

# **FISCAL DECENTRALIZATION AND THE BUDGET PROCESS IN ZAMBIA**

**PRESENTATION TO THE COMMITTEE ON ESTIMATES - 18 JANUARY 2017**

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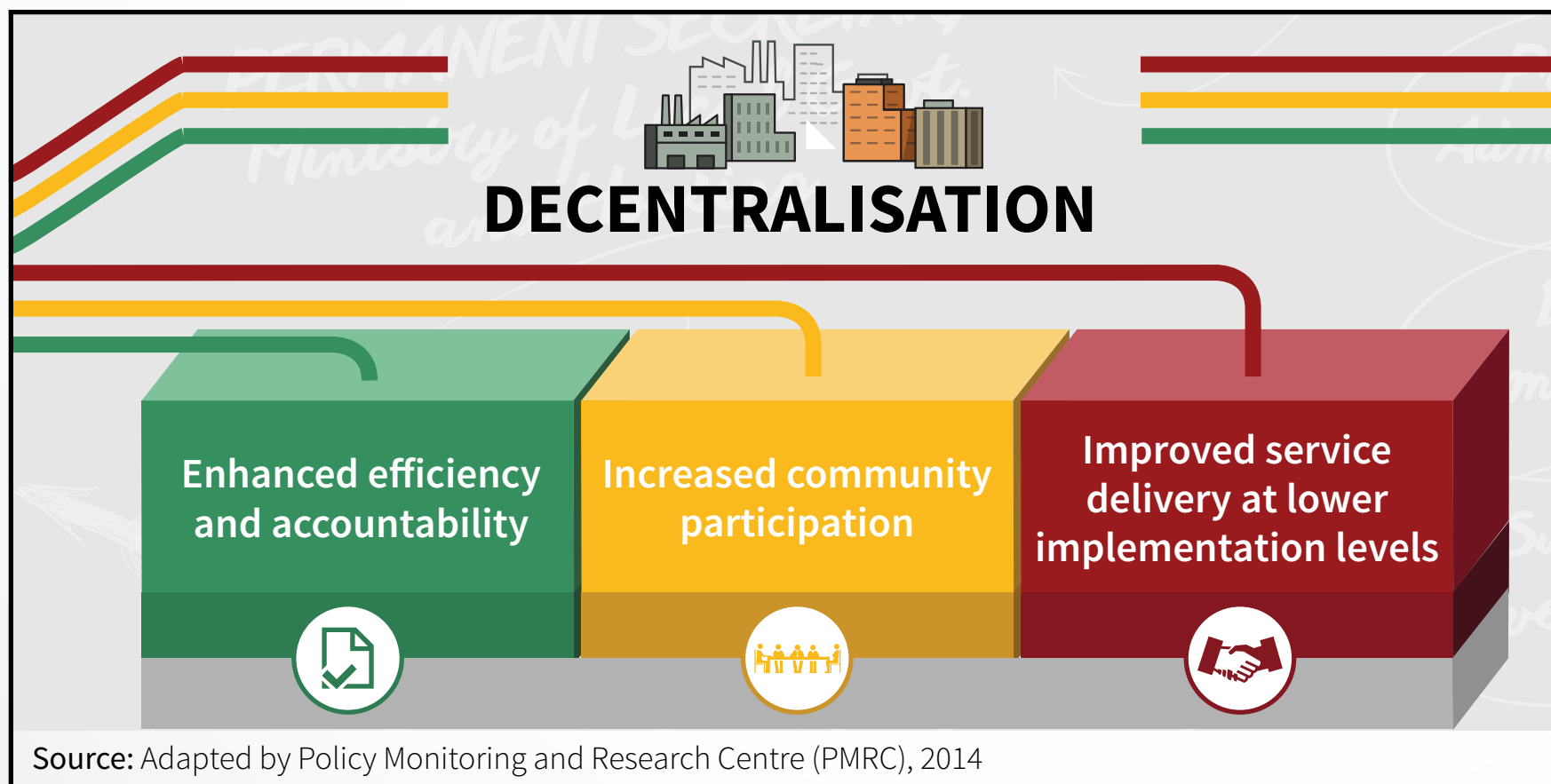


