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An Analytical Desk Review of the Implementation of Fiscal Decentralisation in Zambia: Challenges and Opportunities

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ABSTRACT: Fiscal decentralization, coupled with effective intergovernmental fiscal relations, stands as a cornerstone in the evolution of modern governance structures. This paper analyzes the implementation of fiscal decentralisation in Zambia as part of its initiatives across diverse socio-economic and political contexts for accelerated national development. The review was guided by three objectives which were: to review the existing legislation that supports implementation of fiscal decentralisation in Zambia; to assess the revenue and expenditure autonomy assignments of fiscal decentralisation in Zambia; and to recommend a fiscal transfer system to be used to enhance the implementation of fiscal decentralisation in Zambia. The study is based on secondary data on fiscal decentralization collected in official sources of Zambia's Ministry of Finance and National Planning, Ministry of Local Government and Rural Development, and Cabinet Office – Decentralization Secretariat. All the data was processed by and used in the right format for the analysis of implementation of fiscal decentralization in Zambia. Through a combination of qualitative and quantitative methodologies, this study analysed the real level of fiscal decentralization made in Zambia. Key findings of the study was that Zambia does not have an institution to supervise fiscal decentralization except a desk at Cabinet Office – Decentralization Secretariat. Besides, Local authorities have little autonomy in administering revenues and expenses as such, one of them requires approval by the Minister of Local Government and Rural Development. This hampers innovation around revenue generation as there is no known parameter used to grant or deny approval. Additionally, some of the aspects of the Zambia Intergovernmental Fiscal Architecture have not been implemented thereby depriving local authorities of revenue. These include Matching grants, revenue sharing of tolls and Road Transport and Safety Agency (RATSA) fees which are supposed to be shared between Central Government and local authorities as road maintenance is a concurrent mandate and revenue sharing for national income collected by Central Government from local authority jurisdictions. Finally, the connection between the level of fiscal decentralization and the scheme of intergovernmental fiscal relations is very important, to ensure maximum effectiveness of local government financing. The quality of the distribution of funds provided by the scheme of intergovernmental fiscal relations and the level of fiscal decentralization has a direct relationship. Balancing these two mechanisms is the most important way to increase the quality of public services at the local level as a way of enhancing the implementation of the fiscal decentralization. Arising from the study's finding, there is need for amendment and harmonization of legislation governing the devolution process and procedures in order to empower the designate entities to carry out their mandate without unnecessary cob-webs. The local authorities also need autonomy on revenue mobilization and expenditure which are devoid of central government interference and/or rent-seeking pursuits. Furthermore, there is need to balance the level of fiscal decentralization and the scheme of intergovernmental fiscal relations in order to improve the quality of funds distributed and the effectiveness and efficiency in local government financing.

KEYWORDS: Implementation, Fiscal Decentralization, Local Authorities, Zambia.

1.0 INTRODUCTORY BACKGROUND

Fiscal decentralization is the expansion of revenues and expenditures that are under the control of subnational governments and administrative units. Some define fiscal decentralization as occurring mainly on the revenue side, when it comes to tax assignment and transfers of revenues between levels of government. But the definition used here, (the public finance literature 2022), better captures the need to address the so- called "assignment problem" matching functional responsibilities to financial proceeds across the various levels of government. On the expenditure side, fiscal decentralization refers to the transfer of additional responsibilities to subnational governments, often for some of the more important services governments can provide healthcare, education, and infrastructure. Urbanization is one of the most powerful drivers of fiscal decentralization, without which cities struggle to meet the basic needs of underserved populations given the high initial cost of investment in public services. Where population needs and/or citizen preferences are heterogeneous across subnational units, fiscal decentralization enables a more efficient matching between needs, preferences, and service provision. Service provision should clearly reflect local priorities rather than national priorities.

Zambia's history with decentralization dates to her independence in 1964. In 1965, the Local Government Act, No. 30 was enacted. The Act established Local Authorities, of which 24 were urban authorities and 43 were rural councils, and assigned over 60 functions to be discharged into their jurisdictions. The Act further abolished the Native Authorities which were established to serve the colonial Government. In 1971, the Government enacted the Registration and Development of Villages Act, No. 30, which created the Ward Development Committees and Village Development Committees. These structures became the focus for local development. In 1980, the Local Administration Act, No. 15 was enacted. At the national level, the Ministry of Decentralization was created in the Office of the Prime Minister, assisted by a Minister of State. The Act further merged central and local Government administration with the ruling party structures to improve coordination and eliminate duplication between the Party committees and local Government committees (National Decentralization Policy, March 2023).

However, the merging was not fully implemented, as only the roles of the District Secretary and the District Governor were integrated. Local offices of Government departments at that level continued to report vertically to their provincial headquarters and subsequently to National headquarters. The reintroduction of multi-party democracy in 1991 brought changes to the country's decentralization agenda. The Ministry of Decentralization was transformed to the Ministry of Local Government and Housing. The enactment of the Local Government Act, No. 22 of 1991 separated the party structures from Government structures, and repealed and replaced the Local Administration Act, No. 15 of 1980. Further, in 2002, the Government adopted its first ever Decentralization Policy which was revised in 2013. In 2016, the Constitution of the Republic of Zambia was amended through the enactment of the Constitution of Zambia (Amendment) Act, No. 2. The Act enshrined a devolved system of governance in the Constitution under Article 147 (2016).

