

LOCAL GOVERNMENT ASSOCIATION OF ZAMBIA

POSITION PAPER ON LOCAL GOVERNMENT FINANCE IN ZAMBIA

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1. INTRODUCTION

Local authorities in Zambia play a pivotal role in the provision of a wide range of services as prescribed by the Republican Constitution and relevant pieces of legislation. Given both their proximity to communities and strategic location in the national governance and development framework, local authorities are central to the actualization of the country's socio-economic transformation and sustainable growth objectives. However, due to inadequate and unpredictable revenues, they have been unable to satisfy ever-increasing public demands for quality municipal services.

Despite several interventions including policy reforms to build a well-functioning local government system, local authorities continue to operate under considerable financial strain, largely characterised by limited fiscal space, inconsistent intergovernmental fiscal transfers, and weak capacity for own-source revenue (OSR) generation (LGAZ,2022). The combined effects of these structural challenges have undermined the ability of local authorities to meet rising service delivery expectations, especially in the face of rapid urbanisation and demographic shifts. With an expanded mandate necessitated by decentralisation reforms, local authorities are still grappling with limited revenue generation capacities, inefficiencies in financial management systems, and over-reliance on central transfers. The complexities in local government finance have necessitated calls for innovation in revenue sources.

To promote innovative financing among its member local authorities, the Local Government Association of Zambia (LGAZ) organised a seminar that offered a knowledge sharing platform and an opportunity to showcase successful strategies for generating OSR and managing financial resources prudently within the framework of innovative financing, anti-corruption, transparency, and accountability. The seminar brought together Mayors, Council Chairpersons, Principal Officers, Directors of Finance, civil society organisations, government (MLGRD and the MoFNP) who exchanged invaluable insights into existing challenges and opportunities for enhancing revenue generation and investments at the local level. The seminar was organised with the support of the Commonwealth Local Government Forum (CLGF), the European Union (EU) and the Ministry of Local Government and Rural Development (MLGRD).

This position paper presents key matters affecting local government finance as discussed at the seminar. The paper also highlights recommendations for enhancing OSR generation and prudent management among authorities in Zambia.

The position paper is structured into three (3) sections as follows:

i. **Context**. Which presents key concerns drawn from an assessment of the current fiscal status of local authorities. It also highlights the challenges and policy incoherencies and gaps.
ii. **Recommendations.** These are presented as implementable actions to be undertaken at national and local levels. Actions at the national level are those that require a united voice and collective effort among local authorities. These are categorized in two parts: "*advocacy and policy*", and "*standardized capacity building*" initiatives aimed at enhancing OSR generation and prudent financial management at the local level. Actions at the local level, on the other hand, are those that individual local authorities should endeavor to initiate, as autonomous institutions.
iii. **Conclusion.**

2. CONTEXT

Rationale for adequate local government finance.

Adequate and predictable revenues are a pre-requisite for an effective, well-functioning local government. With inadequate resources, local authorities are not able to provide basic services, such as clean drinking water, primary health and communal infrastructure and waste management, thereby making them less responsive to local needs. The absence of suitable local economic infrastructure such as proper roads in most districts undermines local authorities' abilities to attract capital investments, which in turn limits their capacities to expand existing revenue streams and explore new sources. This also prevents long-term planning and leads to over-dependence on central government transfers, unpredictability of revenues, and inability to respond to the needs of marginalised or under-served communities. An ineffective and unresponsive local

government also undermines democracy by limiting community participation due to lack of logistical support to sub-district structures and inability to address local priorities.

Legal and policy incoherences.

There exists considerable incoherences in existing pieces of legislature as they do not align clearly with the constitutional provisions on local government and decentralization. Besides policy incoherences, local authorities do not enjoy access to private finances due to legal barriers and lack of regulatory clarity.

Heavy Reliance on Central Transfers.

The current fiscal landscape for local authorities is highly dominated by central transfers such as the Local Government Equalization Fund (LGEF), Grants in Lieu of Rates, and Discretionary Grants (LGAZ, 2025). Only a small proportion of local authorities, particularly those on the Copperbelt and North-Western provinces which house large-scale and industrial mining ventures, have demonstrated capacity to mobilise substantial amounts of revenues from OSR including property rates, business licenses, and user fees. For a larger proportion of local authorities, the size of OSRs is not substantial, although this varies across local authorities due to varying barriers stemming from institutional, economic, and other factors. Notwithstanding over-dependence on central transfers, the frequency of central transfers, especially grants in lieu of rates under the Rating Act, has been inconsistent over the years (LGAZ, 2022).

Lack of Equity

Although central transfers usually carry substantial amounts, there is no systematic mechanism for allocating resources as some local authorities have been receiving disproportionately inadequate funding resulting in inequities. In the absence of a formula-based approach, it is not only uncertain what factors are considered in determining allocations but also difficult for local authorities to predict funding. This in turn makes long-term planning unrealistic.

High Debt and Arrears.

The indebtedness of local authorities has been rising steadily over the years, largely due to the accumulation of statutory arrears, retirement benefits, and unpaid obligations to various service providers.

The Ministry of Local Government and Rural Development (MLGRD) began systematically tracking local authority debt on 31st December 2017, at which point the total liabilities stood at over ZMK 1.5 billion.

