### BASIC INFORMATION

#### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Parent Project ID (if any)</th>
<th>Project Name</th>
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<tbody>
<tr>
<td>Zambia</td>
<td>P169384</td>
<td></td>
<td>Public Sector Governance for Service Delivery Program (P169384)</td>
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<table>
<thead>
<tr>
<th>Region</th>
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<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
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<tr>
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<td>Apr 15, 2019</td>
<td>Jun 17, 2019</td>
<td>Governance</td>
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<table>
<thead>
<tr>
<th>Financing Instrument</th>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
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<tbody>
<tr>
<td>Investment Project Financing</td>
<td>Ministry of Finance</td>
<td>PFM Reforms Unit</td>
</tr>
</tbody>
</table>

#### Proposed Development Objective(s)

The Project Development Objective is to strengthen institutions for accountable local service delivery in Zambia.

### PROJECT FINANCING DATA (US$, Millions)

#### SUMMARY

<p>| | |</p>
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<tbody>
<tr>
<td>Total Project Cost</td>
<td>80.00</td>
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<tr>
<td>Total Financing</td>
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</tr>
<tr>
<td>of which IBRD/IDA</td>
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<td>Financing Gap</td>
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#### DETAILS

**World Bank Group Financing**

<table>
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<tr>
<th>Description</th>
<th>Amount (US$)</th>
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<tr>
<td>International Development Association (IDA)</td>
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<td>IDA Credit</td>
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**Environmental and Social Risk Classification**

Moderate

**Concept Review Decision**

Track II-The review did authorize the preparation to continue
Other Decision (as needed)
B. Introduction and Context

Country Context

1. **Zambia has successfully raised its average annual gross domestic product (GDP) growth rate; however, poverty and inequality have remained stubbornly high.** Zambia has averaged an annual GDP growth rate of 7.4 percent since 2000, with average per capita incomes increasing after decades of economic volatility since the country’s independence in 1964. Although economic growth has resulted in overall development outcomes in some core sectors such as health and education, Zambia faces both high levels of poverty and inequality when compared to other countries in the region. Rapid population growth has meant that the number of Zambians living in poverty increased between 2010 and 2015. In this context, the structure of growth benefited the people in urban areas (both poor and non-poors) more than the poor in the rural areas.

2. **Zambia’s growth has been spatially unbalanced.** Historically growth has been highest along the railway line from Livingstone through Lusaka to the Copperbelt, whereas other places and people have remained, to a very great extent, excluded from recent economic progress. Urbanization has been a driver of change over the past 15 years. However, urban growth has been significantly more focused on the capital city than secondary and rural towns. For example, although the annual population growth of Lusaka is over twice the average for Sub-Saharan Africa, secondary towns are growing slower than the rest of Africa (0.7 percent in Zambia as compared with 1.8 per cent elsewhere). These disparities may exacerbate uneven territorial development, as secondary and rural towns play a crucial role in strengthening the links within local, provincial, national and international supply chains.

3. **Weak institutions and limited accountability have hindered service delivery and growth.** Between 2012 and 2017, Zambia’s rank in Governance Effectiveness fell from 39 to 29 in the World Bank’s Worldwide Governance Indicators. Weak policy coordination and implementation of reforms, and limited transparency and accountability create space for vested interests to have a disproportionate influence in policy making and public resource allocation, thereby hindering pro-poor growth. It has been observed that while forms of institutions (laws, policies, systems and structures) have shifted to mirror global “best practices”, their functionality (de facto performance) has remained relatively the same. Weak capacity to manage public expenditures and implement programs has undermined service delivery.

4. **The Government realizes these critical gaps and has made strengthening governance one of the five pillars of its 7th National Development Plan.** The 7th National Development Plan (7NDP, 2017-2021) is the Government of Zambia’s (GRZ) economic strategy for achieving its vision of “becoming a prosperous middle-income country by 2030”. Creating a conducive governance environment for a diversified and inclusive economy is one of the core strategies planned to attain this vision. The 7NDP lays out the following development outcomes as its key priorities to strengthen governance:

   a) Improving the policy environment;
   b) Improving transparency and accountability;
   c) Establishing an inclusive democratic system of governance;
   d) Improving service delivery;
   e) Improving the rule of law, human rights and constitutionalism
   f) Enhanced national values, principles, and ethics.

