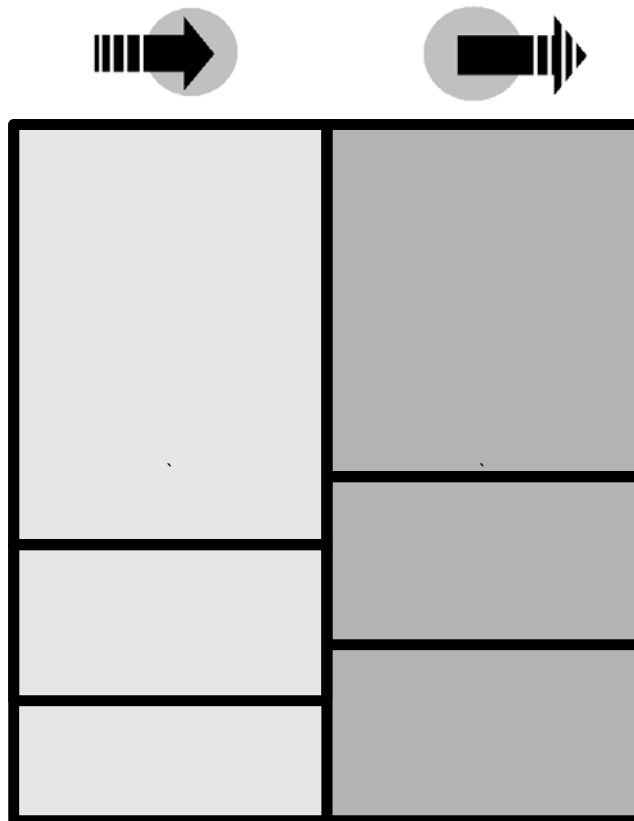


Local Government Fiscal Review 2004



Dar es Salaam, Tanzania
November 2004

Local Government Fiscal Review 2004

This Local Government Fiscal Review 2004 was prepared by the Coordinating Block Grant Implementation Team. The chairman of the working group is Deputy Permanent Secretary of Finance, Mr. Khijjah, and its current membership includes representatives from the Ministry of Finance; President's Office – Regional Administration and Local Government; the Ministry of Education and Culture; and the Ministry of Health, as well as other government agencies.

Major contributions to this report were provided by Mr. Bitegeko Claudio (PO-RALG); Mr. William Kabisama (Local Government Loans Board Secretariat); Joseph Mallya (Local Government Reform Programme); Ms. Gredaline Minja (Ministry of Health); Mr. Moses Mwampeta (Ministry of Finance); Ms. Monica Mwamunyange (Ministry of Finance); Mr. Bedison Shallanda (Ministry of Finance); Mr. Cyprian Miyedu (Ministry of Education and Culture); and Mr. Fanuel Senge (PO-RALG). The drafting and editing of the Local Government Fiscal Review 2004 was coordinated by Ms. Generosa Kagaruki-Kakoti.

Local Government Fiscal Review 2004

Table of Contents

Acronyms	iii
Preface	v
Chapter 1: Overview of Intergovernmental Relations in Tanzania	1
Chapter 2: Local Government Expenditures	11
Chapter 3: Local Government Revenues	26
Chapter 4: Local Government Grants	38
Chapter 5: Local Government Borrowing	51
Chapter 6: Primary Education	58
Chapter 7: Council Health Services	69

Acronyms

ABP	Area-Based Programme
ALAT	Association of Local Authorities Tanzania
BEDC	Basic Education Development Committee
BFC	Basket Financing Committee
CCHP	Comprehensive Council Health Plan
CED	Council Executive Director
CEO	Council Education Officer
CHF	Community Health Fund
CHMT	Council Health Management Team
CPAD	Commissioner for Policy Analysis Department
CY	Calendar Year
DMO	District Medical Officer
ESDP	Education Sector Development Programme
ETP	Education and Training Policy
FY	Fiscal Year
HLLG	Higher-Level Local Government
IFMS	Integrated Financial Management System
LAC	Local Authority Accounting Committee
LDC	Lesser Developed Country
LGA	Local Government Authority
LGCDG	Local Government Capital Development Grant
LGFA	Local Government Finance Act
LGLB	Local Government Loans Board
LGRP	Local Government Reform Programme
LGSP	Local Government Support Programme
LLLG	Lower-Level Local Government
MCR	Minimum Compulsory Reserve Contribution
MDA	Ministries, Departments and Agencies
MOEC	Ministry of Education and Culture
MOF	Ministry of Finance
MOH	Ministry of Health
MTEF	Medium Term Expenditure Framework
NAO	National Audit Office
NHIS	National Health Insurance Scheme
NMS	National Minimum Standards
OC	Other Charges
PE	Personal Emoluments
PEDP	Primary Education Development Programme
PER	Public Expenditure Review
PO	President's Office
PRS(P)	Poverty Reduction Strategy (Paper)

PSM	Public Service Management
PWC	Price Waterhouse Coopers
RALG	Regional Administration and Local Government
RHMT	Regional Health Management Team
RS	Regional Secretariat
SWAP	Sector-Wide Approach
TSh	Tanzania Shilling

Local Government Fiscal Review Tanzania 2004

Preface

Local government finance is an important and integral part of the public finances of Mainland Tanzania today. Local government authorities collect roughly 5 percent of all public revenues and are responsible for 20 percent of public spending. This means that one out of every five shillings spent in the public sector is spent at the local government level.

As a result of the importance of local governments in the public sector, a sound system of intergovernmental relations and local government finance is a key factor in assuring that the public sector provides an enabling environment for economic growth and reducing poverty. In addition, local government authorities play a major role in the provision of vital public services and assuring the quality of life for all Tanzanians. Finally, as the level of governments closest to the people, local governments provide an opportunity to strengthen democratic and accountable governance.

Despite the importance of local government finance in Tanzania, no single agency or institution has a complete and comprehensive overview of the local government fiscal situation. Instead, different central government ministries and agencies have responsibilities for different aspects of the system of local government finance. By bringing together the knowledge of the different stakeholders in local government finance, the purpose of the Local Government Fiscal Review 2004 is to provide an accurate, comprehensive and up-to-date overview of intergovernmental fiscal relations in mainland Tanzania.

The information and analysis contained in this document seeks to inform policy makers, government officials, local government authorities, the public at large, the development community and other stakeholders of Tanzania's system of local government finance. In doing so, the document provides context for a number of local government reforms being undertaken by the Government of Tanzania, including the strengthening of local financial management, a reconsideration of the revenue sources available to local

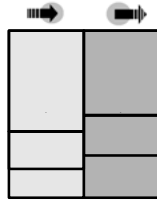
governments, and the ongoing implementation of a system of formula-based grants.

Moreover, this document should prove useful to a broad spectrum of government officials, sectoral specialists, and policy makers outside the narrow view of local government reform, as there is nearly no facet of public sector activities that is not impacted by local government finance. Issues directly or indirectly affected by, or dependent on, local government finances include not only local governance and urban and rural development, but also sectoral policies in primary education, basic health care, agricultural extension and development, infrastructure and roads, water supply and utilities, the surveying and allocation of land, as well as truly “local” government services including local market development, and so on.

Although this is the first document of its nature in Tanzania produced by the Government of Tanzania under the auspices of the inter-ministerial Coordinating Block Grant Implementation Team, it is expected that this will become the first of an annually recurring review of local government finances and fiscal relations. It is hoped that future reviews will build upon this first edition, allowing deeper analysis of a broader set of issues, thereby exploring other local government sectors as well as highlighting important cross-sectoral issues important in financing local government authorities, as Tanzania’s system of local government finance continues to evolve.

Mr. Peniel Lyimo
Permanent Secretary
Ministry of Finance
Dar es Salaam, Tanzania

Mr. D.M.S. Mmari
Permanent Secretary
PO-RALG
Dodoma, Tanzania



Chapter 1

Overview of Intergovernmental Relations in Tanzania

This chapter provides a general overview of the system of intergovernmental fiscal relations in mainland Tanzania.¹ As such, this chapter sketches the historical context for local government finances in Tanzania today; summarizes the organizational structure of the public sector; the legislative framework for local governance and local government finances; and a general overview of the system of local government finance.

The structure of the remainder of this report accommodates a broad audience by separately discussing the main dimensions of local government finance in Tanzania, including local expenditures (Chapter 2), local government revenues (Chapter 3), intergovernmental grants (Chapter 4), and local borrowing (Chapter 5). In addition, Chapters 6 and 7 discuss key issues in the financing of primary education and local health services, the two most important government services delivered at the local level.

1.1 Historical Background²

Decentralised government administration in Tanzania Mainland dates back to the pre-colonial days when over 120 tribes found on the mainland conducted their affairs under their traditional leaders. It was however not until 1926, when the British colonial administration introduced the basic structures of local government as we know it today. Under British colonial administration, a local government authority could only be established after ensuring that there was demand for it, that there were adequate resources to meet the costs

¹ The information and analysis contained in this document relates exclusively to Tanzania Mainland. Since local government is not a union affair, Zanzibar has its own system of local governance.

² A description of the local government systems prior to 1972 and the deconcentrated system used during 1972-84 is discussed by: P. Mawhood. 1983. *Local Government in the Third World. The Experience of Tropical Africa*. Chichester: John Wiley and Sons.

of running it, and that there were staff required for effective delivery of services.

