

**SUBMISSION TO THE COMMITTEE ON LOCAL GOVERNANCE, HOUSING AND  
CHIEFS**

**ON THE**

**ESTIMATES OF REVENUE AND EXPENDITURE OF, HEAD 29 - MINISTRY OF LOCAL  
GOVERNMENT AND RURAL DEVELOPMENT AND HEAD 35 - MINISTRY OF SMALL  
AND MEDIUM ENTERPRISE DEVELOPMENT FOR FINANCIAL YEAR 1ST JANUARY  
TO 31ST DECEMBER 2026**

**OCTOBER 2026**

**Contact:**

**P.O. Box 51407**

**Lusaka**

**Website: <https://zambia.actionaid.org/>**

## **Table of Contents**

1. Background .....	2
1.1 About ActionAid.....	2
1.2 Vision.....	2
1.3 Mission .....	2
2. Introduction .....	3
3. Head 29 - Ministry of Local Government and Rural development.....	4
3.1 Overview of the 2026 budget allocations and their adequacy.....	4
3.2 Ramifications of the budget allocations in meeting set targets.....	5
3.3 Head alignment with national and international commitments .....	8
3.4 Recommendations.....	9
4. Head 35 - ministry of small and medium enterprise development. ....	10
4.1 Overview of the 2026 budget allocations and their adequacy.....	10
4.2 Ramifications of the budget allocations in meeting set targets.....	11
4.3 Head alignment with national and international commitments .....	12
4.4 Recommendations.....	13
5. Conclusion .....	15

## **1. Background**

### **1.1 About ActionAid**

ActionAid Zambia (AAZ) is a part of the ActionAid Global (AAG) Federation, sharing common values and aims to drive social change towards a just, equitable and sustainable world. The ActionAid Federation builds the active agency of people living in poverty, their organisations, and movements, to address the structural causes of social injustice, gender inequality and poverty. This is in line with the United Nation's Sustainable Development Goals (SDGs) which have identified the importance of addressing poverty and inequality.

### **1.2 Vision**

Our vision is to have a just equitable and sustainable Zambia in which every person enjoys freedom from poverty and oppression for enjoyment of their right to a life of dignity.

### **1.3 Mission**

Our mission is to promote social justice, gender equality & poverty eradication for the people living in poverty, exclusion and marginalised in society by working with the people living in poverty their communities, organisations, activists & social movements for a just sustainable Zambia.

## **2. Introduction**

This submission analyses and assesses the 2026 budget estimates for two key Heads: 29 - Ministry of Local Government and 35- Ministry of Small and Medium Enterprise Development. This analysis aims to provide an understanding of how these allocations contribute to Zambia's broader development goals, and to offer insights that will support the Parliamentary Committee on Local Governance, Housing and Chiefs in reviewing the proposed budget for 2026.

The focus of this submission is on evaluating the effectiveness of the allocations in addressing critical challenges faced by local governments and SMEs, including service delivery, decentralisation, access to finance, infrastructure deficits, and capacity-building. This analysis will therefore provide a foundation for discussions on whether the proposed budgetary commitments are sufficient to meet the strategic objectives outlined in Zambia's Eighth National Development Plan (8NDP).

Head 29 – Ministry of Local Government and Rural Development has a mandate to promote a decentralised, effective local governance system and facilitate the delivery of municipal Services and infrastructure development through Local Authorities to effectively and efficiently contribute to sustainable socio-economic development as well as facilitate rural development and customary affairs for improved quality of life of citizens. This is in line with Government Gazette Notice No. 1123 of 2021.

Head 35 – Ministry of Small and Medium Enterprise Development's main mandate is to foster development and growth of small and medium size enterprises as well as cooperatives also in line with the Government Gazette Notice No. 1123 of 2021.

These two heads are closely aligned with the 8NDP strategies, the National Decentralization Policy, the National Micro, Small and Medium Enterprise Development Policy, and key international commitments, including the Sustainable Development Goals (SDGs) and the African Union (AU) Agenda 2063. Head 29 supports strategies to enhance local governance, decentralize decision-making, and improve service delivery, while Head 35 strengthens the SME ecosystem, ensuring inclusive access to finance, capacity-building, and market opportunities.