5. **Decentralization is a core element of the Government’s strategy to strengthen governance and service delivery.** To counter the historically centralized nature of Zambian institutions and of political power being confined to a narrow elite in Zambian society, the Government has made decentralization a key plank of its governance strategy.
The National Decentralization Policy (NDP, 2009) was formulated to explicitly articulate the intention of the Government to enhance the participation of citizens in governance at all levels, thereby strengthening democratic accountability. The revised National Decentralization Policy (2013) and the Decentralization Implementation Plan (DIP, 2014-2017) provide a comprehensive policy and procedural framework for the implementation of the Government’s decentralization agenda. Since then, the Government’s intention has been to transfer powers, functions and resources to local governments with a view of empowering them. It also aims to use their proximity to citizens to strengthen the social contract between the State and citizens.

6. **Decentralization in Zambia had several false starts in the past; however, it is now accepted as a necessary policy choice on both sides of the political spectrum.** Political economy analysis of decentralization in Zambia reveals that the devolution of authority and control over resources to local governments has been recognized as essential to the equitable development of both the Zambian economy and polity. Yet, decentralization implementation has often been affected by political considerations. The main reasons for the previous failures of decentralization reforms include centralized power and authority structures, informal power relations that pervade legal-rational rules and lead to elite capture, and the lack of local-level participation in decision-making (Simutanyi 2007:2). Some of these political economy factors may still pose a threat to the smooth implementation of decentralization, but broad political acceptance of the policy and the firm momentum toward implementation by the current national Government is expected to mitigate this risk.

7. **The present Government has taken a series of important steps to strengthen the implementation of the Decentralization Policy.** In 2015, the Decentralization Secretariat was brought under the Office of the Secretary to the Cabinet to ensure improved institutional coordination of the DIP. The Governance pillar of the 7NDP (2017-2021) emphasizes the Government’s continued support to the implementation of the decentralization agenda. Several key legislations, such as the Local Government Act and the Public Finance Act, have been amended, and sector devolution plans have been prepared. In addition, the Government has put in place an Intergovernmental Fiscal Architecture and a Local Government Equalization Fund for the transfer of resources to local governments. Collectively, these activities have established a renewed commitment to further devolution as the key policy instrument to improve the accountability and effectiveness of local service delivery. At the same time, the Government recognizes that for the Decentralization strategy to translate fully into service delivery outcomes at the last mile, local governments need to be made institutionally capable so that they can address their increasing service delivery responsibilities in an efficient, effective and inclusive manner.

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2. The rating scale is from 0-100, with 0 corresponding to the lowest rank, and 100 corresponding to the highest rank.
4. Accelerating the implementation of Decentralization Policy is one of the core strategies in the “Improving the policy environment” development outcome.
6. The Decentralization Secretariat was previously located under the Ministry of Local Government.
Sectoral and Institutional Context

8. **Zambia has a functioning system of local governments.** Part IX, X and XI of the Constitution (2016) and the Local Government Act provide the legal framework for the local government system and decentralization arrangements in Zambia.

9. **Service delivery by local governments faces several challenges.** Article 147 (2) and Annex C of the Constitution of Zambia (2016) describe the exclusive functions of the local government levels. These include standard local services, such as providing for local infrastructure, street cleaning and drainage, sanitation and solid waste management, maintenance of parks, sports and recreation facilities, and so on. However, service delivery is still a critical challenge, especially in rural areas.

10. **Weak institutional capacities of local governments pose a potential threat to the successful implementation of the Government’s Decentralization Strategy.** A key determinant of the success of decentralization in Zambia will be the ability of local governments to handle the assigned tasks — as well as the effective bridging of the disparities in technical and administrative capacity between the central and the local governments.  