# INTRODUCTION

POLICY MONITORING AND RESEARCH CENTRE

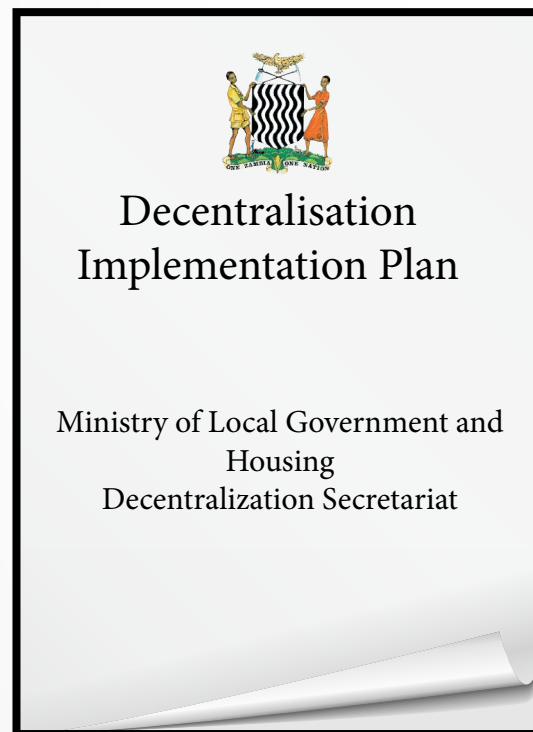
Decentralisation is the act of distributing power and authority to lower levels of governance.

Figure 1: Common Aims of Decentralisation



**Fiscal decentralisation** is a form of decentralisation that relates to power sharing for decisions relating to fiscal resources and revenue generating powers.

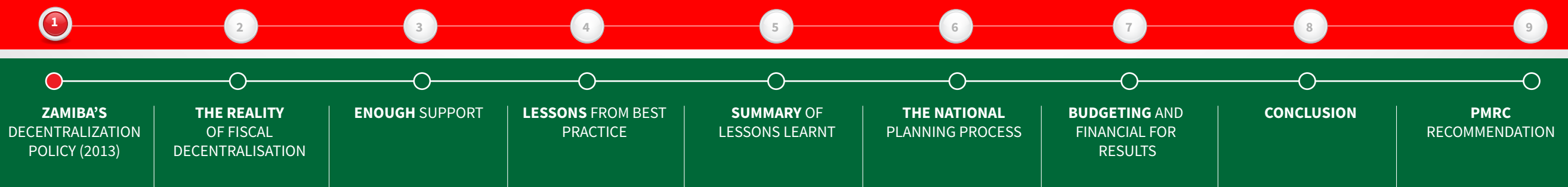
# ZAMBIA'S DECENTRALISATION POLICY (2013)



The main aim of the decentralization policy (2013) is to Promote people's participation in democratic governance at the local level.

\* Not all functions would be transferred to the lower levels and councils, but that Central Government shall retain some core functions over essential national matters.

**Decentralisation Policy Implementation Progress:** The transfer of functions from Central Government to Councils commenced in January 2015 and, apart from **devolving functions**, the Cabinet Circular also mandated Councils to create “**Ward Development Committees (WDCs)**” as the fourth tier of Government as required in the Revised National Decentralisation Policy (R-NDP) then.



# THE REALITY OF FISCAL DECENTRALISATION

## ( THE NEED TO STRENGTHEN CAPACITY)



### EXAMPLE



- For local authorities to supervise their many new functions previously undertaken by Central Government, they **will require massive capacity building and recruitment of top-level high quality administrators.**
- District and sub-district level community structures would also need **strengthening** to fully appreciate decentralization and the levels of civic responsibilities that the local communities now need to play.
- The general citizenry also need **capacity building** for them to effectively participate in the affairs and running of their local district and sub-district level authorities.

In spite of the existence of measures aimed at fostering decentralization in general and fiscal decentralization in particular, councils countrywide **do not have sufficient financial resources to facilitate the effective performance of their functions**, a situation which results into dismal service delivery and underdeveloped localities. **Example; in Lusaka, parking management has been given to a private company; and this makes the council lose out.**

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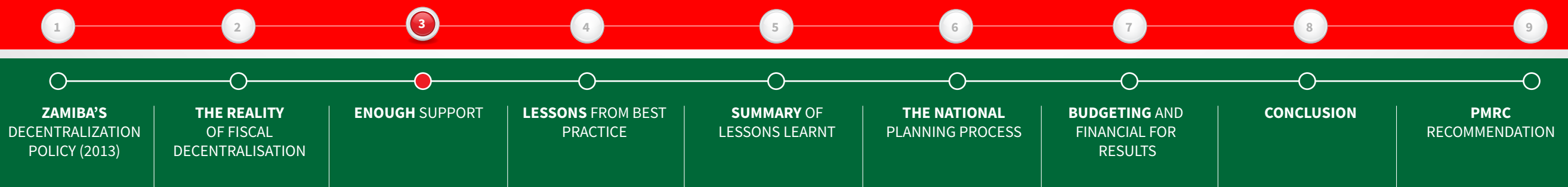


## ENOUGH SUPPORT?

Although the policy states that Government will realign functions and linkages of central, provincial, district and sub-district governance structures with matching resources, the reality of this has not been seen thus far in some instances . Contrary to this, in December 2013, the Zambian Government amended various pieces of legislation including The Competition and Consumer Protection Act, 2010; The Zambia Environmental Management Agency (ZEMA) Act there were a few others and has introduced legislation, which instructs quasi-autonomous institutions to remit funds to Central Government. This is a case, of fiscal centralisation, which is contrary to the principle of devolution.

