local authorities. The PFM Act further provides for an institutional and regulatory framework for the management of public funds and the strengthening of accountability, oversight, management and control of public funds in public bodies among others.

The Local Government Act under Section 41 provides that "A local authority shall cause to be prepared an annual budget in accordance with the National Planning and Budgeting Act". Section 5 (1)(e) of the PFM Act provides that the Secretary to the Treasury will "manage the national budget preparation process". The process, articulated in Part IV of the National Planning and Budgeting Act No.1 of 2020, does not include local authorities' budgeting process. However, Section 24 of the PFM (General) Regulations, 2020, SI 97 of 2020 stipulates that the authority to incur expenditure in a fiscal year by local authorities shall be approved by the Minister responsible for local government.

The central Government level remains responsible for providing national policy and legal framework as well as overall regulation for the implementation of fiscal decentralisation.

Although the Constitution and other attendant legislation establish the implementation of fiscal decentralisation in the country, several laws are yet to be fully harmonised to facilitate full implementation. Further, the policy and legal framework for some user fees, charges, licenses, permits and levies may require review for enhancement of OSR. In a number of cases, these revenue streams are unable to respond to the economic development priorities as collections are way below the costs of providing the actual services.

2. 4. Fiscal Decentralisation Pillars

2. 4. 1. Assignment of Expenditure Responsibilities

The exclusive national, concurrent national and provincial, and local authority exclusive functions have been set out in the annex of the Constitution and the 2023 National Decentralisation Policy (NDP).

Exclusive functions of the local authorities have further been clarified in sector-specific devolution plans.

In 2023, Cabinet Office Circular No. 2 of 2023 effected the devolution of eight (8) exclusive functions of local authorities from the Central Government, accompanied by sector budgets and attendant human resources and assets. Further, the Government continued to deconcentrate selected functions to the districts and delegated some functions to selected local authorities such as collection of base taxes, consumer protection, and company registration.

Local Authority 2023 Devolved Functions

1. Ministry of Health: District Health Services and Ambulance Services
2. Ministry of Fisheries and Livestock: Veterinary Services
3. Ministry of Home Affairs and Internal Security: District Archives
4. Ministry of Youth, Sport: Community Sport
5. Ministry of Tourism: Cultural Matters
6. Ministry of Transport and Logistics: Vehicle Licensing;
7. Ministry of Transport and Logistics: Pontoons, Ferries, and Jetties
8. Ministry of Transport and Logistics: Harbors

Source: Cabinet Office Circular No. 2 of 2023

Despite notable achievements in the Constitutional assignment of expenditure responsibilities to various levels of Government and the commencement of the devolution process, some expenditure responsibilities continued to be discharged by central Government. Additionally, political economy issues in the transfer of functions, inadequate capacities in some of the local authorities, and lack of sector-specific guidelines to guide the implementation of devolved functions at the local government level, has contributed to some of the observed inefficiencies in the assignment of expenditure responsibilities.

2. 4. 2. Assignment of Revenue Responsibilities

Maximisation of revenue collection is fundamental for financial stability of local authorities and determines the extent to which they can perform their mandates. The main source of revenue for local authorities in Zambia are property rates. However, local authorities continue to face challenges in attaining the full realization of these revenue sources. For instance, the country collected about 0.2 percent of GDP in property rates, while the average for developing countries was about 0.5 percent of GDP during the period 2019 and 2022. This implies that the country could potentially collect more than double her property rates collections, while simultaneously improving efficiency and equity. The Rating Act No. 21 of 2018 currently lacks provisions for imposing penalties for late payments or interest on overdue payments. This

stands in contrast to other tax statutes such as for VAT and Income Tax, which encompass a range of compliance measures.

Among the challenges around property rates relates to the commencement date of the valuation roll. The valuation roll was deemed to be valid for five years from the date the council commissioned the Valuation Surveyor to create the valuation roll instead of the commencement date being the date that the Rating Valuation Tribunal validates the roll. This results in ambiguity, legal disputes, and frequent expenses associated with preparing valuation rolls. Further, there have been inefficiencies in the undertaking of valuations due to the use of traditional valuation methods such as the absolute valuation systems which need to be replaced with modern mass valuation methods to raise efficiency and equity.

In Zambia, unlike regional and international practice, there are categories of properties that are exempted from paying local property taxes thereby leading to a narrow revenue base for local authorities. For instance, commercial agricultural land is exempt from paying property tax and as such does not contribute to the financing of services at the local level. The use of Grants in Lieu of Rates as opposed to a direct taxation system for central Government properties has also potentially narrowed the revenue base due to lack of buoyancy, revenue yields, efficiency and equity, and limits the contribution of such properties to the locational-related benefits.

In addition, the multiplicity of levies and licenses under non-tax local revenues contribute to the cost of doing business leading to non-compliance on payments. The absence of corresponding municipal services offered by local authorities further compounds the situation.

The lack of electronic systems for tax and non-tax payments also undermines local authority efforts for collection of revenue from eligible payers. This is mainly due to internet connectivity challenges and lack of information, communication and technology equipment in most of the local authorities. Where equipment is available, the capacity to effectively and optimally use the equipment is inadequate.

Further, non-provision of e-services and limited digitisation of services by most of the local authorities contribute to low revenue mobilisation at the local level. The personal levy tax also deprives local authorities the opportunity to maximise revenue streams as the rate remained static for a long time and is income inelastic.

Public Private Partnerships (PPP) is one of the alternative sources of revenue for local authorities to finance infrastructure projects. However, this alternative source has not been fully exploited partly due to limitations in the PPP Act on the scale of project requirement to qualify under PPP.

Assignment of revenue responsibilities therefore calls for a comprehensive review of the property rating and taxing system in the country including modernization of existing revenue collection mechanisms.

2. 4. 3. Intergovernmental Transfers

Intergovernmental transfers in Zambia play a crucial role in facilitating fiscal decentralisation and redistributing resources among the different levels of government. Zambia's intergovernmental transfer system is composed of conditional and unconditional grants to the local authorities, namely the Local Government Equalisation Fund, Constituency Development Fund, Grants-in-Lieu of Rates and sector grants.

a) Local Government Equalisation Fund (LGEF)

The LGEF was established in 2015 to provide supplementary funding support for the local governments to deliver mandated functions as per Local Government Act (LGA) no. 2 of 2019. These funds are designed to help achieve vertical equity to balance resources and responsibilities between central and local government as well as horizontal equity to balance service delivery needs across local authorities. The Fund has been allocated as follows:

- i) **Vertical Allocation:** In 2015, the LGEF was set to be an annual minimum of 5 percent of the national income tax of which 20 percent was meant for capital expenditure and 80 percent recurrent expenditure. This minimum level as a percentage of the national income tax was however removed through the Local Government Act No. 2 of 2019. Further, through the Local Government Act No. 28 of 2023, the 20 percent capital expenditure provision was removed to make the entire 100 percent allocation as a recurrent expenditure.
- ii) **Horizontal Allocation:** The Local Government Equalization Fund (LGEF) allocation is guided by a criteria that categorizes districts into four main categories: viable council; least vulnerable councils; vulnerable councils; and most vulnerable councils. These categories are determined by three key factors: revenue collection potential and performance, council indebtedness, and size of the wage bill.

b) Constituency Development Fund (CDF)

The CDF was established in 1995 to provide funding for community projects. In 2022, the size and scope of the CDF was expanded to include three components, namely:

- i) Community Projects;
- ii) Youth, Women and Community Empowerment; and
- iii) Secondary Boarding School and Skills Development Bursaries.

CDF is appropriated annually, and currently distributed based on equal share per constituency. Of the total CDF amounts, 5 percent is for administration costs, with 60 percent of the remaining amount to be spent on community projects, and 20 percent each for empowerment activities and for bursaries.

c) Sector Grants

Sector grants are additional funds provided as grants to local authorities earmarked to support implementation of devolved functions by local authorities. The vertical and horizontal allocation of the grant is based on historical expenditure trends by central Government for the devolved functions.

d) Grants in Lieu of Rates

These grants facilitate for Government to pay for property-related services provided by the local authorities. As provided for in the Rating Act, the amount to be paid in each jurisdiction should be equivalent to the rates which the Government would have paid.

e) Other Central Government Transfers

Land Development Fund (LDF): The Land Development Fund was established in 1995 aimed at funding land development projects. Local authorities are eligible to apply for these funds to be used for demarcation, surveying, and allocation of land plots. The Fund is allocated as follows:

- i) **Vertical Allocation:** 50 percent of the ground rent collected from all land and 75 percent of the land registration fees are paid into the LDF.
- ii) **Horizontal Allocation:** Allocation is not formula based but allocated upon recommendation of the LDF Committee based on project proposals submitted by local authorities.