11. **Strengthening the fiscal and financial capacities and the performance of local governments is at the core of the Government’s Decentralization Strategy.** As part of the DIP, the Equalization Fund is operational, and the Central Government has been providing fiscal transfers to local governments since 2015. The Public Finance Management Act has recently been amended to strengthen transparency and accountability in the management of public resources. The mandate of the Office of Auditor General has been expanded to include the audit of local governments as part of its annual audit program. However, the impact of these measures in terms of service delivery outcomes is not yet fully visible. Accountability systems continue to be weak, and financial management and control systems need to be strengthened. In addition, the linkages between citizens and local governments need to be improved.

12. **Increased mobilization of local revenues is critical for the financial sustainability of local service delivery.** Zambia collects only about 0.2 per cent of GDP from property taxes as compared to 0.5 per cent in comparable developing countries. Preliminary analysis has shown that even with the share of the equalization fund now available, local governments are still squeezed for resources in meeting their capital and operating expenditures. Improved collection of own-source revenues is critical to broadening the fiscal space, funding local public goods, and increasing the accountability of local governments to citizens.

13. **Decentralization in Zambia must increasingly meet the dual objectives of strengthening an accountable system of governance, while specifically enabling local governments to meet their service delivery responsibilities in an inclusive and efficient manner.** Key to addressing these objectives will be measures to re-orient and enhance the capacity of both national and local government institutions to play the new roles demanded of them in a decentralized framework for governance and service delivery. At the local government level, the capacity to design and manage local economic development activities and service delivery in an inclusive, efficient, accountable and transparent manner will be of key importance. For the national government, it is critically important that it enhance its ability to set priorities and provide policy and capacity support. At the same time, it must ensure that it can meet its fiduciary responsibilities of safeguarding public resources through effective monitoring and strong anti-corruption measures. The Government recognizes that these critical priorities need to be addressed immediately if its decentralization strategy must translate into service delivery outcomes and has sought World Bank support to address these through a specific investment operation.
C. Proposed Development Objective(s)

The Project Development Objective is to strengthen institutions for accountable local service delivery in Zambia.

Key Results (From PCN)

The Key Results of the proposed project are:

- Strengthened planning, implementation, and financial management systems of participating local governments for improved local service delivery
- Strengthened citizen engagement in local governance and service delivery
- Improved monitoring and oversight of local government institutions

The proposed results will be measured using the following indicators:

1. Number of participating local governments that achieve the threshold score for institutional performance in the Annual Performance Assessment.
2. Number of participating local governments that meet their investment and service delivery targets, as laid out in their annual plans.
3. Number of participating local governments preparing their annual plans through a consultative process.
4. Number of Project beneficiaries (disaggregated by gender).
5. Number of participating local governments with acceptable independent annual external audit reports.

D. Concept Description

16. The proposed World Bank-financed Public Sector Governance for Service Delivery Project (PSGSDP) will support three Key Result Areas of the Government Devolution Program.

Government Program

17. The Government has formulated a Program centered around the Governance pillar of the 7NDP to accelerate the implementation of decentralization. The Government program focusses on the following Key Results Areas (KRAs):

1) Devolution implementation;
2) Fiscal decentralization implementation;
3) Citizen participation promotion;
4) Local authorities’ debt dismantling; and
5) Capacity development.

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18. **Some of the elements of the Government’s program are already under implementation.** Thus far, the implementation of the Government program has focused on the preparation of Sector Devolution Plans and the strengthening of the organizational structures and human resource capacities of local governments. Also, some policy actions have been taken to reduce the debt burden of local governments. Fifteen sector functions have been devolved and Ten Sector Devolution Actions Plans have been prepared. New organizational structures for Local Councils have been approved, and Staff Registers of all staff performing the devolved functions have been compiled. This is being done as a prelude to the transfer of their human resource (HR) management function from the Public Service Commission/Teachers Service Commission to the Local Government Service Commission (LGSC). The Central Government has assumed the payment of salary and pension obligations of local governments as an interim measure until local governments can strengthen their financial management capacities.