This submission is organised into two parts. Part One focuses on Head 29 – Ministry of Local Government, examining its 2026 budget allocation and assessing its potential impact on service delivery, citizen engagement, and decentralisation. Part Two addresses Head 35 – Ministry of SME Development, analysing its budget allocation and evaluating its capacity to support SMEs, address financial and operational barriers, and promote inclusive economic growth. Through this analysis, the brief provides a comprehensive overview of how the two heads collectively contribute to Zambia's long-term development and socio-economic outcomes.

### 3. Head 29 - Ministry of Local Government and Rural development

#### 3.1 Overview of the 2026 budget allocations and their adequacy

The Ministry of Local Government and Rural Development has a total approved budget of K10,397,434,614 for 2026, representing a 1.8 percent reduction from the 2025 allocation of K10,582,987,638. This contraction is notable given the critical mandate of the Ministry in supporting decentralisation, service delivery, and local development. The table below shows the 5-year trend of the detailed budgetary allocation to the Ministry from 2022 to 2026.

*Table 1: Head Summary of Economic Classification Allocations*

<b>Economic Classification</b>	<b>2022 Approved budget (k)</b>	<b>2023 Approved budget (k)</b>	<b>2024 Approved budget (k)</b>	<b>2025 Approved budget (k)</b>	<b>2026 Budget estimate(k)</b>
<b>Personal Emoluments (21)</b>	64,454,308	78,905,485	83,770,157	93,145,639	97,020,798
<b>Goods and Service (22)</b>	65,840,302	53,358,825	58,113,619	60,490,618	35,589,906
<b>Transfers (26)</b>	5,463,910,535	6,182,941,215	7,423,371,375	10,289,950,800	10,127,494,648
<b>Assets (31)</b>	171,808,000	134,555,464	179,957,385	139,400,581	137,329,262
<b>Head Total</b>	<b>5,766,013,145</b>	<b>6,449,760,989</b>	<b>7,745,212,536</b>	<b>10,582,987,638</b>	<b>10,397,434,614</b>

Source: *Yellow Books, (2022, 2024 and 2025)*

A review of allocations by economic classification above shows that Transfers continue to dominate, accounting for over 97 percent of the total budget in 2026. This reflects government's prioritisation of financing sub-national structures through grants and related funding. However, this heavy concentration in transfers limits the Ministry's operational flexibility at the centre, constraining its ability to effectively coordinate and provide oversight.

Personal Emoluments have risen steadily, reaching K97.0 million in 2026 compared to K93.1 million in 2025. This reflects a continued upward trend in wage-related commitments, which may be linked to staff retention and new recruitments to support the decentralisation policy. On the other hand, allocations to Goods and Services (22) have seen a sharp contraction, falling from K60.5 million in 2025 to K35.6 million in 2026 – a reduction of about 41 percent. ActionAid Zambia is concerned that this decline may undermine the Ministry's ability to cover operational costs, monitor programmes, and provide technical backstopping to local authorities.

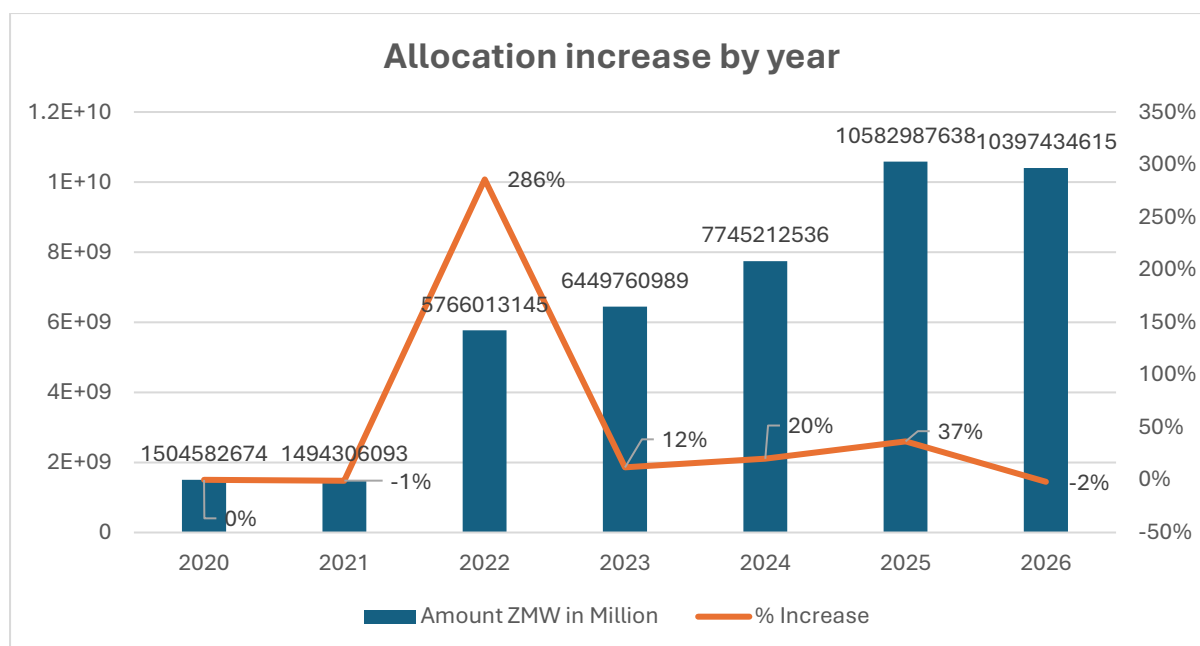
Meanwhile, allocations to Assets decreased marginally from K139.4 million in 2025 to K137.3 million in 2026, showing stagnation in capital investment. This poses a risk to long-term service delivery, particularly in rural and peri-urban areas that require sustained infrastructure development. It is important to note that the Local Government Equalisation Fund remains unchanged. This has implications for local government operational efficiency.