Notwithstanding the achievements realized in the setting up of the intergovernmental transfer system, the system is faced with various challenges related to capacity, governance and equity. For instance, the resource allocation criteria does not address regional disparities nor promote equitable distribution of resources. Further, the non-existence of a transparent and objective allocation criteria for resources considering variables such as population size, poverty rates, fiscal capacity, service delivery needs, and performance indicators remain a challenge to the successful implementation of intergovernmental transfers. These challenges call for a review of the system and institutional strengthening towards a more transparent and equitable distribution of resources between, and across the different levels of government.

2. 4. 4. Local Government Borrowing and Debt Management

Government has made significant progress in the enhancement of the management of public debt. This advancement is notably marked by the enactment of the Public Debt Management Act No.15 of 2022, which establishes a framework for borrowing by public bodies including local authorities. Further, prior to that, the Government in 2021 operationalized the 2021-2025 Local Authority Debt Management Strategy aimed at mitigating the escalating levels of debt. To track local authority debt and arrears, the Government in 2023, also developed the Local Authorities Debt and Arrears Monitoring Mechanism (LADAMM).

These efforts are meant to assist local authorities deal with substantial outstanding arrears, primarily from statutory obligations to the Zambia Revenue Authority (ZRA) and the National Pension Scheme Authority (NAPSA), as well as unpaid personnel-related emoluments such as terminal benefits. As of 30 June 2020, the combined debt of all local authorities was estimated at K2.8 billion, with statutory obligations representing the largest share at 77.6 percent, personnel-related debt at 16.6 percent, and the remainder attributed to debts to suppliers of goods and services and other creditors. This debt has been on the increase, reaching K3.82 billion as of 31st March 2023, as determined by an audit verification of domestic arrears in 116 local authorities.

The indebtedness of local authorities has significantly hindered their ability to borrow, as they are deemed not creditworthy to issue financial instruments such as bonds. Hence the need to find sustainable solutions to addressing and managing local authorities' debt and arrears which will also ensure fiscal sustainability and credit worthiness of the local authorities. Additionally, a specific framework to guide local authorities in the issuance of municipal bonds is yet to be developed.

2. 5. Local Government Public Financial Management

Significant progress has been made to enhance local government public financial management, including the establishment of dedicated units for Local Government and Projects under the Office of the Accountant General, Intergovernmental Fiscal Relations Unit under the Budget Office and Local Government Audits under the Controller of Internal Audit in the Ministry of Finance and National Planning. These initiatives aim to strengthen oversight, accountability, and financial management.

In 2023, Local Authority Financial and Accounting Procedures were harmonised as a measure to standardise financial reporting across local authorities. Since 2018, all local authorities have prepared financial statements in accordance with International Public Sector Accounting Standards (IPSAS) on a cash basis.

Notwithstanding these positive developments, challenges remain regarding local government public financial management, such as low revenue collection, difficulties in meeting salary and statutory obligations, and misapplication of funds, among others.

The lack of comprehensive and consolidated fiscal and financial information for local authorities contributes to difficulties in addressing vertical and horizontal resource allocation among other challenges. The digitalisation of local authority Public Financial Management (PFM) system has been slow, characterised by lack of standardised systems for local government financial information. In certain instances, manual processes are still employed to produce financial reports, making these systems susceptible to fraud and errors.

Ongoing reforms in local government PFM should, therefore, prioritise the operationalization of the IFA. This involves reinforcing accountability and enhancing transparency in line with the spirit of devolution. Hence, digitalisation of local government public financial management systems and the automation of business processes at the local level to enhance fiscal reporting and accountability is essential.

2. 6. Coordination of Fiscal Decentralisation

Strengthening of coordination mechanisms is key to the effective implementation of the IFA. Administrative coordination units for public finance management and fiscal decentralisation were established under Budget Office (Intergovernmental Fiscal Relations Office), Controller of Internal Audit (Local Government Audits) and Office of the Accountant General (Local Government and Projects) in the Ministry of Finance and National Planning. The Ministry of Finance and National Planning, working with the Ministry of Local Government and Rural Development and in collaboration with other Government departments are responsible for implementation of various programmes related to public finance management and fiscal decentralisation including strengthening capacities of local authorities to deliver on their prescribed mandates. The Office of the Auditor General also continues to play a pivotal role in securing accountability by local authorities in the utilisation of public resources through annual audits. The Decentralisation Secretariat plays the coordination role for implementation of overall decentralisation reforms.

Notwithstanding the efforts made by the Government in establishing specialised offices to champion the implementation of public financial management and fiscal decentralisation programmes, the offices have been inadequately capacitated. Operational structures of the offices and staff complement have been inadequate to effectively and efficiently deliver on assigned mandates including auditing of local authorities.

CHAPTER 3 : OVERALL GOAL, RATIONALE AND GUIDING PRINCIPLES

3.1. Overall Goal

The overall goal of the Intergovernmental Fiscal Architecture is to:

“Achieve a stable and transparent fiscal environment which promotes and ensures equitable allocation of resources and ensures local fiscal sustainability”.

3.2. Rationale

The launch of National Decentralisation Policy (NDP) necessitated the development of the IFA. The IFA is designed to provide a framework for implementation of fiscal decentralisation and focuses on four pillars namely, the assignment of expenditure functions, the assignment of revenue responsibilities, the intergovernmental transfer system and a framework for local government borrowing. The intergovernmental fiscal transfer system remains at the core of this IFA framework. As expenditure functions are increasingly decentralised to local authorities, the role of intergovernmental transfers will increasingly take on greater significance. The IFA also identifies key local Public Financial Management (PFM) components necessary to effectively operationalise the fiscal decentralisation pillars.

The IFA and its attendant action matrix shall address the identified fiscal decentralisation implementation challenges towards a fully devolved system of governance.

3.3. Guiding Principles

Implementation of the IFA shall be guided by the following principles:

- a) **Finance Follows Function** to ensure that the assigned functions at the subnational level should be allocated adequate financial resources for executing those assigned mandates.
- b) **Stability, Reliability, Predictability and Accountability** to encourage proactive planning, budgeting and improved service delivery;
- c) **Vertical Balance** to ensure fiscal equivalency between assigned expenditure responsibilities and corresponding revenue resources;
- d) **Horizontal balance** to ensure adequacy and fairness in the allocation of resources across Local Authorities (LAs);
- e) **Simplicity and Transparency** to ensure understanding, trust, and accountability in the operations of the local authorities; and
- f) **Incentivized Performance** to encourage responsive governance, citizen participation, accountable financial management, revenue mobilization, expenditure efficiency and improved service delivery.

CHAPTER 4 : INTERGOVERNMENTAL FISCAL ARCHITECTURE OBJECTIVES AND MEASURES

4.1. IFA Objectives

4.1.1. Assignment of Expenditure Responsibilities

The assignment of expenditure functions is based on the principle of “subsidiarity”. The subsidiarity principle stipulates that functions should be performed at the lowest level of government able to deliver that service efficiently. The identification of functions that should be delivered by each level of government, requires an “unbundling” process based on the subsidiarity principle. The unbundling process allows for the identification and decentralisation of functions which can be more efficiently delivered at the sub-national level. This process also allows for the development of appropriate sector decentralisation plans and guidelines which identify the human and financial resources, along with capacity and relevant institutional support, needed for the sustainable decentralisation of the identified functions.

OBJECTIVE 1

To decentralise functions with matching resources from the national to the sub-national level to enhance efficiency and transparency in the delivery of and access to public services.

Measures

- i) Transfer decision-making authority, functions and matching resources from the Centre to the sub-national level.

4.1.2. Assignment of Revenue Responsibilities

In intergovernmental fiscal relations, the authority to perform a function and the responsibility to raise revenue to fund it, should as far as possible be with the same level of government. This enhances ownership and accountability, because a government that depends on its citizens for the payment of taxes and fees to fund a service, should be accountable to those citizens for the quality of that service. The Constitution of Zambia establishes this principle for local government through Article 161 which provides that “A local authority is competent to levy, impose, recover and retain local taxes, as prescribed”. This means that the Constitution envisages local authorities to raise own revenue through local taxation with property rates and business levies being among the main sources of revenue. However, local authorities are also encouraged to explore other revenue mobilisation avenues for sustainable local government financing.

OBJECTIVE 2

To improve revenue yield, efficiency, and lower transaction costs for business.

Measures

- i) Strengthen local authority capacities for mobilising revenues from traditional and non-traditional sources.
- ii) Automate local authority revenue management and accountability systems for enhanced local resource mobilisation
- iii) Review property tax administration to expand the tax base for enhanced local revenue mobilisation.
- iv) Promote community participation to enhance efficient local resource mobilisation.

4.1.3. Intergovernmental Transfers

Intergovernmental transfers in Zambia play a crucial role in facilitating fiscal decentralisation and redistributing resources among different levels of government. The grants are mainly the Local Government Equalisation Fund, Constituency Development Fund, sector grants, Grants-in-Lieu of Rates, among others.

OBJECTIVE 3

To ensure transparency and equity in the allocation of resources between and across the different levels of Government.