After independence in 1961, the government established elected local government authorities in both urban and rural areas with the purpose of accelerating the pace of economic development at the local level. However, under the period of socialist economic planning under President Nyerere, the public sector expanded rapidly and the financial resource requirement for the local government authorities could no longer be satisfied. In addition, the abolition of two of the major local taxes (namely the local rate and produce cess in 1969 and 1971 respectively), without adequate compensatory grants as earlier promised by the government, eroded the revenue base of the local government authorities and thus undermined their capacity to provide basic services. Without the financial resources to provide services, they were unable to justify their existence. As a result, elected local authorities were dissolved in 1972.

Between 1972 and 1984 a deconcentrated system of governance was practiced. The central government made use of its field offices in the regions and districts -right to the village level- in providing services to the people. Given the problems with public resource constraints and the system of upward hierarchical supervision and accountability, the provision of locally delivered services deteriorated fast. As a result, a system of elected local government authorities was reintroduced in 1984 following the enactment of a series of local government laws in 1982. The laws provided for establishment of democratically elected district and urban councils, provided for arrangements for their financing and staffing as well as procedures for dealing with disputes through a legally instituted local government service negotiating machinery. In 1985, local government was entrenched in the country's constitution.

The reinstated local government system (which continues from 1984 until today) continued to harbour many features of a deconcentrated system. On the financial side, local government authorities continued to rely heavily on tightly earmarked budget allocations from the central government. In addition, while elected councils were reintroduced, the local government level was forced to function alongside a strong subnational administration apparatus at the regional and local level which remained intact with finances and staff even after the reintroduction of the local government system. As it were, the new local government system had to compete for resources and influence with the stronger regional administration. By mid 1990s, the system was performing so badly that there were popular demands especially from the Association of Local Authorities in Tanzania (ALAT) to have the system substantially strengthened and reformed (Box 1.1).

By 1998 the government had adopted the policy for the reform of local government which furthers the objective of “decentralisation by devolution” by seeking to empower local communities by empowering their local government authorities. Following the endorsement of the policy on local government reform, the government designed the Local Government Reform Programme (LGRP) which is planned to be implemented until June 2011. One of the major thrusts of the LGRP relates to fiscal decentralisation under which local Government Authorities will enjoy greater financial autonomy and support on a demand basis and by meeting agreed criteria and qualifications.

Box 1.1
The Association of Local Authorities of Tanzania (ALAT)

The Association of Local Authorities of Tanzania (ALAT) represents local government authorities in Tanzania Mainland. In this role, it contributes to the furtherance of the ideals of decentralisation. The association performs the following functions:

- (a) to provide a forum for exchanging views and experiences among member local government authorities;
- (b) to provide advocacy on policy and legislative matters which are likely to affect local government authorities;
- (c) to disseminate information and provide expert advice;
- (d) to make representations and proposals to government; and
- (e) to represent local government authorities and their views in international forums.

ALAT has also been participating in the Local Government Negotiating Machinery established for the purpose of handling issues relating to management of staff for which the Local Government Staff Council was established. ALAT is mainly funded from annual membership subscriptions.

1.2 Structure of the Public Sector

In principle, the public sector in mainland Tanzania is divided into two levels of government, each of which in turn consists of two tiers. The central government level consists of the central (mainland) government, which has an administrative tier at the regional level. The main local government level consists of 114 elected local (urban and rural district) councils. In an urban setting the local government authorities’ areas of jurisdiction are divided into wards which are further divided into mitaas. In the rural areas the district

councils' jurisdictions are divided into wards which are further divided into villages. The villages are further divided into vitongojis.

Mainland Tanzania comprises 21 regions. These regions are deconcentrated administrative units of the central government. They lack elected representation and own revenue sources, and their role in subnational affairs was significantly limited since the restructuring of regional administrations following the enactment of the Regional Administration Act No. 19 of 1997.

Box 1.2
Central government stakeholders in local government finance

The system of local government finance in Tanzania does not fall within the exclusive jurisdiction of one ministry or another. Different central government ministries have responsibilities for assuring a sound system of local government finances.

According to the Local Government Finance Act (1982), the President's Office – Regional Administration and Local Government “shall, in relation to a local authority under his charge, subject to the provision of the [Local Government] Act and of this Act, be responsible for (a) ensuring the proper management of the finance of the local government authority; (b) facilitating the securing of funds for the operations of the local government authority; and (c) promoting the timely preparation of the annual budget of the authority and securing that the authority operates within the limits of the budget as prepared.”

The responsibilities of the Minister of Finance under the Public Finance Act (2001) include the requirement to “co-ordinate inter-governmental fiscal relations” and to “advise the Government on the appropriate level of resources to be allocated to individual programmes” (including funding for local government grants). These responsibilities fall within a more general duty for “the supervision, control and direction of all matters relating to the financial affairs of the United Republic.”

In addition to the respective responsibilities of PO-RALG and the Ministry of Finance, other central departments (including PO-Public Service Management, PO-Planning and Privatization) as well as sector ministries that have policy responsibility for government services that are delivered at the local government level (including the Ministry of Education and Culture, the Ministry of Health, and so on) have an important stake in the system of local government finance and should be well-informed as to the overall function of the local government finance system.

The local level consists of 114 Local Government Authorities (LGAs), which comprises 22 Urban Councils and 92 District Councils.³ Local government authorities are autonomous legal entities governed by elected councils, with their own expenditure budgets, revenue sources, and (in principle) with the ability to borrow funds. LGAs function as important providers of public services; they deliver key government services including basic education, basic health care, agriculture extension, local water, and local roads. Local government authorities are further subdivided into numerous types of sub-district governments.

The category of Urban Councils can be further subdivided into Town Councils and Authorities (8), City Councils (2), and Municipal Councils (12). It should be noted that Dar es Salaam City Council covers the same geographical area as the three municipalities that makes up Dar es Salaam Region. In the rural areas, the District Councils coordinate the activities of approximately 10,200 Village Councils.

Politically, councilors of district and urban councils and members of village and township authorities are elected on political party tickets. The councilors in turn elect chairpersons and mayors of their respective local authorities. Chairpersons of village councils are elected by the respective Village assemblies. Once the district, urban and village councils are established, they set about creating standing committees and it is through the committee structure that the councils carry out their mandated responsibilities. Legislation also requires the establishment of a council tender board which reports to the council standing committee responsible for finance.

Box 1.3
Decentralisation to Sub-council Levels

Although the Local Government Finance Act provides Village Councils with limited expenditure responsibilities, empowerment of the people will be incomplete if no efforts are made to decentralize financial oversight and accountability to sub-council structures which are nearest to the people, and if people do not directly participate in planning and in making decisions on the use of resources for the betterment of their lives. This could include sending funds to the village council and service outlets so that the people through their representatives can decide and supervise the use of the resources in line with local priorities and needs.

³ This number excludes newly established local authorities which have been formed but do not have elected councils as of yet.

To that end, a simple financial management and accounting system and a village-level financial management manual are being developed to enable the village council to manage funds which will be made available under the emerging Local Government Capital Development Grant System and those to be collected by these levels from own sources. Capacity building mainly through training on accounting systems and the financial management manual will be provided to the village and ward functionaries before funds can be physically sent to this lowest tier of local government.

The District Executive Directors in the district councils and the directors of towns or municipalities or city councils are the heads of staff in those councils. Typically, below the Director, there are a number of heads of departments and these departments include personnel and administration, planning, finance and accounts; engineering or works; education and culture; trade and economic affairs; urban planning; health and social welfare; agriculture and livestock development; and cooperatives and community development.

As part of the convergence of local government reform and public service reforms, the Public Service Act of 2002 and attendant regulations are in the process of being reviewed and amended so that local government authorities can recruit, develop and discipline all their staff including the council directors. This will clearly take forward decentralised management of staff and thus ensure full accountability of staff to the councils for which they are working. Such an arrangement should lead to more effective supervision and reporting, which should ultimately result in improved delivery of public services.

1.3 Legislative Framework

The legislative framework for local governance and local government finance is provided by a series of Acts jointly referred to as the Local Government Acts adopted in 1982. In fact, two different laws (Act Number 7 and 8, respectively) govern the establishment and authority of urban councils (Urban Authorities Act) and rural district councils (the District Authorities Act). The financial framework for all local government authorities is provided by the Local Government Finance Act (Act Number 9). Other laws, namely, Act No. 10 relating to local government service and Act No. 11 relating to local government negotiating machinery, both of 1982, have since been repealed by the Public Service Act No. 8 of 2002 and the Public Service Negotiating Machinery Act of 2003 respectively. The Regional Administration Act (No.19 of 1997) defines the roles and responsibilities of the regional administration.

The Local Government Acts have been amended intermittently since their enactment in 1982 in order to adjust the legislative framework to the evolving reality of an increasingly decentralised public sector. In particular, a number of amendments made in 1999 gave more authority to District and Urban Councils to approve their plans and budgets. The amendments also allow the central government to provide conditional and unconditional block grants to local government authorities. In addition, various amendments made to the Acts in 2003 and 2004 significantly reduced the revenue-raising authority of local councils.

One consequence of the various amendments of the Acts over time is that the Acts contain a series of repetitive, duplicative, and in some cases contradictory clauses. For instance, when the Local Government Finance Act was amended to authorize the government to provide block grants, the sections detailing the system of earmarked grants were never removed. Likewise, when the Act was amended to limit the discretion of local government authorities to define their own local revenue instruments, it appears that the clauses authorizing local authorities to define their own tax systems were not removed. Even the fact that different originating legislation exists for urban and district authorities gives rise to unnecessary confusion. Such duplication and possible contradictions in law result in uncertainty and misunderstanding regarding the legal framework of local government finances. As a result, there is a need to review and revise the Local Government Acts to assure a prudent and consistent legal framework.