New districts being created, what resources are being delivered? This needs a re-assessment. Others don't even have the infrastructure complete ... the case of Choma . how then will decentralisation be realized ?

**Case of CDF has also had its challenges in some instances and lessons must be learnt on better ways to implement**



# LESSONS FROM BEST PRACTICE

## SOUTH AFRICA



### FISCAL DECENTRALISATION IN SOUTH AFRICA

*South Africa has a three-tier system encompassing national, provincial and local governments.*

### FEATURES OF FISCAL DECENTRALISATION IN SOUTH AFRICA

Fiscal decentralisation in South Africa involves shifting some responsibilities for both revenue and expenditure to subnational levels of government. (Increased responsibilities)

Based on the “**Division of Revenue Act**”, which annually allocates national revenues to each of the three spheres of government, the **South African Intergovernmental Fiscal System (IGFR)** provides a framework of fiscal arrangements aimed at ensuring that government responsibilities are met, while the right level and mix of public services are delivered to enhance the socioeconomic rights of citizens, especially the disadvantaged

*(Zambia can learn and adapt from this system).*



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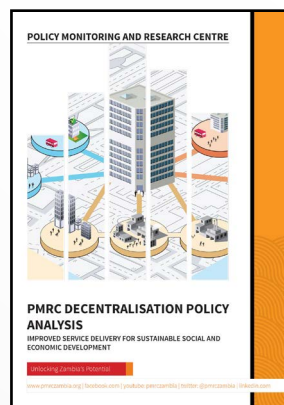
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# LESSONS FROM BEST PRACTICE CONT..

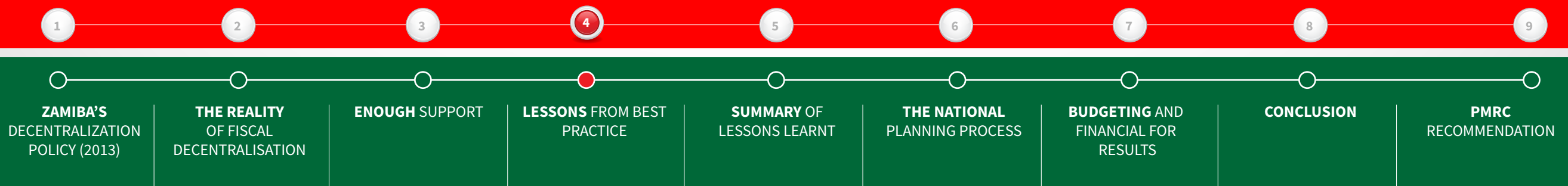
**The IGFR system** determines the way in which:

- Taxes are allocated and shared among the various levels of government, and
- How funds are transferred from one level to another;
- Further, It guides Intergovernmental relations, both vertical (between levels of government) and horizontal (across the levels).

An important feature of public finance in South Africa is the **decentralisation of social sectors**, by which the government plays a key role in catalysing and spreading social justice that can only be fulfilled through the direct and indirect redistribution of income to poor and disadvantaged communities. **Pro-poor budgeting, on the expenditure side, is used to address social inequalities and inequities at all levels of government.**



\* The **PMRC decentralisation policy analysis** provides examples from Uganda and Kenya as well



# SUMMARY OF LESSONS LEARNT



In learning from best practice, the following are some of the key points noted to aid effective decentralisation implementation:

Conducive policy environment: there should be conducive policy environment which sub divides mandates and sub national authorities, clearly establishing tasks and roles.

- **Phased approached:** Decentralisation is a long-term process that needs to be planned for and undertaken in stages. *(Example, Uganda and Kenya had a series of pilot projects in reference to decentralisation.)*
- **Proactive and practicality of implementation:** Ensuring that decentralisation is implemented in practice. *There should be political will and commitment*
- **Matching plans to resources:** Resource allocation and mobilization has been highlighted as a key requirement for the effective implementation of plans.
- **Capacity building:** for efficient and effective resource management and decision making

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# THE NATIONAL PLANNING PROCESS

A Green Paper is a consultation document produced by the Government to address specific issues, causes of action or policy change.