Measures

- i) Review financial resource sharing and allocation mechanisms between central and local government to address vertical and horizontal inequity.

4.1.4. Local Authority Debt and Borrowing

Ensuring debt sustainability through the effective management of debt and arrears in local authorities is a critical undertaking. Local authorities' ability to borrow can be inhibited by incurring of unsustainable arrears on their financial statements. Short-term borrowing may be required for cash management purposes while long-term capital financing could be an option for financing any local level capital projects. Thus, the proper management of both short-term borrowing and long-term debt can promote local economic development, encourage fiscal discipline, and enhance revenue generation.

OBJECTIVE 4

To enforce fiscal rules on acquisition and accumulation of debt and arrears, respectively, to ensure debt sustainability.

Measures

- i) Facilitate liquidation of existing debt and arrears in local authorities..
- ii) Establish a municipal bond policy framework for local authorities to access capital markets.
- iii) Realign the wage and recruitment policies for local authorities to match the available financial resources.
- iv) Strengthen sub-national fiscal risk assessment and reporting.
- v) Implement policy and administrative reforms aimed at enhancing the creditworthiness of local authorities.

4.1.5. Local Government Public Finance Management

The IFA will be operationalized and implemented through an effective budgeting and PFM system, anchored on financial management and accountability institutions and procedures designed to promote responsiveness, transparency, accountability, and efficiency at both the central government and local government levels. A set of integrated PFM systems and procedures at both the central and government levels will encourage the accountability of government funds.

The Government will ensure a sound PFM approach that not only covers the financial operations of the central Government but also addresses effective planning, budgeting, prudent financial management and accountability in local authorities to enhance service delivery. The PFM systems and procedures will be streamlined to fully support decentralised functions to the sub-national level. This includes establishing a transparent, reliable, stable, and accountable system for intergovernmental transfers, managing fiscal risks, and monitoring financial flows to the local level. The financial accountability framework is multidimensional and includes vertical accountability between central government and local authorities; and horizontal accountability across local authorities; as well as downward accountability to the community.

OBJECTIVE 5

To strengthen public financial management, accountability and responsiveness at the local level for improved service delivery.

Measures

- i) Strengthen financial management and accountability in local authorities.
- ii) Strengthen internal control systems, practices and operations of internal audit functions.
- iii) Implement standardized and integrated local authority financial management information systems.
- iv) Legislate the planning and budgeting process for the sub-national level for enhanced service delivery.

4.1.6. Coordination of Fiscal Decentralisation

Successful implementation of fiscal decentralisation requires a clearly defined and appropriate implementation and institutional framework which effectively facilitates greater interface between, and among the various actors at national, provincial, district and sub-district level.

OBJECTIVE 6

To strengthen the coordination and implementation of fiscal decentralisation for a stable, transparent, and predictable fiscal framework.

Measures

- i) Strengthen the capacities of fiscal decentralisation and local government public finance implementers.
- ii) Support operations of the coordination and implementation units in the implementation of the IFA.

CHAPTER 5 : IMPLEMENTATION AND INSTITUTIONAL ARRANGEMENTS

5.1. Implementation Arrangements

The Fiscal Decentralisation and Local Government Finance (FDLGF) Technical Working Group (TWG) will oversee the overall implementation of the IFA and shall report progress to the Decentralisation Policy Implementation Committee (DPIC) as an oversight body for implementation of decentralisation in the country. At institutional level, various institutions are expected to provide policy advice and direction, technical and financial support, and play a key role in the implementation of the IFA. The Ministry of Finance and National Planning through the Intergovernmental Fiscal Relations Unit (IFRU) shall provide leadership and coordinate the implementation of various programmes as articulated in Annex 1.

5.2. Key Institutions

The key institutions in the operationalisation and execution of IFA will include the following:

Table 1: Institutions and Responsibilities

INSTITUTION	ROLES/RESPONSIBILITIES
1. Cabinet Office	<ul style="list-style-type: none"> • Provide oversight, and direction in the implementation of fiscal decentralisation policies in consultation with the Ministry responsible for Finance; • Ensure that fiscal decentralisation policies are effectively integrated with complementary political and administrative decentralisation components and are responsive and • Supportive of the overall decentralisation reforms.
2. The Ministry responsible for Finance	<ul style="list-style-type: none"> • Formulate fiscal decentralisation policies in consultation with Cabinet Office; • Promote and coordinate the Government's national fiscal and macro-economic policy that includes sub-national level; • Formulate, allocate and disburse intergovernmental transfers; • Provide technical support to local authorities on budgets and matters relating to budgeting; • Promote and enforce transparency and effective management of revenue, expenditure, assets and liabilities of local authorities; • Formulate and coordinate public investment policies for local authorities; • Oversee the design and implementation of financial management systems in local authorities; • Provide public financial management policy direction, standards, regulations and monitor compliance with PFM procedures and resource use in local authorities; • Undertake monitoring and evaluation in the implementation of the fiscal decentralisation policies.

INSTITUTION	ROLES/RESPONSIBILITIES
3. The Ministry responsible for Local Government	<ul style="list-style-type: none"> • Provide local governance policy direction; • Provide administrative and technical guidance in collaboration with the Ministry of Finance and National Planning on the implementation of planning, budgeting, monitoring, financial and fiscal policies to the local authorities; and • Implement various fiscal decentralisation and local government financial capacity programmes in local authorities.
4. Sector Ministries	<ul style="list-style-type: none"> • Provide sector-specific policy direction, standards and regulations for decentralised functions; • Undertake sector-specific monitoring and evaluation activities with key stakeholders; and • Build relevant capacity for local authorities, and provincial and district departments for enhanced service delivery.
5. Local Authorities	<ul style="list-style-type: none"> • Implement fiscal decentralisation activities; • Implement policy pronouncements on devolved and delegated functions; • Participate in the monitoring of implementation of fiscal decentralisation programs in their respective jurisdiction together with other stakeholders; • Formulate by-laws for the effective and efficient administration of the districts; • Utilise intergovernmental transfers in line with the guidelines; and • Support CDFCs and WDCs to carry out their functions.
6. Other Oversight Institutions (Auditor General, Public Protector and Anti-Corruption Commission)	<ul style="list-style-type: none"> • Provide oversight and support services to mitigate against mal-administration and corruption at the sub-national level; and • Promote transparency and accountability in the utilisation of public resources at sub-national levels.
7. Cooperating Partners	<ul style="list-style-type: none"> • Provide financial and technical support for fiscal decentralisation policies; • Support and participate in monitoring, evaluation and learning at all levels of government; and • Support knowledge sharing at all levels of government.

INSTITUTION	ROLES/RESPONSIBILITIES
8. Private or Business Sector	<ul style="list-style-type: none"> Complement Government efforts on fiscal decentralisation; Participate in local economic development; Support local authorities and communities through Corporate Social Responsibility (CSR); and Participate in Public Private Partnerships with the local authorities.
9. Non-Governmental Organisations/ Civil Society Organisations	<ul style="list-style-type: none"> Complement Government efforts in governance, accountability, transparency and monitoring performance of fiscal decentralisation and devolved functions; Promote community mobilisation and participation in local governance and local development; Participate in monitoring, evaluation and learning; Build relevant capacity of local authorities, WDCs and community leaders/activists in local governance and local development.

KEY INSTITUTIONS

The key institutions in the operationalisation and execution of IFA

Cabinet Office

The Ministry responsible
for Finance

The Ministry responsible
for Local Government

Sector Ministries

Local Authorities

Other Oversight Institutions
(Auditor General, Public Protector
and Anti-Corruption Commission)

Non-Governmental
Organisations / Civil Society
Organisations

Cooperating Partners

Private or Business Sector

**CHAPTER 6 : RESOURCE MOBILISATION AND
FINANCING MODALITIES**

Availability of resources is critical and essential for the successful implementation of this IFA. Therefore, the Government shall pursue specific resource mobilisation strategies and financing modalities for an effective, efficient and well-coordinated IFA implementation.