1.4 The overall system of local government finance

The system of local government finance in Tanzania (as in any country) can be broken out in a number of ways, which together comprise the larger system of local government finance. Throughout this document, the system of local government finance is visually represented by a local government's balance sheet, identifying local resource inflows (diagrammatically represented by the left-hand side of the local government's balance sheet) and local government outflows (the right-hand side of the balance sheet).

Conceptually, local government financial resources (resource inflows) can be further broken down by type into three categories: local government own source revenues (from taxes, user fees and other contributions), local government grants (including both allocations from the central government budget as well as grants from parallel funding mechanisms and other funding sources) and local government borrowing. These are discussed in detail in separate chapters of this document (Chapters 3, 4 and 5, respectively). To the extent that the current budget processes are able to capture local government revenue data, by far the largest source of local government resources in

Tanzania are local government grants, accounting for over 80 percent of financial resources at the local government level (Table 1.1).

Likewise, the expenditure side of the budget (the right-hand-side of the budget diagram) can be broken out into three separate components, namely local expenditures in national priority sectors; recurrent expenditures on “truly local” government services (such as street cleaning and refuse collection); and spending on local capital development. Chapter 2 of this review will broadly discuss the functions and expenditure responsibilities assigned to the local government level. Chapters 6 and 7 will focus on the two largest government sectors (in terms of spending) at the local level, notably education and health. It is expected that future editions of this annual review will take on board expenditure issues for other local government sectors as well (particularly agriculture, water and local roads).

Table 1.1			
Local government financial resource inflows			
FY 2001/02 - 2003/04			
	2001/2002	2002/03	2003/04
TSh Million			
Local Govt Grants	201,119.0	247,027.3	290,973.8
Own Source Revenues	53,904.4	59,924.7	50,408.0
Local Govt Borrowing	50.0	225.0	317.5
Total	255,023.4	306,952.1	341,381.8
Percent of local government resources			
Local Govt Grants	78.9	80.5	85.2
Own Source Revenues	21.1	19.5	14.8
Local Govt Borrowing	0.0	0.1	0.1
Total	100.0	100.0	100.0
Source: Computed based on data from Ministry of Finance; Local Government Reform Programme; and Local Government Loans Board.			

1.5 Local government finance data issues

In the preparation for this review, obtaining data for local government expenditures and –albeit to a lesser extent- local government revenues and grants has been a substantial challenge, as there is no systematic reporting mechanism for local government budget data at this time. The only actual budget data available from central government’s financial management

systems are the disbursements of grants from Treasury to the local councils. To the extent that financing reaches local government authorities from within the sector ministries' budgets, the ministerial budget often fails to identify these resources separately from resources retained at the central government level.

In addition to the local finance data available from the central government budget, a financial data gathering exercise was conducted by the Local Government Reform Programme in early 2004. This exercise provided an initial overview of (self-reported) local government revenues and expenditures by council. However, the data gathered revealed a number of clear problems. Most significantly, local recurrent outflows were reported by councils at TSh 553 billion, thereby exceeded local resource inflows by more than TSh 210 billion (Box 1.4).

Box 1.4
Local expenditures reported by Local Government Authorities

Based on known resources inflows (grants from the central government and own source revenue collections), local government authorities in Tanzania are expected to have spent approximately TSh 341.4 billion during FY 2003/04 (Table 2.4).

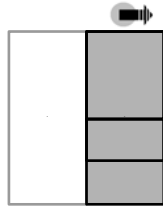
However, based on the data-gathering exercise conducted by LGRP, local government reported to have spent TSh 642 billion during CY 2003, of which TSh 553 billion on recurrent spending and TSh 89 billion on development programmes (as reported in Section 5 of the PER Joint Evaluation Report, May 2004). These expenditures figures thus far exceed the resource inflows reported by local government authorities.

For instance, all local government authorities combined claim to have put forth actual aggregate spending of TSh 441 billion on the recurrent costs of primary education for CY 2003, which compares with TSh 202 billion budgeted for education allocations for local councils during FY 2003/04. Although local government authorities also received additional donor-funded PEDP capitation grants and potentially other parallel funding sources (which are not captured in the regular education allocations), it is unlikely that these sources are able to explain the gap of TSh 239 billion in reported education funding. For instance, this gap far exceeds the equivalent of a US\$10 per pupil capitation grant, which would be equivalent to approximately TSh 60 billion.

As noted, due to the questionable nature of the self-reported expenditure figures, this report does not rely on these self-reported expenditure figures. Of course, this points to the need for improved local financial management practices to assure that the center is better able to monitor local government spending.

Although there are several possible explanations for this huge discrepancy, this review has not incorporated the self-reported expenditure data until the data can be better substantiated.⁴ Instead, the local expenditure data in this review are determined as the aggregation of local sectoral transfers –which should translate proportionally into local government sectoral spending- plus spending of own local government resources, which is broadly understood to be spent on local administration, “truly local” government services, and local co-funding of capital development projects. This government should obviously strive to resolve the shortcoming in the data for this review through the implementation of a sound system for reporting and monitoring local government financial data.

⁴ One of the most plausible reasons for this huge discrepancy between inflows and outflows is that the local government budget accounts likely do not adequately reflect significant resource inflows from parallel funding mechanisms, although the budget books may reflect spending on these programmes as outflows. Although it is unclear to what extent they are included in the local budget accounts, these parallel funding sources may include transfers from MDAs, PEDP funds (both recurrent and capital spending), the Health Sector Basket Fund, other sector-wide funding mechanisms, donor-funded ABPs, TASAF, and other donor-supported project funding.



Chapter 2 Local Government Expenditures

As discussed in Chapter 1 of this Review, mainland Tanzania operates with two basic levels of government: the central government level and the local government level. The assignment of expenditure responsibilities to both levels are defined in various legal documents. The expenditure assignments of the central government are elaborated in the Finance Act (2001) as well as various sector laws, such as the Education Act No. 25 of 1978. Details on the roles and expenditure responsibilities assignments to the local government level are elaborated in the Local Government Act (1982). The Regional Administration Act of 1997, which established the Regional secretariat, specifically indicates the functions to be undertaken by the Regional Secretariat in support of local government authorities.

2.1 An overview of local expenditure responsibilities

Consistent with the principle of “decentralisation through devolution”, the local government level in Tanzania plays an important role in the delivery of government services that are close to the community. Functions of local government authorities are broadly summarized by the Local Government (District Authorities) Act of 1982 (Act No. 7, Section 111) as:

- To maintain peace, order and good governance.
- To promote social welfare and economic well being of the community.
- To promote economic and social development of the people

The Local Government (Urban Authorities) Act No, 8 of 1982 (Section 54) lists similar functions for urban authorities. Within these broad policy areas, the Act indicates the detailed responsibilities of urban authorities and district authorities, including substantial responsibilities for the delivery of government services in primary education, basic health care, agricultural

extension, local water provision and roads maintenance. Unlike some other LDCs, in practice the roles and functions of local government authorities in Tanzania in fact match their legislated expenditures responsibilities.

Box 2.1
The multi-dimensional nature of expenditure assignments

It is important to recognize that the assignment of expenditure responsibilities actually is multi-dimensional: the assignment of functions, roles and expenditure responsibilities to different government levels could be broken down into the responsibilities for (1) actually producing a good or delivering a service (which could be done either by the public sector or by a private firm or NGO); (2) providing or administering the service; (3) financing a service; and (4) setting standards, regulations or policies guiding the provision of government services.

In order to assure a comprehensive assignment of expenditure responsibilities, the legislation should clearly address all four dimensions of expenditure assignment.

The fact that the devolution of expenditure functions often involves several levels of government emphasizes the need for intergovernmental cooperation in order to assure the successful implementation of decentralisation reforms. For instance, care must be taken to assure that the financing framework is consistent with assignment of expenditure responsibilities. As an example, if district governments are assigned the responsibility of providing primary education, this government level should be given budgetary control over the related funding, even though the schooling may be produced by village-level schools or private schools.

Source: J. Martinez-Vazquez. 2001. Intergovernmental Fiscal Relations and the Assignment of Expenditure Responsibilities. Atlanta: Andrew Young School of Policy Studies, Georgia State University.

Education: Local government authorities are responsible in the education sector to provide primary education to children, maintain primary schools and educational institutions, as well as provide adult education. While the delivery of these services is the responsibility of local government authorities, the Ministry of Education and Culture has responsibility for determining the curriculum to be used, setting education standards, and assuring teacher training. Chapter 6 provides more detail on the role of local government finance in the delivery of primary education.

Health: Local government authorities are responsible for delivering of primary health care services. Local government authorities are responsible for promoting public health and establishment and maintenance of district hospitals, health care centers, maternity clinics, and dispensaries, asylums for the aged, destitute or infirm or for orphans. Local government authorities share the responsibility for delivering health services with the Ministry of Health. About one third of total health care expenditures are directly funded through local government authorities while two thirds of public funding for the provision of health care services (either regional or national health services, or indirect funding for local health services) is provided through the Ministry of Health. Chapter 7 provides more detail on the role of local government finance in the delivery of basic health care services.

Roads: Local government authorities are responsible for making and maintaining roads and streets. This includes, for example, the altering, diverting and closing of roads and streets, paths, street drains, and water courses

Agriculture Extension: Local government authorities are responsible for providing services for improvement of agriculture and livestock. This includes services like, controlling or prescribing the methods of husbandry in respect of any agricultural land. Councils can declare any area of land to be reserved for the purpose of reconditioning whether by artificial measures or natural regeneration or both, or for the purpose of planting with fodder plants and prohibit, control or regulate the use of such areas.