### **3.2 Ramifications of the budget allocations in meeting set targets**

The 2026 budget indicates a major increase in personal emoluments from K64,454,308 in 2022 to 97,020,798 in 2026 which is leap of over 50 percent. ActionAid welcomes this increase as an effort to meets the demand of required human resources especially in newly created districts which are likely to experience poor service delivery. Regarding goods and services and factoring in population and demand of essential services, allocation of K35,589,906 may not be enough to carter for the marginalised communities and therefore might exacerbate their vulnerabilities. ActionAid Zambia is of the view that the budget should have maintained the 2025 K60,490,618 or rather increased the same. Transfers have been allocated K10,127,494,648 in 2026 compared to K10,289,950,800 in 2026. The reduction has no significant impact on key allocation.

One thing is the allocation of the towards the Ministry of Local Government, while there have been steady increases in resource allocation the ration as compared to the CDF is low, risk affecting the implementation of the Programs under CDF due to limited human resource. Devolution of function has been a challenge a move that has affected implementation.

<b>Year</b>	<b>Amount ZMW in Million</b>	<b>% Increase</b>
2020	1504582674	0%
2021	1494306093	-1%
2022	5766013145	286%
2023	6449760989	12%
2024	7745212536	20%
2025	10582987638	37%
2026	10397434615	-2%

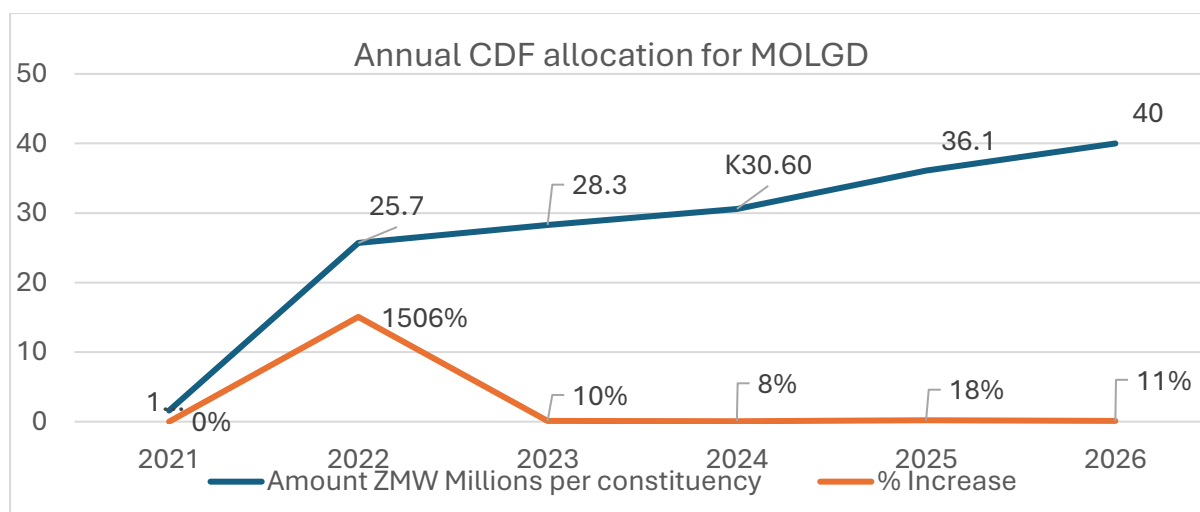


**Source: Yellow Book (2020-2026)**

One key matter to note is an increase of Constituency Development Fund (CDF) from K36.1 million in 2025 to K40 million in 2026, as shown in the table below.