Fiscal decentralization involves transferring some authority over expenditure responsibilities and financing from national to subnational government units. It entails a shift of expenditure responsibility, revenue mobilization, and resources from central government to lower levels of government. It aims to ensure that functions devolved to Local Authorities and other subnational structures are matched by the resources required to carry out these functions. Fiscal decentralization is implemented through four distinct pillars namely: expenditure assignments; revenue assignments; intergovernmental transfers; as well as borrowing and debt management in the Local Authorities. One of the reasons for decentralization is to provide services at the lowest level of government. To be effective, sub-national levels would need to be provided with adequate material resources, or at least mechanisms for raising or generating revenue to be applied to sub-national priority areas. Fiscal decentralization is about providing local authorities with the material resources necessary for them to be able to provide the requisite services to citizens. Without adequate resources, sub-national governments may not be able to provide the services. Considering that regions within the state differ in the endowment of resources, a clear mechanism ought to be crafted for the equalization of sub-national governments within the country.

The fiscal situation of local authorities in Zambia has deteriorated overtime. From 1964 to 1972, Zambia had a stable fiscal resource from high copper prices and local authorities generated revenue from electricity, water, housing, motor vehicle licensing, share of sales tax grants and other grants. During the period 1973 to 1991, the country experienced low copper prices with decline in the economy. Government increased functions of local authorities without matching financial resources. From 1992 to date, Government made policy changes which led to the erosion of revenue in local authorities. Grants were withdrawn from City and Municipal Councils in 1992, share of local sales tax 35% was abolished, beer surtax grant was abolished, motor vehicle licensing was transferred to Road Transport and Safety Agency (RTSA), Council houses were sold to tenants and crop levy was suspended in 2009 not until the recent past.

1.1 Problem Statement

According to Chikulo, (2014), "Since the early 2000s, the Government of the Republic of Zambia (GRZ) has pushed forward a decentralization agenda aimed at promoting community participation, quality service delivery and accountability. As part of this initiative, the government mandated local authorities to manage the delivery of services and undertake "developmental activities in such areas as health, water and sanitation, education, housing, roads, environment, agricultural extension work for food security, etc.". However, the failure of most local authorities to utilize their potential at the optimum level has resulted into their failure to provide the much-needed services to the citizens within their jurisdictions.

According to the 2025 budget speech by the Minister of Finance and National Planning, delivered to the National Assembly (September 2024), "to ensure that decentralization by devolution is fully implemented in the medium-term, eight functions in Phase I of 2023 have been devolved to local authorities with 34,963 civil servants attached and an increase in the budgetary allocation of national transfer to sub national government level i.e. local authorities (Constituency Development Fund and Local Government Equalization Fund) by 342% from K1.2 billion in 2021 to K5.3 billion in 2024." There is a proposed further increase in the national transfer to subnational governmental level i.e. the local authorities in the 2025 budget allocation (Constituency Development Fund, Local Government Equalization Fund and Grants in lieu of Rates) of K 7.1 billion representing 3% of the 2025 proposed national budget which is insignificant for a population of 19.7 billion people (Zambia Statistics Agency 2022). It was, therefore, the aim of this study to analyze the implementation of fiscal decentralisation in Zambia in order to garner policy insights of the efficacy of steps being undertaken to meet the desired outcomes.

1.2 Study Objective

I. To review the existing legislation that supports implementation of fiscal decentration in Zambia.
II. To assess the revenue and expenditure autonomy assignments of fiscal decentration in Zambia.
III. To recommend a fiscal transfer system to be used to enhance the fiscal decentration in Zambia.

2.0 LITERATURE REVIEW

2.1 Existing Legislation Supporting Implementation of Fiscal Decentralisation in Zambia.

The Constitution of Zambia (Amendment) Act of 2016 stipulates that, while Zambia remains a unitary state, the country must implement a devolved system of governance to deepen democracy and promote sustainable, equitable, social and economic development at the local level as well as foster national unity. Article 147 of the Constitution recognizes two levels of Government, the national and local government levels. These levels of government vary in jurisdiction, as the Constitution has prescribed exclusive national level functions, concurrent national and provincial level functions, and exclusive local government functions. The local government system is comprised of democratically elected councils. The Constitution positions local government as an autonomous level of government with powers to formulate and implement by-laws and policies. It further prescribes that the Local Authority shall administer the district and oversee programmes and projects in the district. The Provincial Administration is an extension of national government, established for the purposes of administering and coordinating the implementation of Government policies and programmes in the province.

Furthermore, the Constitution provides for decentralization by devolution, which entails the transfer of rights, functions and powers for local government exclusive functions from central government or State institution to the Local Authority. It also entails the bringing of a service of concurrent national and provincial functions to be performed at the district level. The national government level remains responsible for providing national policy and legal framework, as well as overall regulation for the implementation of devolved functions. Although the Constitution establishes the basis for decentralization by devolution, several laws are yet to be fully harmonized to facilitate implementation. For instance, several pieces of sectoral legislation assign functions listed as local government exclusive functions in the Constitution to the national government and its agencies. Further, implementation of the National Decentralization Policy has lacked specific legislation to facilitate an effective and coordinated approach to the implementation process (Zambia National Decentralization Policy, March 2023).