Water: Local government authorities are responsible for establishing, providing, maintaining and controlling public water supplies and impose water rates. This would also include the prevention of pollution of water in rivers, streams, water courses, wells or other water supplies in the area. Together with this role councils can prohibit, regulate, or control the use of such water supply.

Sewage/Sanitary services: Local government authorities are responsible to providing this service by constructing drainage and maintaining sanitary conditions. This would also include establishing sanitary services for the removal and destruction of all kinds of refuse. They are also responsible in establishing and maintaining drains, sewers and works for disposal of sewerage refuse.

Land use: local government authorities are responsible for overseeing the proper use of land, this would include providing land for building, regulating the use of building land, regulating the closing of buildings or parts of buildings unfit for human habitation, as well as prescribing the conditions to be satisfied by a site for any class of building.

Other services: Local government authorities are also responsible for establishing fire brigades, public markets, slaughter houses, community centers, public parks, refuse collection, and other local amenities.

Box 2.2 The role of central government in assuring the delivery of local government services
<p>The devolution of expenditure functions to the local government level often involves several levels of government in order to assure the successful implementation of decentralisation reforms. The responsibility of central government ministries (MDAs) for locally-delivered services in Tanzania can be broadly summarized as to:</p> <ul style="list-style-type: none">• Formulate national policy and regulatory framework for the local government system• Co-ordinate and monitor the performance of local government authorities for compliance with national policies, guidelines and standards. <p>Regional Secretariats (which function as deconcentrated units of PO-RALG) facilitate local government authorities planning and oversee the implementation of local development initiatives. Together with this function, Regional Secretariats have the responsibility of ensuring the efficient delivery of local Government services.</p>

2.2 Trends in local expenditures

As noted in Section 1.5 of this Review, there are significant problems with the available self-reported data on local government expenditures. Instead of relying on this questionable data, for the analysis in this Chapter, local expenditures have been computed as the aggregation of spending local sectoral transfers plus spending from own local government resources.

As discussed further in Chapter 4, the current structure of Tanzania's system of local government allocations is straightforward: there are six sectoral recurrent local government allocation (i.e., subvention) schemes in the central budget, one for each of five national policy priority areas (education, health, water, roads, and agriculture), plus an allocation scheme for local administration. Each sectoral allocation scheme is further divided into personal emoluments (PE) and other charges (OC). In the absence of better

data, we assume that total recurrent sectoral spending is equal to the total grant amount. We assume that own source revenues are spent on non-priority local spending, including local administration, truly “local” government services (e.g., parks and gardens), and on local co-funding of capital development projects.

The statistics presented in the Tables (Table 2.1 through 2.4) show the “big picture” of the pattern of resource allocation and spending at the two levels of government.

Table 2.1 shows the degree of expenditure decentralisation in Tanzania by considered overall budgetary allocations for recurrent expenditure for both the central government and local government for the period FY 2001/02 – 2003/04. The table compares the budgeted spending at the central government level (excluding intergovernmental grants) to spending at the local government level (intergovernmental transfers plus own source spending). Local government spending comprises about 20.% of overall public expenditures.

Table 2.1						
Recurrent public expenditures by central and local governments, FY 2001/02 – FY 2003/04						
	Central	Local	Total	Central	Local	Total
	TSh Billion			Percent of total		
2001/02	998.5	255.0	1253.6	79.7%	20.3%	100.0%
2002/03	1212.4	307.0	1519.3	79.8%	20.2%	100.0%
2003/04	1479.8	341.4	1821.2	81.3%	18.7%	100.0%

Source: Computed by authors based on Ministry of Finance, LGRP and PO-P&P data.

Table 2.2 considers the degree of (recurrent) expenditure decentralisation by sector. The table shows that 80-82 percent of all education spending takes place at the local level, while only 36-43 percent of all health spending takes place at the local level. All other sectors are much more centralised, with only 6-8 percent of all other (non-education and non-health) public spending taking place at the local level.

Table 2.2			
Decentralisation of recurrent public expenditures in Tanzania, FY 2000/01 – 2004/05			
	2001/2002	2002/2003	2003/2004
Central expenditures; in TSh millions			
Education	34,369.5	38,356.2	45,713.3
Health	46,400.9	58,219.5	86,422.2
Other Spending	917,761.8	1,115,818.5	1,347,656.0
Total	998,532.2	1,212,394.2	1,479,791.4
Local government spending; in TSh millions			
Education	137,914.2	170,242.4	202,239.5
Health	35,468.3	43,684.8	48,856.3
Other Spending	81,640.9	93,024.9	90,286.0
Total	255,023.4	306,952.1	341,381.8
Total Expenditures; central and local			
Education	172,283.7	208,598.6	247,952.8
Health	81,869.2	101,904.3	135,278.4
Other Spending	999,402.7	1,208,843.4	1,437,942.0
Total	1,253,555.6	1,519,346.2	1,821,173.2
Local government spending; as a percent of central plus local spending			
Education	80.1%	81.6%	81.6%
Health	43.3%	42.9%	36.1%
Other Spending	8.2%	7.7%	6.3%
Total	20.3%	20.2%	18.7%
Note: Central expenditures reflect budgeted ministerial spending levels; local expenditures reflect budgeted central government allocations to LGAs plus own source spending			
Source: Computed based on Ministry of Finance, LGRP and PO-P&P data.			

Table 2.3 considers spending from recurrent budgetary transfers from the central government to the priority sectors at the local level. The table further indicates the breakdown of the allocations into Personnel Emoluments (PE) and Other Charges (OC). The table indicates that most of the resources are used for personnel expenditures in the education and health sector, while both PE and OC show a significant increase in allocation in FY 2000/01 to 2004/05. More careful analysis of the amounts in the table reveals that budgeted resources set aside for OC have gradually increased over this time period from 16% to 22%.

Table 2.3
Aggregate Spending from Local Government Allocations by Sector,
FY 2000/01 – 2004/05 (in TSh billions)

		2000/01	2001/02	2002/03	2003/04	2004/05
PE	Education	112.37	118.22	137.29	166.98	201.44
	Health	21.15	23.73	30.07	34.44	42.85
	Other PE	16.36	19.69	23.28	28.60	37.26
	Total PE	149.88	161.64	190.64	230.02	281.55
OC	Education	17.44	19.69	32.96	35.26	44.51
	Health	7.96	11.74	13.61	14.42	20.72
	Other OC	4.20	8.05	9.82	11.28	14.99
	Total OC	29.60	39.48	56.38	60.95	80.22
PE+ OC	Education	129.80	137.91	170.24	202.24	245.95
	Health	29.11	35.47	43.68	48.86	63.57
	Other Spend.	20.57	27.74	33.10	39.88	52.25
	Total	179.48	201.12	247.03	290.97	361.77

Source: Computed based on Ministry of Finance data.

Next, Table 2.4 shows the breakdown of the total recurrent spending at the local government level, including spending from own source revenues. The table indicates both the spending transfers received from the central government (based on budgeted amount, by fiscal year) as well spending from own funds generated by the LGAs (based on actual amount, by calendar year). The table indicates a substantial increase in local spending over the past 3 years from TSh 255 billion in 2001/02 to TSh 341 billion in FY 2003/04.

Table 2.4 further identifies the share of local government spending in the two key sectors of education and health, other priority sectors (including local administration grants) as well as spending from own revenue sources. In 2003/2004, 59% of total local spending was on education, while 14% was spent on health and 12% was spent in other priority sectors (including agriculture, rural roads and water). Own source spending was only 15% of the total amount spent in LGAs. Figure 2.1 graphically breaks down the respective shares of local government spending in FY 2003/2004

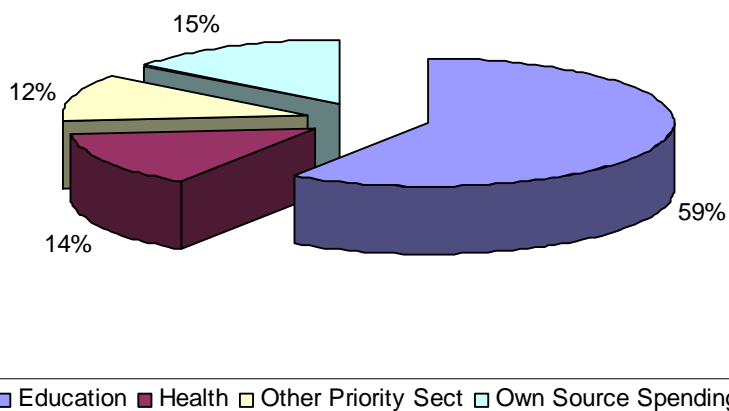
Table 2.4
Aggregate Local Government Spending by sector,
FY 2001/02 - 2003/04

	2001/2002	2002/03	2003/04
	Shillings millions		
Education	137,914.2	170,242.4	202,239.5
Health	35,468.3	43,684.8	48,856.3
Other Priority Sectors	27,736.5	33,100.2	39,878.0
Own Source Spending	53,904.4	59,924.7	50,408.0
Total	255,023.4	306,952.1	341,381.8
	Percent of total		
Education	54.1%	55.5%	59.2%
Health	13.9%	14.2%	14.3%
Other Priority Sectors	10.9%	10.8%	11.7%
Own Source Spending	21.1%	19.5%	14.8%
Total	100.0%	100.0%	100.0%
Source: Computed based on Ministry of Finance, LGRP and PO-P&P data.			