*Table 2: Constituency Development Fund (CDF) Allocations (2021-2026)*

Year	Amount ZMW Millions per constituency	Total Annual commitment ZMW million	% Change
2021	1.6	249.6	0%
2022	25.7	4009.2	10%
2023	28.3	4414.8	8%
2024	30.60	4773.6	18%
2025	36.1	5631.6	11%
2026	40	6240	10.8%



Source: National Budget Speeches (2021-2026)

The budget allocation to the Constituency Development Fund (CDF) has increased significantly, from K1.6 million per constituency in 2021 to K40 million in 2026, fundamentally transforming the landscape of local governance. This growth reflects the United Party for National Development (UPND) government's strong political commitment to decentralisation and grassroots development, empowering communities with resources to address their own development priorities. In principle, this expansion has the potential to accelerate the delivery of social services and infrastructure, reduce rural-urban disparities, and enhance citizen participation in governance. From a development perspective, CDF has already contributed to the construction of schools, health posts, feeder roads, and small-scale water projects.

However, the magnitude of the expansion also exposes structural weaknesses in Head 29's budget. The heavy reliance on transfers, coupled with reduced operational support, risks undermining the quality and sustainability of service delivery. Many local authorities and community structures remain inadequately prepared to manage such large sums effectively, with councils often lacking qualified personnel, strong financial management systems, and sufficient technical capacity to conduct proper project appraisal, supervision, and monitoring. The uniform allocation of funds across constituencies further compounds the challenge, as densely populated peri-urban areas face different development pressures than sparsely populated ones, potentially perpetuating inequalities and leaving disadvantaged areas underserved.

To mitigate these risks, a portion of CDF should be ringfenced for oversight and capacity building, operational allocations for Goods, Services, and Assets should be



modestly increased, and stronger transparency and planning frameworks should be instituted. ActionAid Zambia encourages the government to strengthen implementation and monitoring systems to close existing loopholes<sup>1</sup>, ensure timely and transparent use of resources, build the capacity of Ward Development Committees (WDCs), enhance community involvement and knowledge, address contractor incompetence, and provide adequate support to volunteers. Without these safeguards, the effectiveness of the K6.24 billion CDF allocation in 2026 risks being severely compromised despite its transformative potential for communities.

Lastly, we note that under programme 5525, Local Governance, the Ministry targets only one decentralised stakeholder engagement meeting. This is insufficient. Local authorities need more engagements meeting with stakeholders and residents to foster transparency, gather diverse perspectives, solve community issues, and ensure policies and programs align with community needs.

### 3.3 Head alignment with national and international commitments

*Table 3: Head Alignment to National and International Commitments*

Level	Commitment	Alignment
National	8th National Development	<p>Pillar 1: Economic Transformation and Job creation which supports citizens with loans to make investments and create job opportunities.</p> <p>Pillar 2: Human and social development. Supports development of human capacity through skill training, health, education and nutrition.</p> <p>Pillar 4: Good governance environment through decentralisation and communities taking part in decision processes.</p>
	The National Decentralisation Policy.	Enhances decentralisation of key function to local authorities for accelerated development

<sup>1</sup> <https://ijcsacademia.com/index.php/journal/article/view/74>

	Decentralisation and Implementation Plane 2023-2027	
International	Sustainable Development goals	SDG 11: Make cities and human settlements inclusive, safe, resilient, and sustainable SDG 8: Decent Work and Economic Growth SDG 9: Industry, Innovation and Infrastructure. Goal 17: Partnerships for the goals