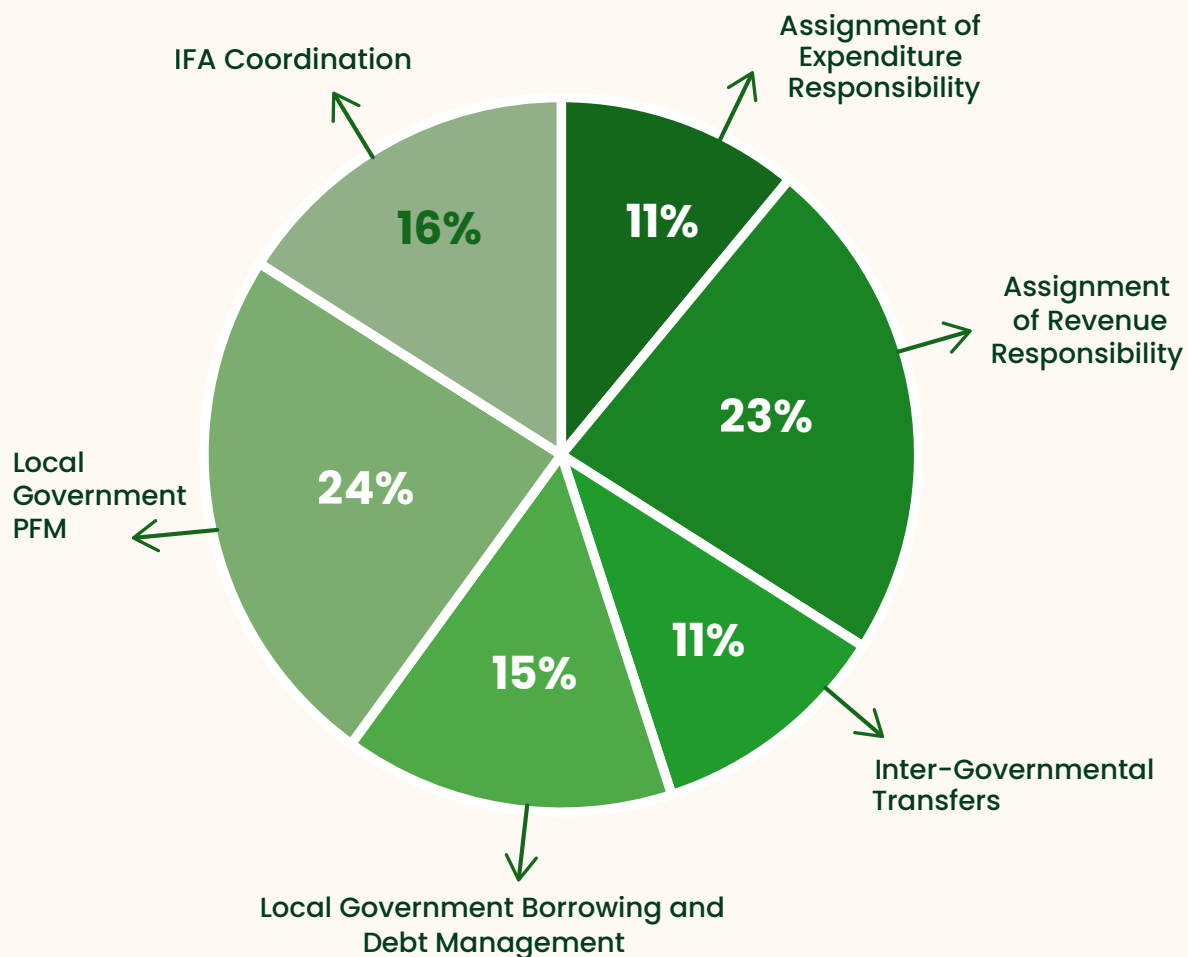
6.1. Resource Mobilisation Strategy

The cost of implementation of the IFA is estimated at K135,067,179.00. As part of the resource mobilisation strategy, Government shall utilise a multi-pronged approach to mobilise financial resources from both central Government and local authorities including other stakeholders. Structured engagements with cooperating partners, the private sector and civil society organisations among others shall be pursued to obtain some significant fiscal relief towards implementation of the IFA. Table 1 presents a summary breakdown of the cost.

Table 2: IFA Implementation Cost Breakdown

SN	IFA PROGRAMMES	ESTIMATED COST (ZMW)	% SHARE
1	Assignment of Expenditure Responsibility	15,517,349	11%
2	Assignment of Revenue Responsibility	31,179,938	23%
3	Inter-Governmental Transfers	14,362,908	11%
4	Local Government Borrowing and Debt Management	19,933,124	15%
5	Local Government PFM	32,859,750	24%
6	IFA Coordination	21,214,110	16%
TOTAL		135,067,179	100%

IFA Implementation Cost Breakdown



6.2. Financing Modalities

Government shall facilitate the financing of implementation of the IFA in collaboration with other stakeholders. This will include through budgetary allocation by parliament, financing from cooperating partners and other modalities such as PPPs.

Local authorities shall continue mobilising resources from their own-source revenues, including tax and non-tax sources, as well as through inter-governmental transfers from the central Government. Additionally, they shall explore revenue generation via borrowing from non-conventional sources, such as capital markets and the private sector, through instruments like municipal bonds. This financial diversification is critical for local authorities to effectively deliver their assigned programmes under the IFA implementation and to meet their expanded functional responsibilities arising from devolution.

CHAPTER 7 : MONITORING, EVALUATION AND RISK MANAGEMENT

Monitoring and evaluation of the IFA implementation will be institutionalised premised on the principles of Results-Based Management (RBM). The RBM, which is a participatory and team-based management approach that focuses on performance and achieving results, offers a good framework to improve programme delivery and strengthen management effectiveness, efficiency and accountability. Risk management mechanisms shall also be instituted to mitigate the effects of destructive risks.

7.1. Monitoring and Evaluation

7.1.1. Monitoring

Monitoring and evaluation of the IFA shall be informed and guided by the provisions of the 2019 National Monitoring and Evaluation Policy. The policy provides a framework for measuring and tracking progress in the implementation of policies, plans, programmes and projects. Accordingly, a detailed M&E framework shall be developed to inform effective and efficient monitoring of the IFA implementation process and assure benefits thereof. Central Government shall monitor and report on higher level indicators whereas the sub-national institutions including local authorities shall generate and document performance data that shall be useful for measuring progress at the local level, as well as overall fiscal decentralisation progress. These monitoring activities shall be guided by the IFA Implementation Plan.

Continuous learning will also be integrated in the monitoring and evaluation framework through reviews by various stakeholders to enhance identification of potential bottlenecks, ensure effective planning, and facilitate appropriate interventions. Stakeholder reviews of IFA implementation will be informed by participant accounts, case studies, and expert analysis of monitoring data by Government and other stakeholders through an Intergovernmental Fiscal Forum, which shall be established to strengthen intergovernmental fiscal relations and coordination.

7.1.2. Evaluation

IFA implementation shall be evaluated periodically in line with its implementation plan. The mid-term review shall be undertaken after two and half years of IFA implementation and will inform implementation of the remaining plan period. A final-term review shall be undertaken after 5 years. The evaluations shall involve an analysis of both process and outcome, to generate evidence to inform future implementation. Government shall commission the evaluations to be conducted by independent entities with competencies in evaluation of national programmes particularly evaluation of fiscal decentralisation programmes.

7.2. Risk Management

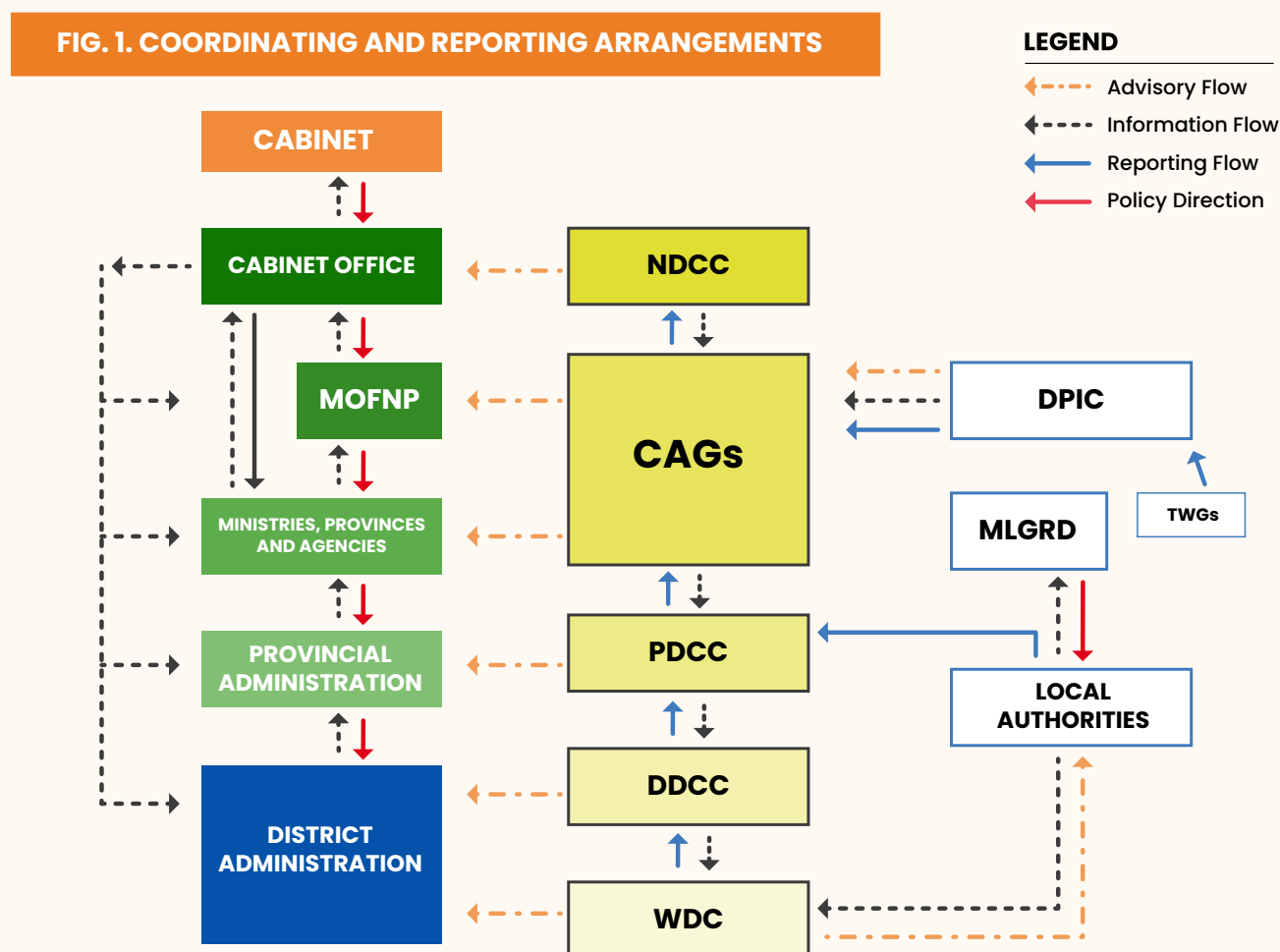
The undertaking of effective risk management has long-term benefits to Government's quest of providing quality, efficient and effective services to the people as well as in assuring stakeholders of good governance practices. To manage risk over the implementation period of the IFA, a risk register (Refer to Annex 3) has been compiled with the purpose of identifying risks that have a high impact and likelihood to derail implementation so as to ensure timely mitigation. As part of M&E, evaluation of risks shall be done from time to time and mitigating measures be put in place.