Box 2.3
Expenditure decentralisation of the development budget

It is very difficult to accurately measure the degree of expenditure decentralisation of the development budget. A recent study by PriceWaterhouseCoopers (November 2003) notes that only 4 % of the development budget is directly allocated to the local government level, but this number understates the amount of resources that find their way indirectly to local government authorities.

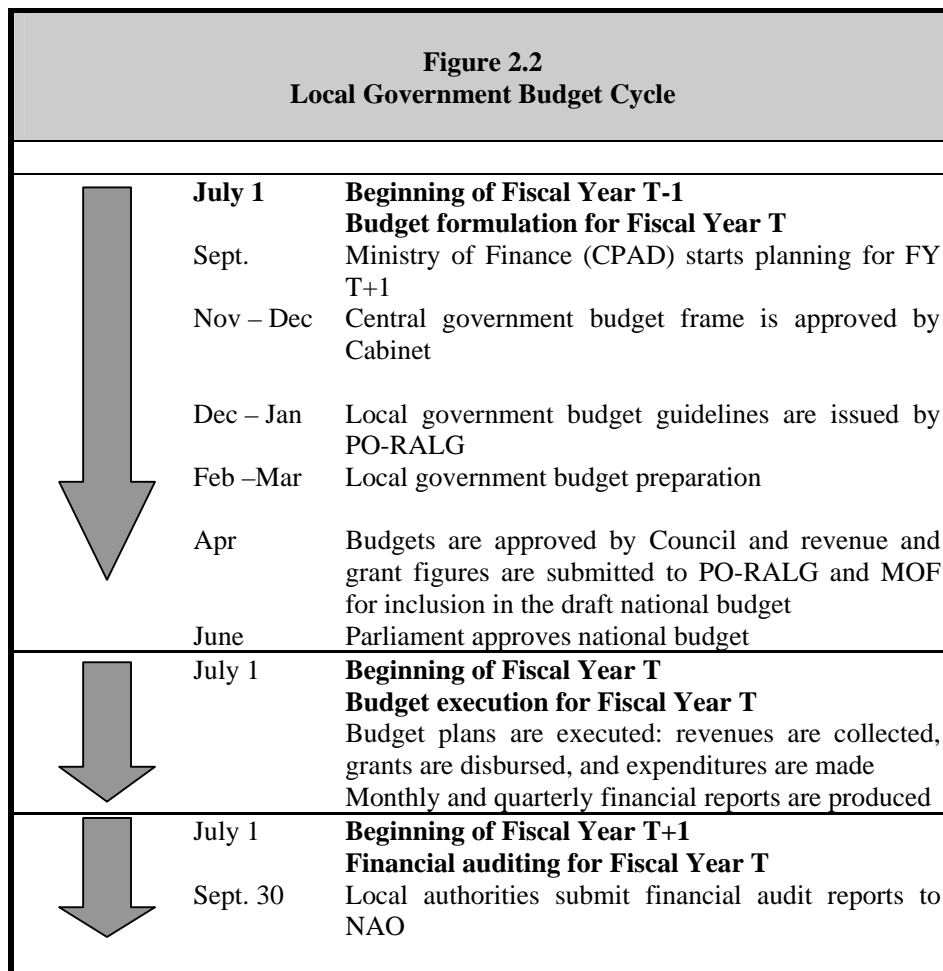
Figure 2.1
Share of Local Government Spending by sector, FY 2003/04



2.3 Local government budget process

The planning and budget processes of local government authorities are guided by the Local Government Finance Act, the Local Government Financial Memorandum (i.e., the Regulations), and the Local Authorities Accounting Manual. These legal documents specify the financial procedures and management control of local government finances. Local authorities are required to prepare their budgets in accordance with these regulations, and present their budgets to various stakeholders. They are also required to close their books of accounts as indicated in the regulations.

Budgeting essentially involves the determination of resources and their use for attainment of government objectives. Invariably, a sound Budget serves as a tool for economic and financial management as well as accountability. It also serves as a mechanism for allocating resources among different needs and priorities as well as bringing economic stability and growth. The key stages in the Budget Process in Local government budgeting are identified in Figure 2.2.



Issuance of the Budget Guidelines

The budget process begins with formulation of budget policy objectives. This is the responsibility of the centre, the Ministry of Finance (MOF) and President’s Office - Regional Administration and Local Government (PO - RALG). The Budget Guidelines produced by the center contain priority sector objectives and targets, sector and expenditure ceilings, procedures for preparation and submission of the draft local budget to PO-RALG and MOF. The Budget Guidelines are supposed to be ready for distribution to Vote holders by end of December or early January in each year.

Preparation of council budgets

Budget preparation consists of estimates of revenue, recurrent and development expenditures by local government authorities. This process starts soon after the budget guidelines are issued. Each council is required to prepare

its plan and budget by using participatory planning approach, which identifies community needs. Focus at this stage is put on the formulation of the annual budget for revenue, and expenditure (i.e. recurrent expenditure and development projects), the MTEF (Box 2.4) and the national poverty reduction strategy (Box 2.5). Essentially, the MTEF process encourages local government to define institutional objectives, targets and activities, and to budget their inputs in accordance with local priorities for each year of the MTEF period. Budget Committees are responsible for carrying out all these activities.

Box 2.4
Local Expenditures and the
Medium Term Expenditure Framework (MTEF) Process

The Medium Term Expenditure Framework (MTEF) was introduced at the central government level in Tanzania in 2000/2001 as a logical development from the PER process to enhance efficiency and effectiveness in budget management. Adoption of MTEF approach to budgeting was considered the best way of linking the strategic plan and the Budget. The three-year time frame was considered ideal for development of meaningful and sustainable plans and budgets.

The MTEF process, therefore, ends up with a three-year budget framework which is supposed to be based on clearly defined performance targets within a strategic medium-term framework. Resource needs on each target depends on activities involved and related prices of the required inputs. Consequently, the MTEF approach enables the local government authorities to link resources to the attainment of specified objectives. It is hoped that more emphasis is put on service delivery and meeting the needs of priority stakeholders. It should be noted that the capacity of LGAs to fully implement MTEF budgets has been lagging behind that of central government MDAs.

Box 2.5
Local Expenditures and the
Poverty Reduction Strategy

The Poverty Reduction Strategy (PRS) aims at addressing key causes of poverty in the country, which include inadequate economic growth and lack of access to essential services and infrastructure. PRS I set a framework for prioritizing sectors and objectives. It identified actions to be taken and the associated costs. It was designed to deal with poverty through adequate allocation to the identified priority

sectors which were: education, health, agriculture, road infrastructure, water, legal and judicial system and the fight against HIV/AIDS.

PRS II on the other hand is designed to achieve faster, equitable and sustainable growth. It seeks to engage all stake holders and exploit inter-sector linkages and cross-sector collaboration in the pursuit of poverty reduction outcomes using cluster strategy approach. The major clusters of poverty reduction include (i) Improvement of quality of life and social well being; (ii) growth and reduction of income poverty; and (iii) governance and accountability.

The PRS process is intended to be highly consultative and participatory based on a strong partnership between Government, development partners and civil society. The PRS has its own cycle of policy objectives or desired outputs to be attained and the timing normally going beyond the annual budget cycle. However, the PRS targets for each PRS sector should be achieved on the basis of resource allocation. As PRS progress reports are completed and targets updated, the results are fed into the PRS sector annual budgets and MTEFs. Allocation of government's budget resources is focused on poverty reduction.

Finalization and approval of the council budgets

The final phases of the budget preparation process include scrutiny of estimates and approval by councils, submission of estimates to approval authorities, and approval by Parliament. First the budget proposal is submitted to the council standing committee responsible for finance. The role of this committee is to ensure that the proposal comply with guidelines and reflect the councils (communities) needs and priorities. The budget is then submitted to the council for approval.

At this stage, the budget proposal for grants from the Central government is submitted to PO-RALG and MOF for approval, and for consolidation into the national budget.⁵ Donor and Government consultations facilitate the budget process by confirming donor financial commitments in the coming annual budget and MTEF period. These discussions take place between the Ministry of Finance or Sector Ministries and Development Partners. Timing for these interventions is between March and April each year.

The process of obtaining Parliamentary authorization for local government budgets starts with discussions by Sector Parliamentary Committees. Local government detailed budgets are then submitted to Parliamentary committees

⁵ Only the grant-portion of local government finances is reflected in the national budget. The inclusion of a detailed break-down of grants in the central government budget is a left-over of the era when local government authorities were deconcentrated units of the center. See Section 2.4 for the associated challenge of reforming how local government finances are included in the national budget process.

for scrutiny. After the sector committees of the Parliament have reviewed the Estimates, the Budget Proposals are tabled to the Parliament for debate and authorization. Review of Budget proposals by the Parliamentary Committees is carried out between May and early June and the Budget day is normally in mid-June.

Council budget execution

Budget execution is an important stage of the budget process. It is at this stage that actual revenue collections and service delivery takes place. Execution of the budget therefore is about the collection and accounting for revenue, provision of services through the recurrent budget and implementation of development projects. The key documents used during implementation of the budget are Revenue and Expenditure estimates books, action and cash flow plans, budget memorandum and accounting manuals and financial regulations.

Budget monitoring, control and evaluation are necessary for closer supervision of work programmes and projects. This involves a continuous monitoring of the plans and budget during budget execution in order to identify achievements and bottlenecks. In approximately 32 Councils, the overall control and monitoring of public expenditure is now expected to be effected largely through a local integrated financial management system (Box 2.6).