### 3.4 Recommendations

Recommendation	Practical Implementation
<b>Increase Operational Allocations</b>	Allocate more funds for Goods and Services and Assets and Local Government Equalisation Fund to strengthen Ministry operations, monitoring, and technical support to local authorities, ensuring effective service delivery.
<b>Ringfence CDF for Oversight and Capacity Building</b>	Dedicate a portion of Constituency Development Fund (CDF) to mandatory training of Ward Development Committees (WDCs), project management, and oversight to reduce misuse and enhance project effectiveness.
<b>Strengthening Transparency and Accountability</b>	Implement robust reporting, tracking, and auditing mechanisms for all transfers, including CDF, to ensure timely disbursements, reduce financial leakages, and build public trust.
<b>Enhance Community Participation</b>	Conduct awareness campaigns and participatory planning sessions to empower communities to monitor projects, provide feedback, and influence local development decisions.
<b>Improve Stakeholder Engagement</b>	Increase the number of decentralised engagement meetings to facilitate dialogue between local authorities, residents, and stakeholders, ensuring programs reflect community priorities.
<b>Address Contractor Competence</b>	Establish stringent vetting, performance monitoring, and accountability measures for contractors implementing CDF projects to prevent delays and substandard work.
<b>Regular Monitoring and Evaluation</b>	Set up periodic M&E frameworks with clear KPIs to track both financial and developmental outcomes, enabling adaptive management and evidence-based decision-making.

#### 4. Head 35 - ministry of small and medium enterprise development.

##### 4.1 Overview of the 2026 budget allocations and their adequacy

As indicated in the table below, the budget for the Ministry of Small and Medium Enterprise Development (MSMED) has grown steadily from K414.2 million in 2022 to K659.3 million in 2026. This reflects a 59 percent increase over the five-year period- an indication of Government's commitment to Small Medium Enterprises (SMEs) as key drivers of inclusive growth.

*Table 4: Head Summary of Economic Classification Allocations*

<b>Economic classification</b>	<b>2022 Approved budget (k)</b>	<b>2023 Approved budget (k)</b>	<b>2024 Approved budget(k)</b>	<b>2025 budget Approved (k)</b>	<b>2026 Budget estimate (k)</b>
<b>Personal Emoluments (21)</b>	24,150,062	38,803,247	42,806,836	57,151,677	63,594,783
<b>Goods and Services (22)</b>	16,023,000	43,400,706	28,678,531	58,449,781	15,019,219
<b>Transfers (26)</b>	23,977,486	43,775,029	57,340,093	62,340,092	64,521,995
<b>Assets (31)</b>	95,000	13,219,750	14,973,443	6,760,680	258,973
<b>Financial Assets (32)</b>	350,000,000	362,199,777	391,900,075	391,899,758	515,928,193
<b>Head Total</b>	<b>414,245,548</b>	<b>501,398,509</b>	<b>535,698,978</b>	<b>576,601,988</b>	<b>659,323,163</b>

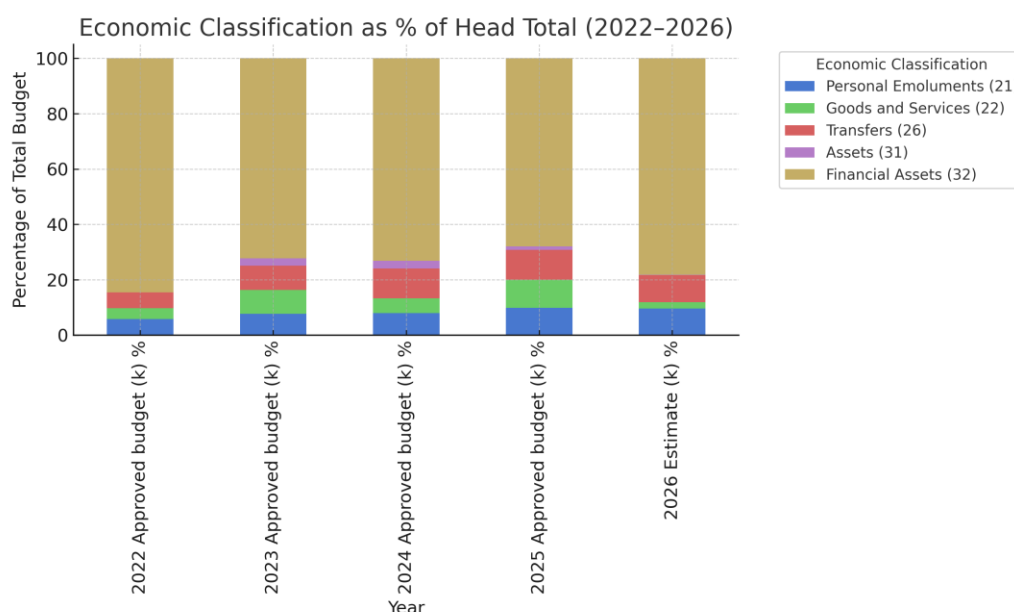
*Source: Yellow Books (2022-26)*

Over the 5-year period of focus, allocations have been consistently dominated by financial assets<sup>2</sup>, which grew from K350 million (84 percent of the total) in 2022 to K515.9 million (78.2 percent) in 2026, demonstrating reliance on empowerment funds and loan facilities as government's key strategy for SME support.