In Ghana the increasing demand for infrastructure and other social and economic investment of Metropolitan, Municipal and District Assemblies (MMDAs) require the mobilization of scarce resources to carry out developmental projects to meet these needs. To legalize the effectiveness of the fiscal component of decentralization, article 245 of the 1992 constitution of Ghana spells out the functions of MMDAs involving the formulation and execution of plans, programmes and strategies for the effective mobilization of resources and the levying and collection of taxes, rates, duties and fees. The Assemblies are entreated by the constitution to be innovative and strategic in raising local revenues. This is to ensure that there are adequate financial resources for MMDAs for effective formulation and execution of locally fashioned development projects. Reasons are that no matter how excellent a district development plan may be fashioned; very little progress, if any, can be achieved with little financial resources. Despite these constitutional mandates, the GOG (Government of Ghana 2014) established that, in 2004, the Internally Generated Funds (IGF) of all the regions in Ghana constituted about 16% of the total local government revenue and this increased slightly to 18% in 2005. The result of this is high MMDAs dependency on Central Government and donor transfers. The government has made frantic effort to ensure that MMDAs' Internally Generated Funds (IGF) is increased to at least 65%, but these have not yielded any positive result (GoG, 2007). All regions have experienced a falling trend in the percentage change in generating IGF. Major challenges are that local authorities are unable to raise, retain and manage resources.

The absence of structured institution for raising IGF and the unsustainability of identified sources hinder IGF mobilization (Chukwuma, 2010). According to Agyapong (2012), weak administration, coupled with a lack of political will for enforcement, generates a low level of local revenue mobilization performance. Adedokun (2004) also notes local government taxes are minimal; hence, limit their ability to raise independent revenues. Some prospective taxpayers may seldom show interest in the payment of taxes and other levies because of the assumption that there is misappropriation and under invoicing by tax administrators and collectors. The East Gonja District Assembly (EGDA) like other local governments is performing abysmally by way of own revenue mobilization. The Assembly turns to rely greatly on two revenue sources; central government bursaries (i.e. DACF), and donor fund amidst the near collapse of the national economy, which has created serious financial stress for the central government, and all MMDAs.

According to a study from Council of European Municipalities and Regions big differences in decentralization occur in European countries (Sofia Clazola, 2023). As the higher are assumed the intergovernmental transfers, the greater is the financial dependence of local governments on other tiers of government and the lower is the local autonomy. In OECD-European Countries is showed that as more developed is a country as deep fiscal decentralized is in the concept of intergovernmental relations. For example, Lithuania, Estonia, and Slovak Republic are the countries with highest share of intergovernmental transfers with 87.9%, 85.5% or 77.8%. The opposite situation on this indicator is in Iceland or Switzerland with 8.8% or 10.5%. Local government financing and read map of intergovernmental relations are important for the sustainable development of a country, including the case of Zambia (Frroku, 2023).

2.2. Revenue and Expenditure Autonomy Assignments of Fiscal Decentralisation in Zambia.

Expenditure autonomy is typically limited by central regulation. Experiences from the focus countries show that the de-facto expenditure autonomy allocated to local governments differs substantially from the de-jure status. Rugeiyamu, Shayo, Kashonda and Mohamed (2019) in Tanzania, for example, while local government authorities (LGAs) have de-jure autonomy over expenditure allocation, 78.5% of local government spending is recurrent, mostly due to high staff costs, leave little space for decentralized expenditure targeting. Expenditure autonomy is mostly undermined through the employed financing mechanisms and, among those, primarily through the reliance of LGAs on central government transfers. With the aim of increasing effectiveness, such transfers are typically earmarked or are associated with prescribed sector-specific maximum spending. In Tanzania, for example, LGAs have the de-jure autonomy to determine the wage structure for their employees independently. Yet, spending limits on wages, together with a transfer allocation that is dependent on the number of LGA employees, typically prescribes a specific level set by the central government (World Bank, 2001). A similar picture emerges for the case of South Africa, where LGAs are responsible for financing the salary of staff at the local level through unconditional grants received from the central government. While this set-up allocates a high de-jure autonomy to local governments, central regulation de-facto limits local discretion by describing salary levels for local staff and making transfer allocation conditional on the expected wage bill, leaving little space for discretionary budget allocation (Wittenberg, 2003).

Risks in Local Revenue Collection The framework developed by Yilmaz, Beris and Serrano-Berthet (2008) suggests that the ability of local level governments to finance their operations through own revenue sources is a crucial determinant of LGA autonomy. Experience from focus countries does, however, reveal three challenges with local revenue collection. First, levels of locally collected revenue are generally low. For example, while Sierra Leone's LGAs finance 25% to 30% of their total expenditure through self-collected revenue, Tanzanian LGAs only achieve a mere 6.9% (USAID, 2010; Searle, 2009). This is driven by the fact that in the absence of transfers only narrow tax bases can be put under the control of local governments as the taxation of large tax bases, such as corporate profit, generates spillovers 15 between LGAs that aren't internalized under a decentralized system. In addition, devolution of income and corporate tax bases significantly exacerbate the inequality between urban and rural LGAs. Given those constraints, only narrow tax bases, such as property value, are typically delegated to local governments. Those bases, however, are too narrow to finance the recurrent expenditure of especially rural LGAs (Oates, 1972).