19. **Although the Government program has made significant progress, much more needs to be done.** The Government has put in place a policy framework for decentralization, and established an Equalization Fund with the intention of providing formula based fiscal transfers to local governments. Though the Government has started providing an equalization grant to resource local governments (since 2015), the lack of transparency and predictability of these transfers reduce their effectiveness as a sustainable source of financing for local service delivery. In addition, the weak capacities and institutional systems of local governments — especially in public financial management, mobilization of local revenues and accountability of local governments to citizens — are critical binding constraints for the effective and efficient delivery of local services.

20. **Strengthening local governance is seen as the institutional foundation for higher level agendas, such as the Human Capital Development and Maximizing Finance for Development (MFD) initiatives.** As part of the Government’s strategy of building the country’s human capital, it is envisaged that local governments will play a key role in delivering services in key sectors such as health, education and social protection. However, weak institutional capacities of local governments have constrained the Government from launching this strategy beyond the pilot phase. Similarly, to meet the increasing demands of urbanization in Zambia, the Government hopes to attract private capital to finance urban infrastructure investments in the future. While this is an idea in its infancy, it is well recognized that fiscally and institutionally strong local governments can create the enabling environment for private capital to flow to key sectors such as tourism, small and medium enterprises (SMEs) and infrastructure.

21. **Therefore, the Government has requested Bank support for the implementation of a sub-set of the Government’s program.** Specifically, to address the institutional constraints that prevent effective local service delivery, the Government has requested World Bank support to implement the following Key Result Areas (KRAs) of the Government’s Program:

- KRA 2: Fiscal Decentralization Implementation;
- KRA 3: Citizen Participation Promotion in Devolution; and
- KRA 5: Capacity Development.

Accordingly, the World Bank has formulated the Public Sector Governance for Service Delivery Project (PSGSDP) to support the implementation of the Government’s program to strengthen the institutional foundations necessary for effective implementation of the Government’s decentralization policy.

**The Public Sector Governance for Service Delivery Project** (referred to as the “Project” from here on) will support the following:
22. The proposed Project will support the establishment of an incentive framework for enhanced institutional performance, as well as provide an integrated package of financial and institutional development support to strengthen the governance and service delivery capacities of local governments, thereby enabling them to fulfill their service delivery mandate in a transparent and accountable manner. A systematic and dynamic approach to institutional development is proposed. This will include a combination of a financing framework that incentivizes institutional performance of local governments with concurrent policy, regulatory and capacity-building support by the Central Government to help strengthen the core functions of local governments. It would also ensure that the capacities of local governments are strengthened in relation to the functions that they perform (“learning by doing”) and that they are held to account (by citizens and the national government), as well as appropriately rewarded for the efficient performance of these functions.

23. In strengthening local governance and service delivery, the proposed project will support the implementation of a critical intermediate step in Zambia’s trajectory of reforms. The proposed project will complement the Government’s decentralization policy and governance pillar of the 7NDP by strengthening the institutional foundations for local governance and service delivery. As such, the proposed project builds upon the Government’s decentralization policy, as well as subsequent initiatives already underway.

24. The proposed project adopts a strategy of strengthening governance from the bottom up. In line with the Government’s intention to provide equitable and inclusive delivery of services to all parts of the country — and thereby restoring spatially balanced growth and development — the proposed project will focus on the lowest tier of local government institutions (that is, the town councils). As such, it will support the strengthening of governance and service delivery from its weakest links.

25. The proposed project builds upon the lessons learned from the successful implementation of the Zambia Social Investment Fund Project (ZAMSIF) and the Public Financial Management Reform Project (PFMRP), as well as related programs financed by cooperating partners. The ZAMSIF project contributed significantly to the increase in the stock of community assets, improved access and use of local services by the beneficiary communities across Zambia. Now that the Government’s Devolution strategy is under implementation, the proposed project can leverage the enabling policy environment and support the Government to achieve the institutional development objectives as was originally intended.
under ZAMSIF. The Multi-Donor Trust Fund financed PFMRP, and ended in December 2018, has helped the Government to build the foundations of a strong Public Financial Management (PFM) system for the country. The next phase of the PFM reform strategy envisages strengthening Fiscal Decentralization as well as Local Government PFM systems and practices. The project will also coordinate with other related support programs from cooperating partners such as the Decentralization for Development (DforD) Project of the German Corporation for International Cooperation (GIZ) and others.