Box 2.6
Local Integrated Financial Management Systems

The overall control and monitoring of public expenditure is now expected to be effected largely through locally operated Integrated Financial Management Systems (IFMS). Already 32 councils have an Epicor-based IFMS system in place and operational. The remaining councils are expected to be brought on the Epicor system with support from the Local Government Reform Programme in 2005 and 2006.

The local Epicor systems are similar to the Epicor IFMS system used by the Treasury, but the local financial management is performed under the control of the local government authorities themselves.

The Local Government Finance Act (No.9 of 1982) requires councils to produce monthly and quarterly financial reports showing grants received from central government and own revenue as well as the allocation of these resources by sector. These reports are required to be tabled before the Finance

committee and the full council. Financial reports are submitted to the center and to donors if there are foreign funds contributed.

Financial Audits

Local councils' accounts are audited by the internal auditor, who report to council management (council director) and later to the finance committee. Local authorities are required to submit annual financial accounts to the National Audit office (NAO) within three months after the closing of financial year. The audited reports are submitted to the Finance Committee and full Council before the Parliamentary Committee (Local Authority Accounting Committee-LAC)

2.4 Challenges and the way forward

There are a number of challenges in regard to the overall framework for local government expenditures in Tanzania.

Integrating local government spending appropriately into the national fiscal processes

Local government officials will argue that in real terms budgets for implementing the expenditure assignments at the local level are insufficient and do not match the volume of the assignments. In truth, public resources will always be scarce, and this is true both for the central government as well as for local government authorities. Although LGAs are different in nature than MDAs and as a result should be treated differently by the budget process, the system of local government finance should be integrated into the national fiscal processes (the national budget process, PER, PRS, MTEF, and tax systems) in order to assure that there are systematic linkages between the nation's public finances and spending by local government authorities.

Clear and consistent assignment of expenditure responsibilities

Although the overall allocation of expenditure responsibilities in Tanzania is generally sound and in accordance with the subsidiarity principle, there are some responsibilities that are overlapping between the two levels of government without a clear allocation of responsibility, for instance the Peoples Militia. Furthermore, the expenditure assignment could be clarified by explicitly addressing the multi-dimensional nature of expenditure assignments in the Local Government Acts. In particular, the Act fails to clarify how the various expenditure responsibilities are supposed to be funded. This lack of clarity has resulted in central government sectors trying to stake overlapping claims over local own resources.

The expenditure responsibilities of lower-level local government authorities

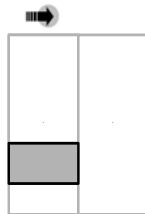
Sub-district councils stand closer to the people and may be in a position to deliver certain services in a more effective and accountable manner. The Local Government Act does not clearly assign significant expenditure responsibilities to lower-level local government authorities. The Local Government Reform Programme seeks to pursue greater reliance on sub-district governments in this regard. Any reforms of the assignment of expenditure responsibilities to the village level should carefully take into account the minimum efficient scale of service delivery as well as the potential administrative capacity at the village level.

Lack of budget autonomy in decision making by the LGAs

Since 80-85% of local government's finances is funded by conditional grants from the centre, there has historically been very little room for councils to implement any of their own priorities under the earmarked allocations made under the NMS procedures. Likewise, budgeting for Personal Emolument (PE) continues to be strictly guided by payroll commitments by the centre. This gives no room for discretion over the salary levels of council employees to attract and retain qualified staff.

Reporting and monitoring on local expenditures

There are many different expenditure reporting requirements and the reporting formats for local government expenditures are not user friendly. There is a need to harmonize the current reports to enable all stakeholders, including members of the local council committee, to understand them easily. Furthermore, the quality and timeliness of financial reports is jeopardized by a lack of sufficiently trained accountants and internal auditors.



Chapter 3 Local Government Revenues

Although local government authorities fund a relatively small (and declining) portion of local government expenditures from own source revenues, the collection of local revenues has been an area of some contention in the policy debate surrounding local government finance in Tanzania. While it is widely agreed that the current system of local taxes and revenues is generally inefficient, inequitable and poorly administered, there is not a broad consensus on the steps that need to be taken to achieve a sound system of local taxes and non-tax revenues.

On one hand, the Ministry of Finance -primarily concerned with the efficiency and equity effects of local tax system- has successfully promoted restrictions on the rate-setting discretion of local government authorities over all local revenue sources, while abolishing certain local revenue sources (including the Development Levy) altogether. On the other hand, local government authorities see their already small revenue base shrinking even further and find it increasingly difficult to collect own source revenues in order to deliver local services to their communities outside the centrally-funded priority sectors. This should be seen to be reducing local government autonomy, accountability, and poses a potential threat to the sustainability of local capital investments.

3.1 An overview of local revenue sources

The Local Government Finance Act (1982) gives local (district and urban) government authorities broad powers to impose levies and cesses (taxes) and licences, fees and charges (non-tax revenues) to be paid by local residents within their area of jurisdiction. An overview of these local revenue sources is provided in Box 3.1. Until amendments made to the LGFA in 2003 and 2004, the Act authorized local government councils to structure the main features of their own tax system (including the definition of the various tax bases, tax rates and collection procedures of local taxes) through their own by-laws. As

such, the exact combination of local government taxes and non-tax revenue instruments varied from council to council. In addition to their own revenue sources, LGAs receives various resources in the form of grants from central government as well as development partners for various activities. The sector-specific financing arrangements are covered in other chapters of this Review.

Box 3.1 Sources of own revenue for district and municipal councils in Tanzania, 2004	
Local tax sources	Local non-tax sources
<p><i>Income Taxes</i> None (Development Levy abolished in 2003)</p> <p><i>Asset / Property Taxes</i> Property/Building tax Land rent *</p> <p><i>Product / Sales Taxes</i> Crop cess Livestock auction fee Service levy</p>	<p><i>Licenses, Fees and Permits</i> Business license fee Liquor license fee Scaffolding fee Fishing vessel license fee Other licenses and fees</p> <p><i>Service Charges</i> Abattoir fees; market fees Refuse collection fees, etc. Plying fees</p> <p><i>Other revenues</i> Sale or rent of council assets Fines and penalties</p>
<p>Note: Land rent is collected by the Ministry of Lands: the Ministry remits 20 percent to the LGA where the revenue is collected. This is an annual charge paid by persons to whom land is offered.</p>	

Although systematic data on local revenue collections in Tanzania is scarce, the available local revenue data (as reported by local councils) shows that total revenues collected by all councils in the country is around TSh 50 billion (see Table 3.1).⁶ This amount represents only about 3-5 percent of total revenues

⁶ The local revenue data set was based on reports from local authorities and aggregated by LGRP's Zonal Reform Teams. Frequent adjustments after the initial collection effort indicate that the data are far from perfect, and additional efforts are needed to assure better reporting of

collected by central and local authorities together in Tanzania, and is only between 10-20 percent of the total amount of resources spent at the local government level (i.e., intergovernmental transfers and own source revenues combined).⁷ However, as is the case in many countries, revenue sources for local government authorities in Tanzania are among the most unpopular ones. It is therefore realized that the economic, political and social impacts are considerably more significant than this figure implies.

Table 3.1			
Consolidated local government revenue collections by source, 2001 - 2003			
(Actual collections, in TSh millions)			
	2001	2002	2003
Development Levy	10,994.4	11,212.0	3,179.6
Property Tax	3,146.4	3,542.8	3,171.5
Agric. Cess / Livestock Levy	9,321.3	9,209.2	8,977.3
Industrial Cess / Service Levy	5,217.1	9,085.0	7,724.0
Land Rent	620.8	742.7	753.2
Licenses and fees	10,152.8	11,052.8	11,998.7
Charges	3,141.4	4,041.6	5,042.2
Other taxes and levies	8,620.8	8,866.0	7,421.0
Subtotal Local Revenues	51,214.9	57,752.1	48,267.4
Source: Computed based on PO-RALG. 2004. <i>Revenue Statistics For Local Government Authorities On Mainland Tanzania</i> . Local Government Reform Programme, September.			

Table 3.2 provides a perspective on the size of local government revenues by expressing the amounts in per capita terms. On average, the total resource availability from own revenues at the local level is about TSh 1,500 per local resident. A further breakdown (not shown here) indicates that total own local resources average only TSh 778 per local resident in rural councils versus an average of TSh 2,976 in urban councils. These resources are used for local government administration (for which central government transfers only provide partial funding); for the delivery of local services, such as parks and gardens; and for the co-funding of local capital development projects, including donor-funded projects.

local government revenues. Nonetheless, they provide the basis for important insights into the structure of local revenues.

⁷ Central government revenue collections in FY 2001/02 totaled TSh 1,043 billion; central government collections are estimated at TSh 1,587 billion for FY 2004/05. Also see Table 1.1.

Own source revenues are glaringly inadequate for the purposes at hand and are thus clearly already stretched to the limit. It is thus important to assure that LGAs are not mandated to provide any contributions from own source revenues for spending on central government priorities sectors; local authorities simply do not have the revenue base to do so.

Table 3.2			
Consolidated local government revenue collections by source, 2001 - 2003			
(Actual collections, in TSh per capita)			
	2001	2002	2003
Development Levy	314.2	311.4	85.8
Property Tax	89.9	98.4	85.6
Agricul. Cess / Livestock Levy	266.4	255.8	242.3
Industrial Cess / Service Levy	149.1	252.3	208.5
Land Rent	17.7	20.6	20.3
Licenses and fees	290.2	307.0	323.9
Charges	89.8	112.3	136.1
Other taxes and levies	246.4	246.3	200.3
Subtotal Local Revenues	1,463.8	1,604.1	1,302.9
Source: Computed based on PO-RALG. 2004. <i>Revenue Statistics For Local Government Authorities On Mainland Tanzania</i> . Local Government Reform Programme, September.			