Second, local revenue collection can exacerbate political tension and undermine social accountability. On the one hand, even the devolution of narrow tax bases, such as property value, is likely to generate significant inequality in tax collection rates between urban and rural areas and hence supports differential service provision levels in the absence of transfers. On the other hand, local revenue collection makes LGAs prone to elite capture. In Sierra Leone, for example, anecdotal evidence suggests that the devolution of property tax collection power significantly increased pressure from (property owning) local elites to reduce tax collection efforts, therefore undermining local fiscal capacity (Jibao and Prichard, 2013). Third, fiscal capacity is not only undermined by local elites but also through the incentives created by fiscal transfer mechanisms. In Ethiopia, for example, Woredas receive targets for tax collection but are responsible to transfer any excess tax collected back to the regional level. As

this arrangement significantly reduces Woredas' benefits from tax collection, it generates limited incentives to create tax collection capacity at the local level (Adal et. al., 2005).
Within the specific context of Zambia, the intricate interplay between intergovernmental fiscal relations and the progression of fiscal decentralization underscores the nation's dedication to effective governance and regional development. Drawing upon case studies from diverse countries, this paper undertakes a comparative analysis of fiscal decentralization models. Zambia's recent endeavors in fiscal decentralization represent a notable commitment to empowering local governments, equipping them with the capacities necessary to address the varied needs of their communities. The lessons gleaned from Zambia's journey offer a valuable repository of knowledge, contributing practical implications and recommendations for nations aspiring to achieve analogous fiscal decentralization goals. In essence, Zambia's experiences make a significant and timely contribution to the ongoing global discourse on decentralized governance.

2.3. Fiscal Transfer System to be used to Enhance the Fiscal Decentralisation.

Establishing a fiscal transfer system to finance local authorities' expenditure is a central part of any decentralization reform. On the one hand, transfers are suitable mechanisms to redistribute income between rich (urban) and poor (rural) areas to equalize levels of public service provision (e.g. Bordignon, Manasse and Tabellini, 2001). Transfers can also be used to internalize inter-regional spillovers. For example, local authorities' might be more likely to invest in infrastructure that also benefits other regions (for example building power plants that serve multiple regions) if inter-regional transfers assure that they are compensated for the resulting benefits.
Finally, transfers can also act as an insurance against local economic shocks, for example allowing local authorities to raise government expenditure in response to high local unemployment (e.g. Lockwood, 1999). Designing intergovernmental transfer systems is, however, significantly constrained by interregional heterogeneity and information asymmetries between the central and local government (Bordignon, Manasse and Tabellini, 2001). For example, there might be spatially diverging preferences for different public goods (Cremer et. al., 1996). Alternatively, localized access to technologies used to produce public goods can lead to differences in cost structures (Cornes and Silva, 2000). When those differences aren't directly observable by the central government, they can lead regions with lower costs for public good production to receive higher transfers than they require, leaving high-cost regions short of funding. Similarly, central government transfers can also weaken local authorities' incentive structure, for example by reducing effort exerted on local revenue collection. When designing transfer systems, policy makers therefore need to assure that they maintain local incentives for revenue collection and efficient public good production while also basing transfer allocations on indicators that are proportional to preferences for public goods and cost measures. One example used in the literature for such an indicator is the income or property tax rate chosen by the local government: Higher tax rates are costly but imply a higher valuation for tax revenue which is used to signal a region with higher demand for public goods or higher costs.
Regions with higher tax rates should therefore be rewarded with higher transfers (Bordignon, Manasse and Tabellini, 2001). Best practice suggests using one of two possible options to design transfer systems. On the one hand, the number of transfers can be based on a "normative" measure of the costs associated with public service delivery. Examples that have been used include local population size and estimates of the costs associated with public good production. This option is primarily used by developed countries where reliable accounting data is available. For example, most OECD countries use fixed distribution formulas that reflect the average or normative cost of the basic package of public services provided by local authorities. It is, however, unclear to what extent such measures can be obtained in a developing country context (Bergvall et. al., 2006). On the other hand, transfer amounts can be based on measures of tax collection effort. Recent developing country experience suggests that tying transfer formulas to revenue generation can serve as a motivator for subnational governments to embark on wealth enhancing policies. The challenge is to identify measures of tax collection effort that are independent of local conditions to not further exacerbate inequality between rural and urban areas. Potential 17 measures include effective tax rates and tax collection relative to an independent assessment of the tax base size (Poeschl and Weingast, 2013).
Revenue mobilization potentials of local governments vary in magnitude (Kazentet, 2011) depending on the availability of both natural and human capitals in specific jurisdictions. Certainly, in Ghana some local governments may be able to raise quite enough revenue internally than others. To bridge development gaps and other financial imbalances, it became apparent for the central government to share at least not less than 7% of the national cake to all Metropolitan, Municipal and District Assemblies. There are different forms of grants or transfers used for varied intents ranging from vertical to horizontal fiscal imbalance (Yao, 2006). Tax autonomy at the various stratum of local government is therefore the best way, if not the only way, to address permanently the difficult problem of vertical imbalances, or mismatch of expenditure needs and revenue sources at different government

levels. Fiscal autonomy at the sub-national levels can be a possible indicator of sub-national governments' borrowing capacity and creditworthiness. In the case of the local governments, the horizontal sharing of government allocation involves the common fund allocations to all MMDAs. These transfers can be either conditional or unconditional, made in a form of a block grant or matching grant. Conditional in that appropriation of the funds are 'earmarked' from the centre while the reverse is true. The intent of these transfers is to support specific sector activities in the districts (Inanga & Osei-Wusu, 2004) and to correct horizontal fiscal imbalances. Different types of fiscal transfer systems are used worldwide in different circumstances (Yao, 2006). However, in Ghana, the horizontal transfer systems are in three forms: District Assembly Common Fund, recurrent expenditure revenue and ceded revenues. In all these transfers, a well-designed equalization grant system can be leverage to poor and underprivileged MMDAs.