26. **Project Components**: the project activities are grouped under four components based on the three KRAs of the Government Program that the project intends to support:

1. **Component 1. Strengthened Governance and Fiscal Framework for Local Service Delivery**: The project will support key agencies of the Central Government in (i) developing transparent and predictable fiscal transfer system, and (ii) monitoring of local government finances and performance for effective and accountable local governance and service delivery, and (iii) strengthening of oversight of local government institutions. Focus areas include: applying the rules governing public financial management (such as the recently enacted Public Finance Management Act) to local governments; development of the transparent and efficient management of the intergovernmental fiscal framework to ensure timely and predictable transfer of resources to local governments; monitoring the performance of local government own-source revenues and budget execution; developing standardized financial reporting system for local governments; the monitoring and management of intergovernmental fiscal transfer system, and implementation of an Audit Strategy and the effective and transparent functioning of integrity and audit committees in local governments.

2. **Component 2. Performance Grant for Service Delivery**: The project will put in place a performance-based framework that will incentivize institutional performance and accountability of local governments from the bottom up. In accordance with the Government’s Intergovernmental Fiscal Architecture, the project will introduce a “Performance Grant” to local governments that will reward superior institutional performance as measured through an Annual Performance Assessment (APA). Specifically, the APA will measure the performance of participating local governments in core areas of governance, selected service delivery-related indicators and mechanisms for strengthening external accountability. The Performance Grant will be formula-based and will provide a transparent and predictable source of discretionary funding to eligible local governments necessary for more efficient and effective service delivery. The Performance Grant will be available to all Town Councils (96) and will reward them for achieving pre-set performance benchmarks in core areas of local governance, including planning, financial management, local revenue mobilization and citizen engagement.

3. **Component 3. Capacity-Building Support to Strengthen Local Governance and Service Delivery**: This component will finance a targeted capacity-building program to enhance performance of local governments in the key reform areas. The project will provide capacity-building support to strengthen both the supply and demand sides of local governance. On the “supply” side, capacity support will include the following: Strengthening local government systems and capacities (in core areas such as planning, budgeting, financial management); Strengthening oversight and management systems for local government performance by higher levels, including the Ministry of Local Government and the Local Government Service Commission; Strengthening training capacity and systems at the Chalimbana Local Government Training Institute; Improving ICT systems to help local governments in revenue collection and select service delivery areas under their mandate. On the “demand” side, measures will cover: Citizen engagement to build awareness and strengthen the relations with local governments (including use of ICT) through increased transparency of local finances and around the performance of select services; Strengthening local governments through financing demand-driven capacity needs.

4. **Component 4. Project Management**: This component will provide support to the PFM Reform Unit in the Ministry...
of Finance for overall project management. In addition, support will be provided to other key entities involved in project management such as the Ministry of Finance, Decentralization Secretariat and to the Ministry of Local Government for areas under their mandate. It will also include support for regular project evaluations, including procurement and safeguards reviews, project financial reporting and auditing. The component will also support the design and implementation of the APA and communications strategies where necessary.

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<td>Projects on International Waterways OP 7.50</td>
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<td>Projects in Disputed Areas OP 7.60</td>
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**Summary of Screening of Environmental and Social Risks and Impacts**

At concept stage, the screening of the proposed project for environmental and social risks and impact reveals the following as potential risks and impacts; Occupation Health and Safety, Public health, management of waste during rehabilitation and construction activities, weak capacity in managing environmental and social risks on Bank funded projects and limited information on the expanded client responsibilities as required by the recently rolled out ESF.

**Note** To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document.

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