7.3. Coordination and Reporting Arrangements

The Decentralisation Policy Implementation Committee (DPIC), working through the Fiscal Decentralisation and Local Government Finance Technical Working Group (FDLGF-TWG) shall provide overall oversight in the implementation of the IFA. At provincial and district level, implementation of the IFA is expected to be equally undertaken through an integrated approach for both programme implementation and monitoring. Provincial and district administrations shall work through the Provincial Development Coordinating Committees (PDCCs) and District Development Coordinating Committees (DDCCs), and the Decentralisation Task Forces to champion and monitor implementation of IFA programmes.

The Ministry of Finance and National Planning shall provide leadership in the consolidation of the annual report and present it for discussion at the FDLGF TWG, DPIC, stakeholders and the annual fiscal decentralisation conference that takes place every year. Reporting at various levels of government and intervals shall be done through progress reports on a monthly, quarterly and annual basis. The monthly reports shall ultimately lead to the compilation of subsequent progress reports up to the production of the Consolidated Annual Progress Report (CAPR) for the IFA.

Figure 1: Coordination and Reporting Arrangements



ANNEX 1 : IMPLEMENTATION AND MONITORING MATRIX

1. ASSIGNMENT OF EXPENDITURE RESPONSIBILITIES

MEASURE	PLANNED ACTIVITIES	PERFORMANCE INDICATORS	MEANS OF VERIFICATION	BASELINE INFORMATION (2022)	TOTAL TARGET	ANNUAL TARGETS					TOTAL COST (ZMW)	RESPONSIBLE INSTITUTION
						2023	2024	2025	2026	2027		
OBJECTIVE 1: To decentralise functions with matching resources from the national to the sub-national and substructure level to enhance efficiency and transparency in the delivery of and access to public services.												
Transfer decision-making authority, functions and matching resources from the national to the sub-national level.	Devolve exclusive Local Authority functions with matching resources to the Local Authorities.	Number of exclusive functions devolved with matching resources to the Local Authorities.	Cabinet Circulars Sector Devolution Plans	0	17	8	0	5	0	3	7,727,539	Lead: CO-DS MFNP/MLGRD/ Devolving Sectors
	Develop technical guides outlining costings, service standards, and operating procedures for devolved functions.	Number of Technical Guidelines Developed	Technical Guidelines	0	17	0	8	5	0	3	1,768,200	Lead: CO-DS MFNP/MLGRD/ Devolving Sectors
	Establish Baseline Information for Devolved Functions.	Baseline Information on devolved functions in place	Baseline Study Report	0	1	0	1	0	0	0	1,545,000	Lead: CO-DS MFNP/MLGRD/ Devolving Sectors
	Develop a Tolling Programme to operationalise devolution of the Tolls Function.	Tolling Programme to operationalize devolution of the Tolls Function developed	Tolling Programme Document	0	1	0	1	0	0	0	2,806,610	Lead: CO-DS MFNP/MLGRD/ Devolving Sectors
	Undertake a Study on deconcentrated and delegated Central Government Functions.	Number of studies undertaken	Study Report	0	1	0	0	1	0	0	1,670,000	Lead: CO-DS MFNP/MLGRD/ Devolving Sectors
TOTAL ASSIGNMENT OF EXPENDITURE RESPONSIBILITIES											15,517,349	

ANNEX 1 : IMPLEMENTATION AND MONITORING MATRIX

2. ASSIGNMENT OF REVENUE RESPONSIBILITIES												
MEASURE	PLANNED ACTIVITIES	PERFORMANCE INDICATOR	MEANS OF VERIFICATION	BASELINE INFORMATION (2022)	TOTAL TARGET	ANNUAL TARGETS					TOTAL COST	RESPONSIBLE INSTITUTION
						2023	2024	2025	2026	2027		
OBJECTIVE 2: To improve revenue yield, efficiency, and lower transaction costs for businesses.												
Strengthen local authority capacities for mobilising revenues from traditional and non-traditional sources.	Conduct a study or benchmark to establish Local Authority Own Source Revenues (OSRs) generation potential	Number of studies conducted on the review and rationalization of Local Authority OSRs	Study Report	0	2	0	1	0	0	1	1,660,789	Lead: MFNP CO/MLGRD/ AOG/LAs
	Conduct Annual Tax and Non-Tax Policy Reviews on OSR	Number of Tax and Non-Tax Policy Reviews conducted	Review Report	0	2	0	1	0	0	1	1,987,450	Lead: MFNP CO/MLGRD/ AOG/LAs
	Conduct Local Authorities revenue potential mapping	Number of local authority's revenue potential mapped	Mapping Report and Data base	0	116	0	0	40	40	36	3,600,000	Lead: MFNP CO/MLGRD/ AOG/LAs
	Develop a Revenue Mobilisation Strategy for LAs	Revenue Mobilisation Strategy in place	Revenue Mobilisation Strategy	0	1	0	1	0	0	0	987,550	Lead: MFNP CO/MLGRD/ AOG/LAs
	Conduct Training on Revenue Forecasting in Local Authorities.	Number of Local Authorities trained in Revenue Forecasting	Training Report	0	116	0	60	56	0	0	2,345,500	Lead: MFNP CO/MLGRD/ AOG/LAs
	Develop Local Authority Guidelines for developing and financing Revenue Generating Infrastructure Investments.	Local Authority Guidelines for developing and financing Revenue Generating Infrastructure Investments in place	Guidelines	0	1	0	1	0	0	0	1,755,850	Lead: MFNP CO/MLGRD/ AOG/LAs
	Develop a Revenue Sharing Mechanism for revenues generated from devolved functions	A Revenue Sharing Mechanism for revenues generated from devolved functions in place	Revenue Sharing Mechanism	0	1	0	1	0	0	0	1,965,000	Lead: MFNP CO/MLGRD/ AOG/LAs

ANNEX 1 : IMPLEMENTATION AND MONITORING MATRIX

2. ASSIGNMENT OF REVENUE RESPONSIBILITIES												
MEASURE	PLANNED ACTIVITIES	PERFORMANCE INDICATOR	MEANS OF VERIFICATION	BASELINE INFORMATION (2022)	TOTAL TARGET	ANNUAL TARGETS					TOTAL COST	RESPONSIBLE INSTITUTION
						2023	2024	2025	2026	2027		
Automate local authority revenue management and accountability systems for enhanced local resource mobilisation.	Digitise Local Authority Revenue Mobilisation, Management and Accountability Systems.	Number of LAs with Revenue Mobilisation, Management and Accountability Systems digitised.	Digitisation Reports	36	80	10	50	20	0	0	2,654,500	Lead: MFNP CO/MLGRD/ AOG/LAs
	Facilitate provision of e-Services in Local Authorities	Percentage of LAs providing e-Services	Progress Reports	30%	100%	30%	50%	80%	100%	100%	2,456,887	Lead: MFNP CO/MLGRD/ AOG/LAs
	Orient LAs on Public Private Partners for enhanced service delivery at the local level.	Number of Local Authorities Oriented	Activity Reports	0	116	0	25	91	0	0	1,890,500	Lead: MFNP CO/MLGRD/ AOG/LAs
	Undertake a baseline survey to establish the extent of Private Sector presence at the district level	Number of surveys undertaken	Survey Report	0	1	0	0	1	0	0	1,050,850	Lead: MFNP CO/MLGRD/ AOG/LAs
Review property tax administration to expand tax base coverage for enhanced local revenue mobilisation.	Amendment of the Rating Act.	Amended Rating Act in place.	Amended Rating Act	0	1	0	1	0	0	0	2,345,600	Lead: MLGRD CO/MFNP/LAs
	Facilitate the enforcement and collection of property rates, including outstanding tax obligations.	Number of LAs reporting progress on the enforcement and collection of property rates, including outstanding tax obligations.	Progress Reports	0	116	0	0	66	90	116	1,877,650	Lead: MLGRD CO/MFNP/LAs
	Undertake a study to establish LA Tax Base Coverage.	Number of Studies undertaken on LA Tax Base Coverage.	Study Report	0	1	0	1	0	0	0	1,999,786	Lead: MLGRD CO/MFNP/LAs
	Review the Land Development Fund to enhance accessibility by LAs.	Reviewed Land Development Fund in place.	Review Document	0	1	0	0	1	0	0	876,500	Lead: MLGRD CO/MFNP/LAs