2.3 Gaps in the Literature

Fiscal decentralization and balanced local development are closely related instruments and there is a need when making policies for one of these instruments of economic progress to consider both. Zambia, on the one hand, does not have success in the balanced local development, and on the other hand, there is a need expressed by the Government and other stakeholders for advancing of decentralization. So far, researchers are prepared about balanced local development and fiscal decentralization, but those researches are thematic and concern either local development or decentralization separately as separate phenomena and do not go into the interaction and progress in the implementation of fiscal decentralization on the balanced local development in Zambia. This analysis aims to fill that research gap because these phenomena in real life do not act separately from each other and certainly have mutual influence. This is important for policy makers to know that in the advancement of fiscal decentralization laws and policies, those policies and laws cannot separate these two instruments as separate instruments for achieving national goals. For Zambia, in addition to the relatively high imbalance in local development, it is even more worrying that this, measured by the coefficient of variation of GDP per capita for the regions, is increasing in the period from 2021 to 2025. It was, therefore, the aim of this research to analyze the implementation of fiscal decentralization in Zambia in order to bridge the identified knowledge and policy gaps.

2.4 Theoretical Models

The most common analytical framework that links expenditure decentralization to growth is a model developed by Davoodi and Zou (1998), which is a modified version of Barro's model (Barro, 1990). A Cobb-Douglas production function has two inputs, namely private capital and public spending, by three levels of government, federal, state and local. Public expenditures are financed through taxes on output. Maximizing the utility function of a representative agent with respect to a dynamic budget constraint provides the following solution: output growth rate depends, inter alia, on the shares of different levels of government in total public expenditure. From the model, it is also possible to calculate growth maximizing shares of public spending. Davoodi and Zou (1998) conclude that if public expenditure is excessively centralized, decentralization can be conducive to economic growth.

The augmented Solow model (Mankiw et al., 1992) also provides the basis for econometric analysis of the relationship between decentralization and growth. (Thiessen, 200B; Lin and 2000). In addition to standard-determinants economic growth that are derived from the Solow model (initial output value, physical and human capital accumulation, and labor force growth), in the empirical specification, Thiessen (2003) uses additional decentralization measures and other conditioning factors as independent variables.

3.0 METHODOLOGY

Rigorous empirical analysis forms were used on the evidence of level of transfers from central to local government in Zambia. Through quantitative methods, the researchers delved into datasets spanning diverse of the nation, exploring trends, patterns, and correlations related to fiscal decentralization progress. Concurrently, qualitative methods, including in-depth case studies, allow us to unpack context-specific nuances, providing depth to our quantitative findings. This methodological triangulation enhances the robustness of our analysis, offering a holistic view of intergovernmental fiscal relations and fiscal decentralization progress. The study is based on secondary data on fiscal decentralization collected by authors in official sources of Zambia's Ministry of Finance and National Planning, Ministry of Local Government and Rural Development and Cabinet Office-Decentralization Secretariat. All the data are processed by the authors of the paper to be used in the right format for the analysis of implementation of fiscal decentralization in Zambia.

4.0. FINDINGS

4.1 Existing Legislation that Supports Implementation of Fiscal Decentralisation in Zambia.

Whereas there are fundamental general allusions of decentralization in the Republican Constitution, one of the key findings was that Zambia does not have an institution to supervise fiscal decentralization only a desk at Cabinet Office – Decentralization Secretariat. In comparison, Kenya has the Commission on Revenue Allocation (CRA) an independent Commission with its mandate defined in Article 216 of the Constitution of Kenya (the Constitution of Kenya 2010), South Africa has the Financial and Fiscal Commission established by section 220 of the Constitution as a juristic person, independent and subject only to the Constitution, and Malawi has the National Local Government Finance Committee (NLGFC) - a constitutional body established by the Constitution of Malawi (the Constitution of Malawi Section 149 of 1994). These bodies play a supervisory role in devolution of fiscal matters. Therefore, Zambia lacks an overall structural and categorical legislative framework oversight body to supervise the implementation of the fiscal decentralization system. The long-term nature of developments undertaken by local authorities requires access to long term capital funds as these developments are unlikely to be financed from local authorities' recurrent revenues. Section 48 of the Local Government Act No. 2 (2019) empowers local authorities to contract loans, but this power is subject to article 63(2) (d) of the constitution which subjects all public debt to parliamentary approval. Further, section 49 indicates that where the source of money to be borrowed is from outside the republic of Zambia, then the Minister must approve. This approval is rarely given as there is no known local authority which has been granted approval to borrow.