A draft National Development Plan (in form of a green paper) will be tabled before the National Assembly.

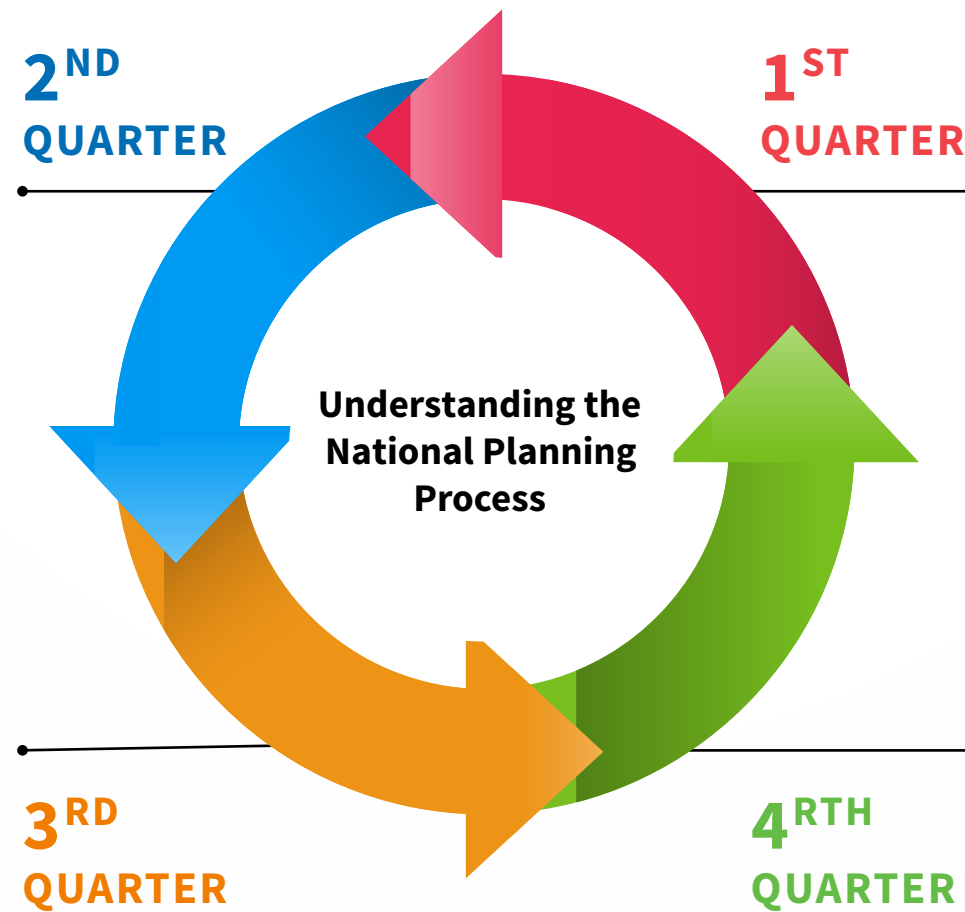
An annual review of the National Development Plan and annual budget drawn from it, will be prepared and tabled before the National Assembly

The annual or mid term review will be used to prepare the draft Medium Term Expenditure (Financial) Framework (MTEF) to be submitted to the National Assembly as a Green Paper

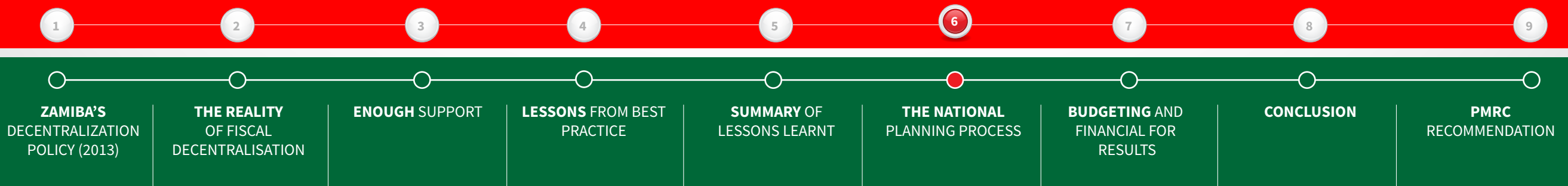
Each District submits its District Development Plan to the Provincial Administration to incorporate and submit the draft Provincial Development Plan to the Ministry of Finance.