By 30th June 2020, this figure had grown to approximately ZMK 2.8 billion. Most of this debt (77.6%) was attributed to statutory obligations, including unremitted pension contributions to the National Pension Scheme Authority (NAPSA) and the Local Authorities Superannuation Fund (LASF), as well as unpaid Pay-As-You-Earn (PAYE) tax to the Zambia Revenue Authority (ZRA). A further 16.6% related to personnel-related costs, with the remaining portion owed to suppliers and other service providers (Chitembo, 2019).

By 31st December 2020, the debt had remained above ZMK 2.8 billion, still dominated by statutory and retirement-related obligations.

Between June 2020 and December 2022, the total local authority debt increased by 54%, reaching ZMK 4.34 billion. Of this amount:

- 71% related to statutory obligations to NAPSA, LASF, and ZRA (mainly PAYE),
- 25% was attributed to personal emoluments, and
- The remainder was owed to various creditors.

As of September 2023, the debt burden had risen further to ZMK 4.6 billion, marking a 67.9% increase from the June 2020 baseline. The largest share of this debt continued to stem from arrears owed to statutory bodies, including NAPSA and LASF, and unpaid taxes to the ZRA (Mbewe et al., 2023; LGAZ, 2022). Although interventions such as NAPSA's waiver of penalties provided some relief, most local authorities continued to face difficulties in clearing their arrears.

By 2024, the total estimated debt had surpassed ZMK 6.5 billion. This escalating figure reflects the persistent structural and fiscal challenges local authorities face in consistently remitting statutory payments and managing legacy debts.

Governance, Compliance and Audit Challenges.

Audit reports for 2021, 2022 and 2023 have highlighted systemic weaknesses in budget forecasting, non-compliance with statutory obligations, and delays in remittances among local authorities. These challenges not only erode public trust but also hinder effective service delivery (Office of the Auditor General, 2023).

3. RECOMMENDATIONS

Some recommendations point to creating an enabling governance and regulatory framework through engaging in dialogue with central government and facilitating capacity building through training and sharing of good practices. These will be facilitated by the Association at the national level. Others require local authorities themselves to take localized initiatives by harnessing innovation and technology based on their comparative advantage.

3.1 Action at the National Level

Advocacy and policy

a) Dialogue with central government to harmonize conflicting pieces of legislation to address policy incoherencies, especially between the IFA and other policies that are specific to local government financing.
b) Promote the adoption of a formula-based modality for allocating grants, considering factors such as poverty levels and population size of each district.
c) Assess the possibility of establishing a framework for the issuance of municipal bonds.
d) Dialogue with central government to support the enactment of a piece of legislation and an enabling policy that is specific to local government finance, such as the Local Government Financing Act.
e) Dialogue with central government to implement the debt management strategy for local authorities.

f) Engage central government to promote the adoption of an efficient approach to developing or updating valuation rolls, such as using internal valuation officers as opposed to external, central government valuers.
g) Engage central government to better understand each local authorities' contribution (in form of property tax) to Gross Domestic Products (GDP), which currently stands at 0.2%. This data should be disaggregated according to districts.
h) Dialogue with central government to speed up the approval of By- Laws as delays have hindered innovations in exploring new revenue sources such as Carbon Levy among others.
i) Dialogue with central government to ensure that the recruitment of staff is based on local priorities human resource needs and capacity to pay.
j) De-politicization of service delivery.
k) Dialogue with the central government to consider elevating the position of Internal Auditor to enhance its role.
l) Support the deployment of an integrated financial management system to ensure standardization across all local authorities.

Capacity Building

The Association, working together with central government, cooperating partners, such as the CLGF and local civil society organisations, such as Transparency International (TIZ) should work together in the provision of relevant capacity building programmes, peer-to-peer learning, and exchange visits within and outside the country. It is recommended that the following capacity building interventions be prioritized for greater impact:

a) Use of digital solutions and automation.
b) Local economic planning and investment promotion.
c) Ethical financial governance.
d) Strengthening oversight mechanisms.

3.2 Action at the Local Level

The following should be proactively undertaken by local authorities:

a) Formulate own strategies for revenue mobilisation unique to local contexts.
b) Digitalization of revenue collection and management, with support from central government, cooperating partners, and stakeholders.
c) Adopt more efficient approaches to property rates collection.
d) Self-assessment of fiscal capacity.
e) Develop socio-economic profiles for all wards. This should cover natural resources, nature of economic activities, demographics. This will be key in informing decision making on enhancing OSR.
f) Deliberate efforts to build local economies through profiling and economic planning.
g) Strengthening transparency and accountability in financial management: regular publications of budgets & expenditure statements, service charters, functional integrity committees whose members should be drawn from within and outside the establishment of the council, engagement of external auditors.
h) Promote teamwork – Mayors/Council Chairpersons to work as a team with their respective managements within the anti-corruption framework to ensure prudent financial management, guided by values of transparency and accountability.
i) Strengthen existing oversight structures & mechanisms.

4 CONCLUSION

Enhancing local government finance is a complex matter that requires urgent attention and concerted efforts. While central government action is key to addressing the structural challenges affecting local revenues, own initiative by each local authority is equally crucial. The Association remains committed complementing government's efforts in bid to create a conducive policy and regulatory environment for an adequately resourced and well-functioning local government.

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