4.2 Revenue and Expenditure Autonomy Assignments of Fiscal Decentralisation in Zambia.

A sound revenue system for local authorities is an essential pre-condition for the success of fiscal decentralisation (Olowu & Wunsch 2003). In line with best practices on Own Source Revenue (OSR), local authorities in Zambia collect: (i) property rates - a tax based on the value of property (Rating Act No. 21 of 2018): (ii) levies – taxes on commercial / business activities which include such levies as grain levy, billboards and among others (iii) user charges- such as market fees for market traders, parking fees or transport fees (the Business Regulatory
Act, 2014) (iv) personal levy – a personal income tax and (v) licenses – fees paid for permits to operate business. While the revenue sources are well documented, local authorities have little autonomy in administering them and as such one of them requires approval by the Minister of Local Government and Rural Development. This hampers innovation around revenue generation as there is no known parameter used to grant or deny approval. While in Kenya and South Africa have set benchmarks local authorities are required to meet in instance where they are required to get approval. It was worth to note that the study showed that the manner or method of revenue collection (tax and non-tax revenue) by most local authorities was not effective mainly the existing revenue collection method and systems are non-automated. A study by Gidisu, (2012) brought forward major insights in Turkey on the relevance and usefulness of automated tax collection systems both in operations and management of municipalities in turkey. The Organization for Economic Co-operation and Development considers the transfer of powers, responsibilities and resources from central authorities to subnational authorities with a certain degree of autonomy as an important aspect of decentralization (OECD, 2019).

Other findings to own source revenue by local authorities in Zambia include most local authorities lack updated valuation rolls. The process of coming up with a valuation roll has needs to be streamlined. In Zambia only a Valuation Surveyor employed by the department responsible for survey can be appointed as a Valuation Surveyor while in Malawi private registered surveyors can be appointed as Valuation Surveyors.

4.3 Fiscal Transfer System to be used to enhance the Fiscal Decentralisation in Zambia.

According to Cabinet Office, (2017, pp. 2-3) the major revenue sources for councils in Zambia apart from the intergovernmental transfers, are rates (property tax), Levies (taxes on local, usually, business activities), User Charges, Personal Levy (a Local tax on personal income) and Licenses (business permits). The relative significance of these sources is somewhat different between the different types of local authorities. The Zambia Intergovernmental Fiscal Architecture (2017) outlines the intergovernmental fiscal system in place. However, some of the aspects of the IFA have not been implemented thereby depriving local authorities of revenue. These include Matching grants, Revenue sharing of tolls and RATSA fees which are supposed to be shared between Central Government and local authorities as road maintenance is a concurrent mandate and Revenue sharing for national income collected by Central Government from local authority jurisdictions. Other findings are allocation of Constituency Development Fund is not based on a formula to ensure equity. Kenya uses a formula to allocate CDF which considers key parameters, The Local Government Equalization Fund (LGEF) does not consider geographical inequalities in revenue potential of local authorities as is the case in South Africa and Grants for devolved sectors are not channeled through local authorities. In Malawi, recurrent expenditures are transferred to the local authorities for the sectors that have been devolved.

The connection between the level of fiscal decentralization and the scheme of intergovernmental fiscal relations is very important to ensure maximum effectiveness of local government financing. The quality of the distribution of funds provided by the scheme of intergovernmental fiscal relations and the level of fiscal decentralization has a direct relationship. Balancing these two mechanisms is the most important way to increase the quality of public services at the local level as a way of enhancing the implementation of the fiscal decentralization.

5.0 DISCUSSION

5.1 Existing Legislation that Supports Implementation of Fiscal Decentration in Zambia.

According to the Government Gazette Notice No. 1123 (2021), the law governing fiscal decentralization to local authorities is set out in the Constitution and the Local Government Act no. 2 of 2019, Article 147 of the Constitution of Zambia (Amendment) Act No.2 of 2016 provides for a devolved system of governance and article 148 (2) states that Government shall provide adequate resources for the performance of functions of the sub-structures. These are buttressed by articles 198(b)(ii) and 147(3)(d) which require equitable distribution of resources to the sub-national structures. The Constitution further establishes the Constituency Development Fund (CDF) (Article 162), the Equalization Fund and possibility of Government Grants (Article 163). Article 161 empowers local authorities to levy and retain local taxes while article 164(d) local authorities to raise loans and grants. This power, however, is not immediately enjoyable as it is subject to be prescribed by an Act of Parliament (Article 266). This is prescribed in the Local Government Act No. 2 of 2019.

Some of the provisions of the Constitution are given life in the Local Government Act No.2 of 2019 and other legislation provide different revenue sources to Councils. Section 25 empowers the local authority to impose levies while section 27 empowers the imposition of fees or charges for services offered by the local authorities. While section 48 of the Act empowers local authorities to borrow, issue stock or bond or mortgage, it would seem this power is subject to Article 63(2)(d) which requires all public debt to be approved by the legislature before it is contracted, which aspect requires harmonization in the legislation to ensure coherence and adequate synergy. Additionally, where the source of resources to be borrowed is foreign, section 49 of the Act requires the approval of the minister, which approval is not known to have been granted from the inception of the legislation. The provisions considered here suggest that generally the law provides a mechanism for fiscal decentralization, but to varying degrees of effectiveness depending on revenue streams. Clearly, there is some existence of distortion, discord and ambiguity in the law governing devolution and/or decentralization of power to local organs for sustainable development informed by adequate community engagement. This requires expeditious resolution if the devolution agenda is to yield desired results.

The liberal approach emphasizes decentralization for better organizational efficiency in providing goods and services, for environmentally sustainable development, and in promoting local development through citizen participation. The researchers' interest in the consequences of decentralization for the economy focused mainly on economic growth, and some studies indicate that there is an optimal level of decentralization that maximizes the growth rate of the economy (Martinez-Vasquez et al., 2017; Camões, 2022; Canare, 2022).