ANNEX 1 : IMPLEMENTATION AND MONITORING MATRIX

2. ASSIGNMENT OF REVENUE RESPONSIBILITIES												
MEASURE	PLANNED ACTIVITIES	PERFORMANCE INDICATOR	MEANS OF VERIFICATION	BASELINE INFORMATION (2022)	TOTAL TARGET	ANNUAL TARGETS					TOTAL COST	RESPONSIBLE INSTITUTION
						2023	2024	2025	2026	2027		
Promote community participation to enhance efficient local resource mobilisation	Facilitate development of LA Websites for publishing of various key documents.	Number of Local Authorities with functional Websites containing key documents.	Websites	40%	100	60%	80%	90%	100%	100%	1,568,780	Lead: MLGRD CO/MFNP/LAs
	Conduct Taxpayer awareness campaigns through various platforms.	Number of taxpayer and Civic Education Campaign Programs undertaken	Awareness Campaign Reports	0	464	0	232	0	0	232	2,500,000	Lead: MLGRD CO/MFNP/LAs
TOTAL ASSIGNMENT OF REVENUE RESPONSIBILITIES											31,179,938	

ANNEX 1 : IMPLEMENTATION AND MONITORING MATRIX

3. INTERGOVERNMENTAL TRANSFERS

MEASURE	PLANNED ACTIVITIES	PERFORMANCE INDICATOR	MEANS OF VERIFICATION	BASELINE INFORMATION (2022)	TOTAL TARGET	ANNUAL TARGETS					TOTAL COST	RESPONSIBLE INSTITUTION
						2023	2024	2025	2026	2026		
OBJECTIVE 3: To ensure transparency and equity in the allocation of resources between and across levels of Government												
Review financial resource sharing and allocation mechanisms between Central Government and Local Government to address vertical and horizontal inequity.	Review the CDF Horizontal Allocation Formula	Reviewed CDF Horizontal Allocation in place	CDF Horizontal Allocation	0	1	0	0	0	1	0	1,656,700	Lead: MFNP CO/MLGRD/AOG/LAs
	Review the LGEF Horizontal Allocation Formula	Reviewed LGEF Horizontal Allocation in place	LGEF Horizontal Allocation	0	1	0	0	1	0	0	1,654,098	Lead: MFNP CO/MLGRD/AOG/LAs
	Design Specific Purpose Grants for Specific Devolved Sector.	Number of Specific Purpose Grants for Specific Devolved Sectors designed.	Specific Purpose Grants for Specific Devolved Sectors	6	4	0	0	4	0	0	2,045,000	Lead: MFNP CO/MLGRD/AOG/LAs
	Develop a Performance Based Granting Manual	Performance Based Granting Manual in place	Performance Based Granting System/ Manual	0	1	0	1	0	0	0	1,650,450	Lead: MFNP CO/MLGRD/AOG/LAs
	Develop a criterion for accessing Performance-Based Grants by LAs	Criteria for accessing Performance-Based Grants in place	Performance Based Grants Formula	0	1	0	1	0	0	0	1,245,990	Lead:MFNP CO/MLGRD/AOG/LAs
	Undertake Annual Performance Assessments (APA) of Councils	Number of Councils qualifying to receive the Basic Capital Grants	APA Report	0	116	0	116	116	116	116	3,765,000	Lead: CO-DS MFNP/MLGRD/AOG/LAs

ANNEX 1 : IMPLEMENTATION AND MONITORING MATRIX

3. INTERGOVERNMENTAL TRANSFERS												
MEASURE	PLANNED ACTIVITIES	PERFORMANCE INDICATOR	MEANS OF VERIFICATION	BASELINE INFORMATION (2022)	TOTAL TARGET	ANNUAL TARGETS					TOTAL COST	RESPONSIBLE INSTITUTION
						2023	2024	2025	2026	2026		
Re-instate the minimum of 5% of the total projected national income taxes to the LGEF and allocate resources across Local Authorities using a transparent formula to promote equitable development	Undertake a study to establish adequacy and application of the LGEF in the LAs.	Number of LGEF Studies Undertaken	Study Report	0	2	0	0	1	0	1	2,345,670	Lead: MFNP CO/MLGRD/ AOG/LAs
TOTAL INTERGOVERNMENTAL TRANSFERS											14,362,908	

ANNEX 1 : IMPLEMENTATION AND MONITORING MATRIX

4. BORROWING AND DEBT MANAGEMENT												
MEASURE	PLANNED ACTIVITIES	PERFORMANCE INDICATOR	MEANS OF VERIFICATION	BASELINE INFORMATION (2022)	TOTAL TARGET	ANNUAL TARGETS					TOTAL COST	RESPONSIBLE INSTITUTION
						2023	2024	2025	2026	2027		
OBJECTIVE 4. To enforce fiscal rules on acquisition and accumulation of debt and arrears to ensure debt sustainability.												
Facilitate liquidation of existing debt and arrears in Local Authorities.	Develop LA Debt and Arrears Liquidation Plans	Number of LA with Debt and Arrears Liquidation Plans	Liquidation Plans	0	116	25	75	16	0	0	4,287,984	Lead: MFNP CO/MLGRD/AOG/LAs
	Facilitate negotiations for LA Debt Cancellation, Refinancing and Restructuring	Number of institutions engaged for LA Debt cancellation, refinancing and restructuring.	Local Authority Debt Cancellation, Refinancing and Restructuring Mechanism	0	4	0	2	2	0	0	1,238,700	Lead: MFNP CO/MLGRD/AOG/LAs
	Establish a LA Debt and Arrears Monitoring Mechanism (LADAMM).	LA Debt and Arrears Monitoring Mechanism in place	Quarter Local authorities' Debt and Arrears bulletin	0	19	1	4	4	4	4	1,683,110	Lead: MFNP CO/MLGRD/AOG/LAs
	Design a Matching Grant for LA Debt and Arrears Liquidation	Percentage of LAs accessing Matching Grants.	Progress Reports	0	100%	0	0	50%	100%	100%	1,970,350	Lead: MFNP CO/MLGRD/AOG/LAs
Establish a municipal bond policy framework for Local Authorities to access capital markets.	Commission a study on the establishment of a municipal bond policy framework for LAs to access capital markets	Number of studies undertaken	Study Report	0	1	0	0	1	0	0	1,105,980	Lead: MFNP CO/MLGRD/AOG/LAs
	Undertake Benchmarking Exercises on access to capital markets by Local Authorities	Number of Benchmarking Exercises undertaken	Benchmarking Reports	0	2	0	0	1	1	0	1,235,450	Lead: MFNP CO/MLGRD/AOG/LAs

ANNEX 1 : IMPLEMENTATION AND MONITORING MATRIX

4. BORROWING AND DEBT MANAGEMENT												
MEASURE	PLANNED ACTIVITIES	PERFORMANCE INDICATOR	MEANS OF VERIFICATION	BASELINE INFORMATION (2022)	TOTAL TARGET	ANNUAL TARGETS					TOTAL COST	RESPONSIBLE INSTITUTION
						2023	2024	2025	2026	2027		
Realign the Wage and Recruitment Policies for Local Authorities to match the available Financial Resources	Conduct a Budget and Emoluments Sustainability Analysis (BESA).	Budget and Emoluments Sustainability Analysis (BESA) conducted	BESA Analysis Report	0	4	0	1	1	1	1	2,675,000	Lead: MFNP CO/MLGRD/AOG/LAs
	Undertake Benchmarking Exercises on realigning the wage and recruitment policies for Local Authorities	Number of Benchmarking Exercises undertaken	Benchmarking Reports	0	2	0	1	0	1	0	1,670,550	Lead: MFNP CO/MLGRD/AOG/LAs
Strengthen sub-national Fiscal Risk Assessment and Reporting.	Conduct an Annual Fiscal Risk Assessment of LA	Number of Local Authorities Assessed	Local Authority Fiscal Risk Assessment Report	0	1	0	0	1	1	1	1,978,000	Lead: MFNP CO/MLGRD/AOG/LAs
Implement policy and administrative reforms aimed at enhancing the creditworthiness of Local Authorities.	Undertake a Study to establish the creditworthiness of LAs.	Number of Local Authorities creditworthy	Local Authority Creditworthiness Report	0	1	0	0	1	0	0	2,088,000	Lead: MFNP CO/MLGRD/AOG/LAs
TOTAL BORROWING AND DEBT MANAGEMENT											19,933,124	