As a result of the growing dissatisfaction with the local revenue system, the Ministry of Finance in recent years has pursued local tax rationalization as part of reforms intended to improve the business environment by removing impediments to economic activities. As part of the budget framework, for two consecutive years, 2003/04 and 2004/05, various steps were taken to harmonize and rationalize local taxes, fees and charges in order to put in place a local tax regime that will support the efforts that are being made to revamp the economy. Fiscal measures imposed during 2003/04 included:

- Reiteration of an earlier Government directive that cess on agricultural produce should not exceed 5 percent of farm gate price;
- The principle that goods should not be taxed more than once. For instance if produce cess has been levied on beans at source, they should not be taxed at the destination.

- No other levies should be imposed on the same commodity when it enters the market place (for instance, the seller of beans should not be subject to double taxation as he or she has already paid the business license to operate at the market.)
- The Local Government Finance Act was amended to eliminate all the taxes and fees levied by the LGAs except those listed in the Act (see Table 3.1). Specifically, this action meant the elimination of the Development Levy as well as some taxes and charges which were considered “nuisance taxes”.

In 2004/05 fiscal year, the government imposed further measures aimed at improving business environment and removing impediments in business undertakings. The reforms predominantly aimed at reducing the licensing burden of small and medium size enterprises under the Business Licensing Act (1972). While these reforms also reduced license fee collections at the central government level, the reforms particularly impacted local government revenue collections:

- Business license fees for hospitals, dispensaries and health centers operated by religious organizations were abolished to allow expansion of health services delivery by these organizations.
- Business license fees were abolished for businesses with a turnover of less than TSh20 million per year in order to reduce costs of establishing businesses for both youth and small entrepreneurs. These businesses should be provided with business licenses and no license fees will be charged.
- A maximum business license fee was set for all businesses with a turnover exceeding TSh20 million at a maximum of TSh 20,000. This measure is intended to reduce costs of establishing business and to create a conducive environment for transforming many businesses into the formal economy.
- License fees for businesses regulated by specific sectoral laws (for example banking; insurance, hotels etc.) were abolished. It was underscored that the primary objective of a license is to supervise businesses and not raising revenue.
- Under the Business Licensing Act, business licenses are to be issued only once when a business is established and not every year. Given that business operators are also required to register their businesses with TRA through the Tax Identification Number (TIN), it was felt that there is no need for them to renew business licenses and pay fees every year.

3.2 Local government revenue trends

The reforms imposed in recent years have had a significant impact on the revenue-raising capacity and autonomy of local government authorities. The

Local Government Finance Act has been amended to move away from a permissive “open list” of local taxes to a more restrictive “closed list” approach. Since the reforms seem to have targeted some of the main revenue instruments of local authorities, revenue collections declined significantly in 2003. These trends –both the reform initiatives as well as declining local revenue collections- are expected to continue in future years.

In fact, Table 3.3 highlights that the categories of revenues affected most by the rationalization of local government revenues have been the most productive revenue sources for local authorities, including the Development Levy (which yielded over 20 percent of local own source revenues in 2001); the Agriculture Cess (18 %); and Licenses and fees (around 20 percent).

Table 3.3			
Consolidated local government revenue collections by source, 2001 - 2003			
(Actual collections, as percent of total)			
	2001	2002	2003
Development Levy	21.5	19.4	6.6
Property Tax	6.1	6.1	6.6
Agricul. Cess / Livestock Levy	18.2	15.9	18.6
Industrial Cess / Service Levy	10.2	15.7	16.0
Land Rent	1.2	1.3	1.6
Licenses and fees	19.8	19.1	24.9
Charges	6.1	7.0	10.4
Other taxes and levies	16.8	15.4	15.4
Subtotal Local Revenues	100.0	100.0	100.0
Source: Computed based on PO-RALG. 2004. <i>Revenue Statistics For Local Government Authorities On Mainland Tanzania</i> . Local Government Reform Programme, September.			

There are several other revenue trends that can be noted based on Table 3.3. Compared to international experiences, the property tax -which tends to be the main tax source for local governments in many other countries- contributes only a very small share of own local revenues in Tanzania. Likewise, revenues from the Land Rent (which is in fact a shared revenue source) is very low as well. Further surprising is the fact that we observe declines across the board in revenue collections for 2003. In light of the abolition of the Development Levy, we would have expected local governments to increase the tax rates and collection effort on the remaining local government revenue sources.

The average and percentage amounts reflected in the Tables 3.1 through 3.3 hide substantial variations in the importance of specific revenue sources to different types of councils or individual councils. In 2001 and 2002, 60% of all revenues in rural councils came from only two sources, namely agriculture cesses and the Development Levy (approximately 30% from each). As such, the impact of the abolition of the Development Levy and limits on agricultural taxes were disproportionately felt by rural district councils. For instance, in 2002, Nkasi District (Rukwa Region) collected 61 % of own sources from the Development Levy alone. In contrast, the Development Levy was much less important for urban councils, yielding only about 10% of local revenue collections. For urban councils, the Service Levy and licenses and fees consistently raised half or more of all own local revenues (prior to the reform of licenses in 2004).

Substantial variation in revenue collections also exists between individual councils as well. Table 3.4 shows the large variations in per capita collections for individual councils; the increase in the coefficient of variation indicates increasing inequalities in fiscal capacity. During 2001 and 2002, the wealthiest local governments were able to collect more than 40 times the amount of resources per person than the poorest local government. For 2003, this ratio increased to 100.

Table 3.4			
Descriptive statistics for local government revenue collections,			
2001 - 2003			
(Actual per capita collections)			
	2001	2002	2003
Average	1,502.7	1,591.5	1,340.8
Standard Deviation	1,156.5	1,489.8	1,330.2
Coefficient of Variation	0.770	0.936	0.992
Minimum	168.9	266.6	86.9
Maximum	8,366.5	11,186.9	9,970.6

Short-term impacts of the local tax rationalization

The immediate consequences of the recent revenue rationalization are that some council activities are scaled down or postponed. In particular, council meetings are postponed to save allowances. The reform will most likely also have impacts on activities at the village level, since some of the development

levy collected (20-45 percent) were retained in the villages, for meeting expenses incurred by the village councils. Furthermore, the way the local tax reform was carried out, taking many people both at the local and central levels by surprise, has led to confusion among both collectors and taxpayers on what taxes actually are abolished and which are still in place. Hence, taxpayers in some councils now actively resist paying levies and taxes which have been retained. Local tax collections have, therefore, dropped by more since July 2003 than the revenue shortfall caused by the abolished taxes alone.

A related negative consequence of the manner in which the reforms were carried out is that adherence to the new government policy is incomplete –with some degree of contradiction to the newly reformed Local Government Finance Act-, so that some councils still levy taxes that are not on the “permitted” list, or that councils continue to collect taxes in excess of the maximum rates permitted. Alternatively, some councils are reported to have shifted to collecting mandatory “voluntary contributions” in order to circumvent the sudden rigidity of the approved list of local taxes.

On the other hand, arguably a positive outcome of the local tax reform (at least in the short run) is that some council staff have been released from low productivity activities and re-oriented for new assignments. For instance, Village and Ward Executive Officers now can perform their main responsibilities better. Among others, these tasks include planning and supporting the village governments and ward committees on development issues, as well as to put more effort into local conflict resolution. Previously, most of their time was spent on tax collection and revenue mobilization. Not surprisingly, taxpayers have generally responded positively to the tax rationalization, particularly the abolition of the Development Levy.

Box 3.2
Short-term responses to the loss of own local revenue sources

Some councils have already started to explore methods to reduce the financial gap caused by the tax rationalization by:

- Outsourcing revenue collection to private collectors to increase revenues from existing sources such as natural resource products, including charcoal, wood and other forest products, and livestock auction fees;
- Reducing costs, for example by limiting the number of meetings and workshops and by retrenching surplus staff; and
- Imposing more cost-effective spending, for example on electricity and stationeries. Current attempts for economic diversification will also help to expand the tax base like, for instance, a longer-term strategy introducing

new cash crops. Moreover, co-production of services by councils and local communities is on the rise.

While such responses may provide a temporary reprieve from budget shortfalls caused by the local tax reforms, policy officials should be cautious to interpret these steps as a long-term positive development. For instance, while in several councils the number of primary schools that is maintained and expanded via self-help schemes with technical support from the council is increasing, such measures place the burden for government's responsibilities outside the public sector and fail to provide for the future financial sustainability of local authorities.

3.3 Local revenue administration, compliance and enforcement

An important contributing factor to the lack of popularity of local taxes in Tanzania is the manner in which these revenues are collected. The perception is widely held that local revenue collectors often resort to crude methods of assessment and enforcement to ensure that local revenues are indeed collected. At the same time, compliance with local tax regulation is exceptionally low. A recent survey on attitudes towards local taxes in Tanzania found that 35.7 percent of respondent admitted that he or she did not pay any local taxes, fees or charges.⁸ As a result, the poor administrative capacity of local authorities to collect own source revenues and with the poor compliance rate are contributing to political pressures to reduce the revenue autonomy of local government authorities.