5.2. Revenue and Expenditure Autonomy Assignments of Fiscal Decentralisation in Zambia.

Fiscal decentralization involves transferring some authority over expenditure responsibilities and financing from national to subnational government units. It entails a shift of expenditure responsibility, revenue mobilization, and resources from central government to lower levels of government. It aims to ensure that functions devolved to Local Authorities and other subnational structures are matched by the resources required to carry out these functions. This model of the distribution of power is widely used both in the world (123 countries started administrative decentralization processes during 1970-2014 (Tester, 2021)) and in the European Union. Significant experience has been accumulated regarding different approaches to the organization of the distribution of resources and powers in view of the growing role of subnational levels of public administration in the EU countries. An important result of decentralization is an effective and open system of territorial organization of power in the country. Fiscal decentralization is implemented through four distinct pillars namely: expenditure assignments; revenue assignments; intergovernmental transfers; as well as borrowing and debt management in the Local Authorities. The Constitution provides for specific functions to be performed at national, provincial and local level. It also prescribes exclusive functions to be performed by the Local Authorities. In addition, the Constitution stipulates that adequate resources should be allocated to the assigned functions at every level. This is in line with the principle of finance follows function. However, actualization of this principle has been slowed due to delayed devolution of selected functions to the Local Authorities.

Revenue assignments relate to the attachment of revenue sources needed to fund expenditure functions. The sources of funding include user fees and charges, local taxes and levies, intergovernmental transfers and capital borrowing. According to the National Decentralization Policy, (March 2023), the focus of the Zambian Government in previous policies has been on identifying the specific structure of local own-source revenues, which accrue to the Local Authorities, and which Local Authorities have some legal and administrative control. Government also embarked on the process of identifying a new local government revenue base arising from the expanded devolved functions and from the already assigned revenue streams side from these efforts, the mobilization of own source revenues by Local Authorities is hampered by the erosion of the revenue base, including inadequacies in legislation related to property rating, weak Local Authority capacities and a slow pace of digitization.

In Zambia, Government buildings are exempted from paying property rates. Instead, local authorities receive a Grant in Lieu of rates whereas in Malawi, Government pays local authorities 50% of the market value of its properties. This yield higher revenue for local authorities in Malawi than Zambia. Personal Levy was pegged at a maximum of K15 per annum since 1997 when the rate was revised under the Personal Levy Act making the levy regressive. In Kenya, County Government budgets (the equivalent of Councils in Zambia) contain proposals regarding borrowing and other forms of public liability that will increase public debt during the following year to allow debate on the sustainable levels of indebtedness of the county during budget-making. Similarly, Municipal Councils in South Africa are authorized to raise loans for capital or current expenditure through resolutions of the Council signed by the mayor and the accounting officer. There is limited fiscal autonomy by local authorities in Zambia as evidenced by the reversal of certain levies after initially being approved. For example, Bicycle Levy in Chipata and Truck Levy in Kapiri Mposhi were reversed after being approved. While in Malawi, Kenya and South Africa, local authorities fare better on this score partly due to the existence of an oversight body on fiscal decentralization. Studies show that local self-government bodies with a higher degree of financial (fiscal) decentralization reduce their own expenses and increase the number of public services. Besides, increased accountability of local self-government bodies based on local tax transparency can improve local service delivery (Bianchi et al., 2021).

5.3 Fiscal Transfer System to be used to Enhance the Fiscal Decentralisation in Zambia.

The Zambia Intergovernmental Fiscal Architecture (2017) gives a great overview of the background of OSRs in local authorities, worth repeating here in full. It states "Local Own Source Revenues (OSR) have in the past been low and have systematically deteriorated over time as the Central Government (CG) has often intervened on levies, exemptions, and rate levels. Revenue sources, such as the crop levy were removed, exemptions granted, and tax rates curtailed, thereby affecting OSR administration and dramatically reducing the ability of local governments to mobilize their own revenue. In most cases, property valuation rolls have been out-of-date, incomplete, cumbersome, and expensive reducing the local authorities' ability to mobilize property rates. At the same time, local authority administrations have been relaxed, often without the needed capacity nor backed by adequate local political will to improve the equity, efficiency, and revenue collection from the available local revenue instruments. Taxpayers have also been relaxed in paying their obligations due to lack of awareness, information, and/or incentives for voluntary compliance."

The connection between the level of fiscal decentralization and the scheme of intergovernmental fiscal relations is very important to ensure maximum effectiveness of local government financing. The quality of the distribution of funds provided by the scheme of intergovernmental fiscal relations and the level of fiscal decentralization has a direct relationship. Balancing these two mechanisms is the most important way to increase the quality of public services at the local level as a way of enhancing the implementation of the fiscal decentralization.

6.0 RECOMMENDATIONS

6.1. Existing Legislation to Supports Implementation of Fiscal Decentralisation in Zambia.

The findings above show that the law provides for own source revenue (OSR), intergovernmental fiscal transfers and access to capital funds through loans. The question that arises is about the appropriateness of how some provisions are crafted and the implementation of the existing law. To this extent, there is need to find more effective ways of implementing the own source revenue (OSR) and intergovernmental fiscal transfers. Regarding loans, the empowering provisions are subject to parliamentary oversight as well as ministerial approval. This may be cumbersome in practice and may explain why this has not been relied on by local authorities.