ANNEX 1 : IMPLEMENTATION AND MONITORING MATRIX

5. LOCAL GOVERNMENT PUBLIC FINANCIAL MANAGEMENT												
MEASURE	PLANNED ACTIVITIES	KEY PERFORMANCE INDICATOR	MEANS OF VERIFICATION	BASELINE INFORMATION (2022)	TOTAL TARGET	ANNUAL TARGETS					TOTAL COST	RESPONSIBLE INSTITUTION
						2023	2024	2025	2026	2027		
OBJECTIVE 5: To strengthen local Public Financial Management (PFM), accountability and responsiveness at the local level for improved service delivery.												
Strengthen financial management and accountability in local authorities	Revise the Local Authority Financial and Accounting Procedures Manual	Number of LA Financial and Accounting Procedures Manual Revised.	Local Authority Financial and Accounting Procedures Manual.	0	1	0	1	0	0	0	1,450,000	MFNP/CO/ MLGRD
	Orient LAs on the updated Financial and Accounting Procedures Manual	Number of LA oriented on the updated Financial and Accounting Procedures Manual	Orientation Reports	0	166	0	55	61	0	0	2,350,000	MFNP/CO/ MLGRD
	Conduct an audit of Bank Accounts in Las.	Number of Las Audited.	Audit Reports	0	116	0	55	61	0	0	1,350,450	MFNP/CO/ MLGRD
	Conduct capacity building programs on Cash Management in Las	Number of LAs capacitated-on cash management	Capacity Building Reports	0	116	0	40	50	26	0	2,345,670	Lead: MFNP CO/ MLGRD/LAs
Strengthen internal control systems, practices and operations of internal audit functions.	Establish a dedicated financial monitoring portal for publishing LA Fiscal Data.	Number of dedicated financial monitoring portal for publishing LA fiscal data established.	Financial Monitoring Portal	0	1	0	0	1	0	0	1,200,355	Lead: MFNP CO/ MLGRD/LAs
	Conduct internal audit in Local Authorities	Number of Local Authorities Audited.	Internal Audit Reports	116	116	116	116	116	116	116	1,098,345	Lead: MFNP CO/ MLGRD/LAs
	Develop the Local Authorities Internal Audit Manual	Number of LAs Internal Audit Manual Developed.	Local Authorities Internal Audit Manual	0	1	0	0	1	0	0	850,000	Lead: MFNP CO/ MLGRD/LAs
	Facilitate the implementation of Computer Aided Audit Tools (CAATs) in LAs.	Number of Local Authorities with Computer Aided Audit Tools (CAATs)	Local Authority Computer Aided Audit Tools (CAATs)	0	116	0	50	66	0	0	1,678,980	Lead: MFNP CO/ MLGRD/LAs

ANNEX 1 : IMPLEMENTATION AND MONITORING MATRIX

5. LOCAL GOVERNMENT PUBLIC FINANCIAL MANAGEMENT												
MEASURE	PLANNED ACTIVITIES	KEY PERFORMANCE INDICATOR	MEANS OF VERIFICATION	BASELINE INFORMATION (2022)	TOTAL TARGET	ANNUAL TARGETS					TOTAL COST	RESPONSIBLE INSTITUTION
						2023	2024	2025	2026	2027		
Implement standardized and Integrated Local Authority Financial Management Information Systems.	Develop a Strategy for rolling out MS Dynamics-NAV in LAs.	Number of Strategies for rolling out MS Dynamics NAV Developed	MS Dynamics NAV Rolling out Strategy	0	1	0	0	1	0	0	1,320,450	Lead: MFNP CO/ MLGRD/LAs
	Procure MS Dynamics-NAV and supporting infrastructure and hardware.	Number of MS Dynamics-NAV and supporting infrastructure and hardware procured	MS Dynamics-NAV and supporting infrastructure and hardware	0	1	0	0	1	0	0	5,980,650	Lead: MFNP CO/ MLGRD/LAs
	Conduct MS Dynamics-NAV capacity building for users.	Number of capacity building programs on MS Dynamics NAC conducted	Capacity Building Reports	0	10	0	0	5	5	0	1,675,850	Lead: MFNP CO/ MLGRD/LAs
	Conduct financial data migration and conversion to Local Authorities	Number of Local Authorities with financial data migrated	Report	0	116	0	0	116	0	0	4,578,500	Lead: MFNP CO/ MLGRD/LAs
	Conduct post implementation support to Local Authorities	Number of Local Authorities who have post implementation supported provided	Report	0	116	0	0	116	116	0	5,750,500	Lead: MFNP CO/ MLGRD/LAs
Legislate the planning and budgeting process for subnational level for enhanced service delivery	Review and Amend the Planning and Budgeting Act	Amended Planning and Budgeting Act in place	Report	0	1	0	1	0	0	0	1,230,000	Lead: MFNP CO/ MLGRD/LAs
TOTAL LOCAL GOVERNMENT PUBLIC FINANCIAL MANAGEMENT											32,859,750	

ANNEX 1 : IMPLEMENTATION AND MONITORING MATRIX

6. IFA COORDINATION												
MEASURE	PLANNED ACTIVITIES	KEY PERFORMANCE INDICATOR	MEANS OF VERIFICATION	BASELINE INFORMATION (2022)	TOTAL TARGET	ANNUAL TARGETS					TOTAL COST	RESPONSIBLE INSTITUTION
						2023	2024	2025	2026	2027		
OBJECTIVE 6: To strengthen the coordination and implementation of fiscal decentralisation for a stable, transparent and predictable fiscal arrangement.												
Strengthen the capacities of fiscal decentralisation and local government public finance implementers.	Facilitate Knowledge Sharing on Intergovernmental Transfers	Number of Knowledge Sharing Initiatives Undertaken	Knowledge Exchange Visit Reports	0	4	0	1	1	1	1	2,675,600	Lead: DS/ MFNP/ MLGRD/LAs
	Training of Staff	Number of Staff Trained	Training Reports	5	25	5	5	5	5	5	2,856,500	Lead: DS /MFNP/ MLGRD/LAs
Support operations of the coordination and implementation units in the implementation of the IFA	Undertake Monitoring and Evaluation	Number of M&E programmes undertaken	Monitoring and Evaluation Reports	4	20	4	4	4	4	4	1,899,755	Lead: DS /MFNP/ MLGRD/LAs
	Commission Studies on fiscal decentralisation and public finance management	Number of Studies Commissioned	Study Reports / Documents	2	4	0	1	2	1	1	2,456,700	Lead: DS/ MFNP/ MLGRD/LAs
	Conduct a review of Structures of coordinating and auditing offices in Cabinet Office MFNP, MLGRD and AOG.	Robust Operational Structure of the Coordination and Auditing Offices	Review Report	0	0	0	0	1	0	0	2,750,555	Lead: DS/ CO/ MLGRD/Las
	Undertake Audits of Local Authorities	Number of Local Authorities Audited	Audit Reports	116	116	116	116	116	116	116	3,250,000	Lead: CO/ MFNP/ MLGRD/LAs
	Undertake Capacity Building of Local Authorities on auditing demands	Number of capacity building initiatives undertaken	Activity Reports	0	20	4	4	4	4	4	2,650,000	Lead: CO/ MFNP/ MLGRD/LAs
	Establish an Institutionalised Fiscal Decentralisation Programme	Number of Higher Learning Institutions established	Course Curriculum	0	1	0	0	1	1	0	2,675,000	Lead: MFNP/ CO/ MLGRD/LAs
TOTAL IFA COORDINATION											21,214,110	
GRAND TOTAL IFA											135,067,179	