**Financial responsibility** is a core component of decentralization.

If local governments and private organizations are to carry out decentralized functions effectively, they must have an adequate level of revenues – either raised locally or transferred from the central government – as well as the authority to make decisions about expenditures.

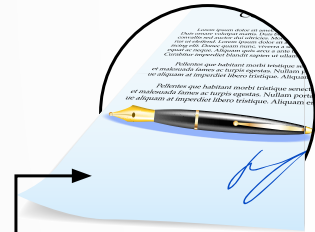


Roll out Phase

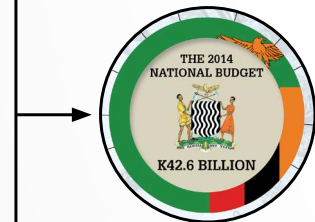




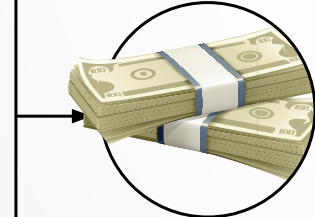
# BUDGETING AND FINANCIAL PLANNING FOR RESULTS



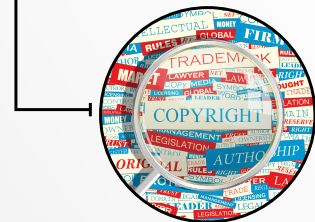
**The National Policy and National Development Plan** should clearly map out vision of the Nation and inform the budget. Government must ensure clarity of policy direction and institutional frameworks.



**The National Budget** must be a tool of realising the programs and projects in the Nation Development Plan. Government should ensure that budget allocations reflect priorities.



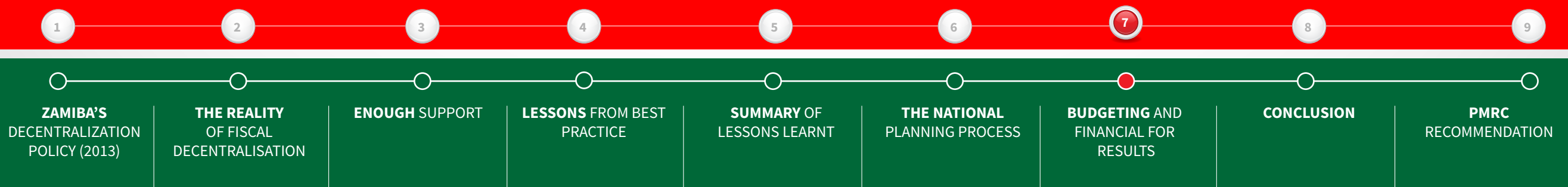
**Spending Agencies** must adhere to the budget allocations and Government ought to ensure that spending is consistent with approved budget.



For proper implementation of the policy, there should be an effective **monitoring and evaluation framework in place**. Government should measure results and ensure feedback into the policy process.



Source: (Adapted by Policy Monitoring and Research Centre (PMRC) from the Third International Journal on Managing for Development Results, 2007.





# CONCLUSION



- Experience has clearly shown that effective decentralization requires complementary adaptations in **institutional arrangements** for intergovernmental coordination, planning, budgeting, financial reporting, and implementation.
- Of utmost importance is **transparency and accountability to local constituencies** supported by **strengthened higher level monitoring and reporting of local fiscal performance**.
- PMRC affirms that with effective implementation, well-defined responsibilities, definite functions, and distinct lines of authority and communication, Government may attain the set objectives of increased community participation and improved service delivery through decentralisation.
- Ensure **financial resources are available** for activities and functions to be carried out while reinforcing and building capacity for revenue collection.

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# PMRC RECOMMENDATIONS



## Policymakers should take the following observations into account:

- Financial decentralisation should not be used as a means for national governments to shift the burden of financing services to sub-national governments and private providers. *(The mandate should be clearly outlined)*

**CAUTION \*** The transfer of responsibilities to sub-national authorities could slow down the delivery of services unless accompanied by **adequate capacity-building and civil society participation**. *(Political commitment of local elites is required.)*

- Fiscal decentralisation requires citizen participation since resource allocations should reflect local preferences. The challenge is to overcome the technical complexity of the process and find appropriate ways to institutionalize participation. (The case of checks and balances)
- Further steps to enhance service delivery by sub-national authorities need to focus **more sharply on coherent policies targeted towards outcomes**. *(The case of the 7 National Development Plan)*
- Strengthen accountability mechanisms to **prevent corruption and misappropriation of funds** as fiscal decentralisation is being implemented.

END...

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# THANK YOU

## Unlocking Zambia's Potential

Response to this presentation can be sent to:

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