Although the law provides possibilities for local authorities to raise funds and receive funding from the central government, the current decentralization model is largely deconcentrating. This effectively means the power to raise resources are largely in the hands of the central government. To cure this, there is need to constitutionalize a devolved system of government with inherent fiscal decentralization mechanisms, equipped with appropriate oversight enforcement bodies, as is the case in Kenya and South Africa. In the short term, however, focus should be on the effective implementation of existing empowering laws relating to OSR and intergovernmental transfers. Bottlenecks need to be identified and dealt with both administratively and legally (e.g, through statutory instruments where applicable). Further, laws requiring the approval of the minister for local authorities to affect some income generating activities could be amended to simply set general guidelines local authorities should follow.

6.2 Revenue and Expenditure Autonomy Assignments of Fiscal Decentralisation in Zambia.

Kelly, White and Anand (2020:197) state the most appropriate way forward "Link IT reform to broader reform: Implementing low-cost and effective property tax information and valuation processes; putting data management protocols, billing and collection practices, and effective enforcement mechanisms in place; and establishing more explicit links between revenues and spending can be critical in building a long-term, sustainable basis for reform. Simplicity and local appropriateness, cost-effective solutions, long-term, responsive, and hands-on implementation with regular training of local staff over time, coordination across levels of government, and local and open-source software can contribute to successful property tax IT-related reforms." In Zambia, the under-utilization of IT to address property discovery, valuation and property tax administration is a huge challenge. Kelly, White and Anand (2020:194) point out that IT systems "have the potential to play a major role in increasing outcomes by improving property identification; improving property data management; automating aspects of valuation and assessment; enhancing billing, collection, and enforcement; facilitating taxpayer services; and enhancing transparency and accountability, thereby improving transparency and accountability…" Properties may be more easily identified, numbered, measured, and recorded using basic IT systems, satellite maps, and appropriate GIS technology (Kelly, White & Anand, 2020). What is necessary is the creation of a fiscal cadastre, rather than a legal cadastre. Many developing countries (Nigeria and Rwanda) are now using satellite imagery, aerial photography and more recently drone technology (India, Senegal and Zanzibar) to improve property identification, extend tax base coverage and obtain property measurements. Zambia must consider the use of such tools.

6.3. Fiscal Transfer System to be used to enhance the Fiscal Decentralisation in Zambia.

The connection between the level of fiscal decentralization and the scheme of intergovernmental fiscal relations is quite important, to ensure maximum effectiveness of local government financing. The quality of the distribution of funds provided by the scheme of intergovernmental fiscal relations and the level of fiscal decentralization has a direct relationship. Balancing these two mechanisms is the most important way to increase the quality of public services at the local level.

a) Fiscal Autonomy and Subsidiarity: Governments at different levels should have a degree of fiscal autonomy to raise revenue and make spending decisions independently. This autonomy allows subnational governments to address local needs and preferences. The principle of subsidiarity suggests that decisions should be made at the lowest level of government possible, closer to the citizens affected by those decisions. Higher levels of government should only intervene when necessary, respecting local autonomy.
b) Equity and Equalization: Intergovernmental fiscal systems often include mechanisms to promote equity among regions or local governments. Equalization programs aim to redistribute funds to ensure that areas with lower fiscal capacity can provide a basic level of public services.
c) Transparency and Accountability: Transparent fiscal relations help build trust among different levels of government and the public. Clear rules for revenue sharing, transfers, and expenditure responsibilities contribute to a more predictable and accountable fiscal system. Clear lines of accountability are essential in intergovernmental fiscal relations. Each level of government should be accountable for its own revenue generation and expenditure decisions, and mechanisms should be in place to ensure transparency and oversight.
d) Efficiency and Flexibility: Intergovernmental fiscal relations should promote efficiency in the use of resources. This includes minimizing duplication of services, streamlining administrative processes, and ensuring that resources are allocated where they can be most effectively utilized. Fiscal systems should be flexible enough to accommodate the diverse needs and circumstances of different regions. This may involve adapting revenue-sharing formulas or transfer mechanisms to account for varying economic conditions or demographic factors.
e) Stability and Predictability: Stability in fiscal relations is crucial for effective planning and governance. Governments need predictability in revenue streams and transfer mechanisms to make informed decisions about expenditures and investments.
f) Dialogue and Cooperation: Regular communication and cooperation between different levels of government are essential for effective fiscal relations. Consultation mechanisms and forums can help address challenges and foster a collaborative approach to decision-making.
g) Long-Term Sustainability: Intergovernmental fiscal arrangements should promote fiscal sustainability over the long term. This involves ensuring that fiscal policies are economically viable and that they contribute to the overall stability of the nation's finances.

7.0 CONCLUSION

Effective decentralization needs not only effective local government systems, but strong State functions as well. Functions include developing guidelines, supporting implementation and providing oversight to ensure adherence by local governments to financial management and service delivery standards. The main challenge realized was that coordination of implementation of fiscal decentralization was not adequately done. By design, 2023 Zambian National Decentralization Policy was supposed to be implemented through the existing government systems within the State ministries. However, experience obtained from other Countries undergoing similar circumstances revealed that, State government ministries do not have the incentive to promote effective fiscal decentralization because; a) they are competing agencies and have a lot to lose in terms of loss of power, prestige and resources if effective fiscal decentralization is realized, b) they are already engaged into numerous State functions and have limited time that they can devote to coordinating implementation of fiscal decentralization, c) there is often weak inter-ministerial coordination in Countries and c) normally ministries do not have sufficient financial and technical capacities to drive the decentralization process.

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