ANNEX 2: RISK FRAMEWORK

FISCAL RISK FRAMEWORK FOR FISCAL DECENTRALISATION IMPLEMENTATION IN ZAMBIA					
RISK IDENTIFIED /DRIVER	LIKELIHOOD OF THE RISK	FREQUENCY OF OCCURRENCE	IMPACT, IF RISK MATERIALIZES	PRIORITY	RISK TREATMENT
FISCAL RISK					
Exchange Rate Fluctuations which may lead to inflationary pressure in the case of a depreciation; and export earnings losses in the case of an appreciation;	Always	Often	High	High	Provide Macroeconomic and Fiscal policies that are responsive towards global economic conditions
Delayed implementation of Policy Reforms is likely to heighten fiscal risk;	Likely	Sometimes	High	High	Develop action taken report and policy implementation monitoring mechanism
Climate Change and effects of Drought: Effects of eminent drought may negatively affect agriculture production and electricity generation with spillover effects to other sectors such as local government, manufacturing, among others;	Extremely Likely	Often	High	High	Provide climate resilient geo-economic policies and engage in climate Change Mitigation and Adaptation programmes that will contribute to the shift towards a sustainable, energy-efficient, renewable energy-based, climate neutral and resilient economy. As well as develop Drought coping initiatives.
Geopolitical Conflicts: Geopolitical conflicts and fragmentations may impact global inflation and commodity prices such as petroleum and grain products;	Sometimes	Rarely	Medium	Medium	Develop a multi-country approach; protect the fiscal and monetary policy from international shocks; and build resilient plans before trouble begins
Inflationary Pressures: largely on account of sustained price increases of food and non-food items especially in the transport sector;	Extremely Likely	Always	High	High	Implement through the central bank innovative monetary policy instruments and the central Government fiscal policy instruments.
Subdued global growth: A slowdown in global economic growth and a contraction of Chinas economy poses a risk to growth as China is a main market for Zambia's copper exports, which are a major source of foreign exchange for Zambia;	Neutral	Sometimes	Medium	Medium	Provide Macroeconomic and Fiscal policies that are responsive towards global economic conditions
Copper prices fluctuations are projected to trend downwards in the medium term. Reduced copper prices will pose a risk to Zambia's growth projections as it is the country's major foreign exchange earner.	Likely	Sometimes	High	High	Explore investing into non-traditional exports that may include sugar, cotton, coffee, soybeans, maize and tobacco, among others; and diversify the economy and reduce its dependence on copper.
Disease pandemics and epidemics: implementation of fiscal decentralization maybe impacted by disease outbreaks such as COVID-19 Pandemic and Cholera and this may prolong a return to normal economic activity and sluggish recovery of the global economy.	Likely	Always	High	High	Heighten WHO utilization of global strategies for the prevention and control of epidemic- prone diseases; and implement global health security
Local Tax compliance levels: Inertia from the community to pay taxes and levies	Likely	Always	Medium	High	Improve community engagements
Political involvement: in determining revenue collection and exceptions	Likely	Sometimes	Medium	Medium	Community engagements

ANNEX 2: RISK FRAMEWORK

FISCAL RISK FRAMEWORK FOR FISCAL DECENTRALISATION IMPLEMENTATION IN ZAMBIA					
RISK IDENTIFIED /DRIVER	LIKELIHOOD OF THE RISK	FREQUENCY OF OCCURRENCE	IMPACT, IF RISK MATERIALIZES	PRIORITY	RISK TREATMENT
Inability to prioritize debt at local level: Human elements towards debt servicing.	Extremely Likely	Sometimes	Medium	Medium	Engage council staff on planning and budgeting and consider embedding into performance contracts for controlling Officer ability to liquidate debt for LAS
High wage bill in Local Authorities, Low levels of income in most councils,	Extremely Likely	Always	High	Medium	Engage Local Government Service Commission
Human resource challenges: Unplanned transfers un-sustained wage bill Non- conduct of needs assessment.	Extremely Likely	Often	High	High	Engage Local Government Service Commission

ANNEX 3: TERMS OF REFERENCE FOR THE FISCAL DECENTRALIZATION AND LOCAL GOVERNMENT FINANCE TECHNICAL WORKING GROUP

1. BACKGROUND

In 2002, the country adopted the first National Decentralisation Policy, which was later launched in 2004 and subsequently revised in 2013. The Policy underwent a further review in 2023 which was necessitated by the expiry of the 10-year life span of the 2013 Policy and emerging national and international trends on decentralisation.

The 2023 Revised Policy provides a framework to actualise decentralisation by devolution, which is critical for citizen participation in achieving sustainable local development and enhanced service delivery. The Policy identifies and addresses the challenges that were experienced at implementation of the previous Policies. It considers the significant developments and changes that have taken place in the decentralisation landscape and provides a broader scope to address emerging issues.

The concept of Technical Working Groups (TWG) is based on the decision by Government to allow for stakeholder participation and expert input in the implementation of the National Decentralisation Policy. The TWGs are an interface between the implementers of the Policy and the Decentralisation Secretariat who are facilitators of Policy implementation. The TWGs are expected to provide diverse expertise and experiences on various issues related to decentralisation implementation.

2. CRITERIA FOR MEMBERSHIP TO A TWG

The following is the criteria for being a member to all Decentralisation Technical Working Groups:

- i) Participation shall be at the level of Director, Assistant Director, or any other Senior Government Officer;
- ii) Institution or individual shall have interest/ skill in the Thematic Area;
- iii) No individual in more than two TWGs unless where unavoidable; and
- iv) Decentralisation Secretariat shall provide Secretarial Services to the TWG.

3. TERMS OF REFERENCE FOR THE TECHNICAL WORKING GROUP

Terms of Reference for the Fiscal Decentralisation and Local Government Finance (FDLGF) Technical Working Group include;

a) **Fiscal Management and Accountability**

- Facilitate the development of a comprehensive framework to guide implementation of Fiscal Decentralisation;
- Review existing financial management and accounting systems and procedures for Local Authorities and make the necessary recommendations to enhance financial management integrity and accountability.
- Review current financial management and accountability capacity in Local Authorities and make the necessary recommendations for strengthening.

b) **Assignment of Expenditure Responsibilities and Intergovernmental Transfers**

- Review existing financial management and accounting systems and procedures for Local Authorities and make the necessary recommendations to enhance financial

management integrity and accountability.

- Review current financial management and accountability capacity in Local Authorities and make the necessary recommendations for strengthening.

c) Revenue Assignments

- Review revenue mobilization strategies for Local Authorities and make necessary recommendations.
- Review Local Authority sources of revenue and make recommendations for their rationalization and sharing.

d) Local Authority Borrowing and Debt

- Monitor Local Authority debt and make the necessary recommendations for debt sustainability.

e) Monitoring and Evaluation and Reporting

- Undertake M&E visits to the districts to ascertain value for money in the implementation of programmes at the local level using devolved function grants, Constituency Development Funds and Local Government Equalisation Funds;
- Facilitate the mapping of Cooperating Partner technical and financial support and make necessary recommendations; and
- Generate information from monitoring the implementation of the agreed Annual Plans and report progress to the Decentralisation Policy Implementation Committee (DPIC).

4. MEMBERSHIP

This Technical Working Group will advise on the implementation of the Fiscal Decentralisation and Local Government Finance Focus Area. Membership will be drawn from relevant Government Ministries/Institutions including Cabinet Office, Ministry of Finance and National Planning, Ministry of Local Government and Rural Development, Local Authorities among others and will be Chaired by the Ministry of Finance and National Planning.

Members shall include:

N.	MEMBER	ROLE
1	Permanent Secretary Budget Office (MFNP)	Chairperson;
2	Director, Accountant General's Office (MFNP)	Member;
3	Director of Budgets (MFNP)	Member;
4	Director, Local Authorities Audit Department (MFNP)	Member;
5	Director, Local Government Administration (MLGRD)	Member;
6	Director, Finance (MLGRD)	Member;
7	Director, Decentralisation Secretariat	Member;

8	Director, Planning and Information Auditor General's Office (AGO)	Member;
9	Director, Local Government Audit, Auditor General's Office (AGO)	Member;
10	Representative, Zambia Revenue Authority (ZRA)	Member;
11	Representative Zambia Public Procurement Authority (ZPPA)	Member;
12	Representative, Zambia Institute of Certified Accountants (ZICA)	Member;
13	Representative, Economics Association of Zambia (EAZ)	Member;
14	Representative, Local Government Association of Zambia (LGAZ)	Member;
15	Representative, Zambia Chamber of Commerce and Industry	Member;
16	Representative, Civil Society Organisations	Member; and
17	Assistant Director, Financial Reforms and Resource Mobilisation	Member (DS - Secretary).

In order to build cohesion and a sustained institutional memory, it's advised that, the membership to this TWG will be based on permanently appointed individuals from the above-mentioned Government and Non-Government Institutions.

5. OPERATIONAL MODALITIES OF TECHNICAL WORKING GROUPS

5.1 Convening of Meetings

The TWG Chairperson in consultation with the Decentralisation Secretariat Assistant Director responsible for Financial Reforms and Resource Mobilisation (Secretary to the TWG) shall call for a meeting.

5.2 Chairing and Frequency of Meetings

i) Chairing of Meetings

- Meetings shall be chaired by the Permanent Secretary (Budget and Economic Affairs) under the Ministry of Finance and National Planning.

ii) Frequency of Meetings

- The Technical Working Group shall hold quarterly meetings and occasionally undertake visits to selected districts for on the ground verification of progress.



MINISTRY OF FINANCE & NATIONAL PLANNING

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