As depicted in the figure below, other expenditure categories have shown mixed trends. Personal emoluments, for instance, more than doubled from K24.1 million in 2022 to K63.6 million in 2026, increasing their share of the total from 5.8 percent to 9.6 percent, indicating institutional expansion.

Figure 1:Economic Classification as % of Head Total (2022–2026)

<sup>2</sup> Financial Assets are the Citizens Economic Empowerment Funds for cooperatives and SMEs



Source: Yellow Books (2022-2026)

Transfers<sup>3</sup> also rose from K24 million in 2022 to K64.5 million in 2026, supporting empowerment programs, the Cooperative College, and Provincial and District-level offices. By contrast, goods and services fluctuated significantly, peaking at K58.4 million in 2025 before dropping to K15 million in 2026 (just 2.3 percent of the total). Meanwhile, capital assets have consistently received the lowest priority, falling from K14.9 million in 2024 to only K259,000 in 2026 (0.1 percent), signalling limited investment in SME-support infrastructure.

#### 4.2 Ramifications of the budget allocations in meeting set targets

ActionAid Zambia makes the note that while the Ministry's budget has expanded, the composition is increasingly unbalanced, with financial assets<sup>4</sup> absorbing the bulk of resources and operational areas such as goods, services, and infrastructure left underfunded. This raises concerns about the Ministry's capacity to deliver a holistic package of SME support beyond financing-particularly in areas such as training, incubation, industrial facilities, and monitoring of funded projects. A more balanced allocation framework is needed to ensure that SMEs not only access finance but also benefit from enabling infrastructure, services, and capacity-building for sustainable development.

ActionAid Zambia is also concerned with the matters of non-performing loans (NPL). The 2024 Auditor General's report<sup>5</sup> on accounts of parastatal bodies reveals that between 2020 and 2022, NPL ranged from 92% to 97%, with only about 6% of loans

<sup>3</sup> Transfers are in form of grants to mentioned institutions and structures

<sup>5</sup> <https://www.ago.gov.zm/wp-content/uploads/2025/02/Parastatal-Report-2023.pdf>

being properly serviced. Although the NPL ratio appeared to decrease in 2023, this was primarily due to the sharp increase in the number of loans disbursed—from 3,060 loans worth K331 million in 2022 to 21,855 loans totalling K728 million in 2023. This was therefore not a reflection of improved debt management. Furthermore, between October 2012 and December 2023, Citizens Economic Empowerment Commission (CEEC) disbursed K393,752,873 to 1,494 applicants, yet as of 31st December 2024, no repayments had been made. This indicates significant gaps in loan recovery mechanisms that need to be addressed. We therefore conclude that while it is pertinent to support SMEs, it is even much crucial to implement safeguards that reduce this risk. Lastly, we note that the budget does not explicitly cover critical barriers faced by SMEs including high borrowing costs, collateral requirements, infrastructure gaps, limited (international/regional) market, stiff competition and poor product standards. This implies that though allocations have been increased, nominally, the SMEs will continue to struggle.

ActionAid Zambia, however, welcomes efforts to de-risking of lending to SMEs through the Zambia Credit Guarantee Scheme, as well as the Bank of Zambia making strides toward operationalising a K5 billion fund to support small businesses.

### 4.3 Head alignment with national and international commitments

Head 35 remains critical to attaining socio-economic development by supporting the growth of SMEs. The National Micro Small and Medium Enterprise Development Policy recognises Micro, Small and Medium Enterprises (MSMEs) as some of the key drivers for poverty reduction and improvement of the quality of life for households due to their potential to create wealth and jobs<sup>6</sup>. The table below summarises the key national and international commitments the head responds to.

Level	Commitment	Alignment
National	8 <sup>TH</sup> National Development Plan	Pillar 1 Economic Transformation and job creation with special focus on provision of access to finance for SMEs and Cooperatives
	National Micro Small and Medium Enterprise Development Policy	Aligns with policy objectives of employment and wealth creation, economic diversification, innovation, technological adoption, and

<sup>6</sup> <https://www.msme.gov.zm/wp-content/uploads/2023/12/2023-MSME-POLICY-FOR-MSMED.pdf>

		coordinated MSME development.
International	Sustainable Development Goals (SDGs)	SDG 1 – No Poverty SDG 5 – Gender Equality SDG 8 – Decent Work and Economic Growth SDG 9 – Industry, Innovation and Infrastructure:
	African Union Agenda 2063 & African Continental Free Trade Area (AfCFTA)	Supports local value chains and regional trade readiness

Head 35 of the 2026 budget aligns with the commitments in 8NDP, SDGs, and Zambia's NMSME policy by focusing on enterprise growth, access to finance and job creation. However, it lacks clear targets and support for women's cooperatives and people with disabilities. This is a concern, as both the 8NDP and global frameworks like the SDGs, AU Agenda 2063, and AfCFTA stress inclusive participation, especially for women, youth, and vulnerable groups.

Therefore, the Ministry must set aside specific funds in Head 35 for women's cooperatives, youths and People with disabilities to ensure growth is inclusive, equitable, and in line with national, regional, and global commitments.

#### 4.4 Recommendations

Recommendation	Practical Implementation
<b>Rebalance Budget Priorities</b>	Increase allocations for goods, services, and capital assets to support SME training, incubation, industrial facilities, and monitoring, ensuring equitable access across regions and avoiding political bias.
<b>Strengthening Loan Management</b>	Implement robust loan recovery and risk assessment frameworks at CEEC, coupled with transparent and merit-based allocation.

Recommendation	Practical Implementation
<b>Invest in Infrastructure</b>	Develop business incubation hubs, industrial parks, and technology centers, prioritising poor and rural areas to enable SMEs to scale operations and improve competitiveness at local and regional levels
<b>Enhance Capacity-Building</b>	Deliver consistent, inclusive training programs on business management, product sophistication, compliance, and market competitiveness, ensuring SMEs in all regions benefit.
<b>Establish M&amp;E Systems</b>	Set up transparent monitoring and evaluation with clear KPIs to track the impact of financial and operational support, ensuring resources reach intended beneficiaries equitably and efficiently.

## **5. Conclusion**

In reviewing the 2026 budget allocations for Head 29 – Ministry of Local Government and Rural Development and Head 35 – Ministry of Small and Medium Enterprise Development, it is evident that while both ministries continue to receive nominal increased financial support, structural imbalances in the composition of these budgets may limit their effectiveness in achieving long term strategic development objectives. For Head 29, the heavy reliance on transfers, coupled with reduced allocations for operational costs and assets, risks undermining the Ministry's ability to provide adequate technical support, oversight, and service delivery at local government and community levels. Similarly, Head 35 demonstrates a significant focus on financial assets and empowerment funds, yet limited investment in operational capacities, infrastructure, and capacity-building may hinder SMEs from fully benefiting from government support.

ActionAid Zambia recognizes the government's commitment to decentralisation, grassroots development, and SME growth through increased CDF allocations and financial support mechanisms. However, to ensure sustainable impact, there is a critical need for balanced budget allocations that strengthen institutional operations, enhance oversight, address non-performing loan risks, and promote inclusive participation for women, youth, and vulnerable groups.

Overall, we believe that the 2026 budget provides a foundation for advancing local governance, service delivery, and SME development in accordance with Zambia's Eighth National Development Plan (8NDP), national policies, and international commitments. It remains that tackling structural inefficiencies is the only way to attain the set targets without which budget pronouncements and allocations can't deliver transformative change. ActionAid Zambia calls on this esteemed Parliamentary Committee to support reforms that improve operational capacity, transparency, and accountability, ensuring that both Head 29 and Head 35 effectively translate financial allocations into tangible development outcomes that benefit all Zambians, particularly marginalized and underserved communities. ActionAid Zambia believes that these two heads are essential in poverty reduction, social justice and gender equality attainment.

Government needs to fully implement the 2016, Cabinet approved a devolution plan including those for education, health, agriculture, community development and housing sectors. While we note allocations to the Local Government Equalization Fund (LGEF) have also been constantly increasing in the National Budget indicated in the 2026 National Budget modality on ration sharing mechanism need to be enhanced to ensure equity based on population and size of the constituencies.