There are a number of factors that seem to contribute to the challenges that local government authorities face in administering local revenues. These could be grouped into four categories:

1. Lack of capacity; local tax systems too complex.

The first simple reason for the poor performance of local tax systems is that the capacity of LGAs to collect local revenues is generally low. However, this low capacity is made worse by several complicating factors. Due to the "open list" approach to local taxation that was pursued until recently, there is no consistent framework for local government revenue collections, as taxes can vary from council to council (see Box 3.3). Although a start has been made towards a closed list, in practice, these reforms have focused more on eliminating non-compliant taxes. An additional complicating factor in administering local revenues is that many of the taxes used at the local level are (and continue to be) unnecessarily complex in their administrative

⁸ Odd-Helge Fjeldstad. 2004. *To pay or not to pay? Citizens' views on taxation in local authorities in Tanzania*. Paper presented at REPOA's 9th Annual Research Workshop: April 2004.

procedures. Thus, in some LGAs, taxes are not collected as anticipated on account of inability to administer such taxes, particularly when the assessment of the tax base requires a relatively costly process (e.g., property taxes).⁹

Box 3.3

Absence of sound, standardized tax system at the local level

The historical absence of sound, standardized tax system at the local level with streamlined, standardized procedures and standardized tax forms across all councils complicates the strengthening of local revenue collections in a number of ways:

- The absence of a standardized set of local taxes raises the compliance cost of businesses that operate in different districts;
- The absence of a standardized local tax structure makes it much harder to build the administrative capacity to collect revenues at the local level;
- The absence of a standardized financial framework for local revenues has complicated the accounting and reporting of local revenue collections.

2. Value for money

A second reason for the poor administrative performance of local tax collection in Tanzania is explicit resistance and intentional tax evasion by taxpayers, driven in part by the fact that tax payers do not see local tax revenues being spent on public services. Almost six out of ten respondents surveyed (58 percent) considered that the allocation of local resources on items other than local service delivery (e.g., local administration, non-priority projects) is a major problem in tax collections. As a result, local taxpayers may not be willing to fulfill their tax obligations because they feel they do not get the services that they deserve out of the taxes. At the same time, almost three-quarters of respondents (72.7 percent) report that they would be willing to pay more taxes if public services are improved.

To the extent that the overall system of local government finance requires local government authorities to use a significant portion of their own source revenues for administrative overhead instead of committing these resources directly to service delivery, this lowers the value for money that local tax payers receive from their local councils. This is a flaw in the overall framework for local government finance.

⁹ For more information on this issue, see William McCluskey et al. 2003. "Property tax reform: the experience of Tanzania". London: RICS Foundation.

Another obstacle in the process of demonstrating to local taxpayers to what extent they receive value for money is the relative lack of transparency and accountability at the local government level. Most LGAs do not publicly make available their income and expenditure statements from own revenue sources to their communities. At the same time, central government monitoring and reporting also tends to overlook own source spending, and instead focuses on monitoring expenditures arising from central government transfers.

3. Corruption in revenue collections.

A third possible reason for the poor compliance and collection of local revenues is the perception that corruption is systemic at the local government level. Although there is no evidence of any particular corruption act, there is clear public perception that the embezzlement of local revenues is commonplace. Almost half of the respondents surveyed (45.7 percent) consider that dishonest tax collectors are a major problem in tax collections. Yet even if revenue collections can be shown to be free of corruption, corruption can still frustrate local collection efforts if the corruption is perceived to occur on the expenditure side of the local budget.

4. Political influences

There are a number of direct and indirect ways in which political considerations influence local revenue performance in both directions. First, external pressures may exist on the local finance department to provide excessively optimistic revenue projections, which would then result in disappointing realization rates. Such external pressures may come either explicitly from local politicians or either implicitly or explicitly from central government officials or development partners (for instance, donors seeking local government authorities to demonstrate co-funding for capital development projects).

A direct negative political influence on the local tax administration occurs when political pressure is used to limit local revenue collections. Either local or national politicians may in some instances, because of political or ideological reasons, wield their political influence to allow certain residents or businesses not to pay local taxes for their own political gains.

3.5 Challenges and the way forward

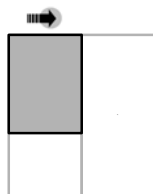
Even before the process of rationalizing local government revenues started in June 2003, it was clear that the local tax system was in serious need of reform. The local tax system was generally complicated, costly to administer, burdensome to comply with, and exacerbated inequity. Tax evasion was widespread, often reflected in persistent public resistance to pay. Moreover, the linkages between the central and local government tax systems were

generally weak, leading to double taxation and inconsistencies between tax policies implemented at various levels of government. As such, on a positive note, the revenue reforms represent an opportunity for local government authorities to implement much needed reforms of their revenue systems, to look at improved methods for revenue administration, and to identify new approaches for revenue enhancement and cost saving.

Yet the recent rationalization of local taxes (and in particular, the abolishment of the development levy) also implies that in the short run many district councils have lost a significant portion (in some cases 40-60 percent) of their own generated revenues. Given the low administrative capacity and the complexity of alternative local revenue sources, local authorities will almost surely not be able to increase the collection of the remaining tax sources to make up for the lost revenues. While the reduction in local taxing power has been partially offset by the introduction of a compensation grant, the provision of transfers reduces the link between local government revenues and local government spending. This is making LGAs increasingly dependent on the center and reduces the downward accountability of local officials to their constituents.

The negative impact of the recent reforms has raised significantly concern among stakeholders at both the central and local levels that the recent tax reforms did not adequately take into account the impact of the reforms on the overall system of local government finances. In addition to the erosion of financial autonomy of local authorities, a more immediate concern is that some councils are rapidly pushed towards bankruptcy. More structurally, the changes in revenue assignments have sharply reduced the funding available for co-financing local capital development. In the longer run, the lack of local resources for operations and maintenance could have a disastrous impact on the stock of capital infrastructure at the local level, ranging from schools and clinics to, markets, roads and bridges.

Recognizing the revenue shortfalls facing a majority of the LGAs following recent tax rationalization measures, the central government has commissioned a study to broadly analyze the entire system of local government finances, to consider the role of local own source revenues in that system, and to identify options to improve the system of local government taxes. Fundamental issues to be addressed in the context of this study will include improving the design of the remaining local revenue sources and strengthen the financial management processes and capabilities at the local level. Moreover, measures are required to enhance taxpayers' compliance and to improve the accountability of tax collectors and councilors. The study is expected to come up with recommendations that will place the system of local government finance on a more sound footing, and thereby assist LGAs to come out of their current financial distress.



Chapter 4 Local Government Grants

The system of local government grants is the main source of funding for the delivery of local government services and for the provision of capital development at the local government level; more than 80% of recurrent local expenditures are funded by intergovernmental grants.

In the past, these local government allocations were made in a highly discretionary manner, resulting in a non-transparent and uneven allocation of resources across local government authorities. In response, the Government's Policy Paper on Local Government Reform (1998) advocated the introduction of a transparent, equitable and efficient system of formula-based block grants.

Because of the substantial impact of the funding mechanism on the ability of local government authorities to deliver services across all sectors, a number of reform initiatives related to the transfer system have been at the forefront of local government finance reform in Tanzania over the past several years, including the introduction of a system of formula-based grants in July 2004.

4.1 An overview of the system of intergovernmental grants

Tanzania's system of recurrent local government grants is structured along the functional (expenditure) responsibilities of local government authorities: there are six sectoral recurrent local government allocation schemes in the central budget, one for each of five national policy priority areas (education, health, water, roads, and agriculture), plus an allocation scheme for local administration. Unlike many other countries, no general-purpose (unconditional) local government grant exists in Tanzania's system of intergovernmental grants.¹⁰ In total, the recurrent grant system provides

¹⁰ The LGFA does specifically allow for an equalization grant, but none was ever implemented. With the elimination of the Development Levy in 2003 the central government

approximately TSh 361.8 billion in financial resources to the local government level (FY 2004/05). This amount constitutes approximately 18.6 percent of central government expenditures. Over 85 percent of these sectoral grants are provided to fund the delivery of primary education and basic health care services at the local level. These sectors are discussed in greater detail in Chapters 6 and 7 of this Review.

Table 4.1
Aggregate Budgeted Local Government Allocations by sector, FY 2004/05

	TSh million	Percent of total	Percent of CG recurrent expend.	Percent of GDP
Education	245,945	67.98	12.64	2.12
Health	63,574	17.57	3.27	0.55
Agriculture	13,939	3.85	0.72	0.12
Roads	4,992	1.38	0.26	0.04
Water	11,215	3.10	0.58	0.10
Administration	22,102	6.11	1.14	0.19
Total	361,768	100.00	18.60	3.12

Source: Computed based on Ministry of Finance and PO-P&P data.

In addition to the recurrent local government allocations, additional recurrent resources flow from the central government to the local level through a variety of mechanisms. For instance, local authorities receive 30 percent of the Roads Fund (funded by a fuel levy) from the Roads Fund Board, although the disbursement of these funds occurs through PO-RALG. In other cases, local authorities receive in-kind transfers; although the provision of basic health care services is a responsibility of local authorities, local health care providers receive shipments of drugs directly from the Ministry of Health instead of receiving financial support for this purpose. There is no comprehensive picture of the level and distribution of resources that flow from sector ministries and other MDAs to the local government level outside the regular recurrent transfers.

introduced a compensation grant for the eliminated revenues, which is now referred to as the General Purpose Grant. This grant is discussed later in the chapter.

In addition to the government's recurrent sectoral transfers, there are two additional donor-funded sectoral transfer schemes which should be mentioned in the context of the system of intergovernmental relations. First, there is the Health Common Basket Fund, which provides local government authorities with supplementary recurrent funding for health care services. Second, the donor-funded component of the Primary Education Development Programme (PEDP) provides additional funding to local government authorities for primary education. These sector-wide mechanisms are discussed further in Box 4.1, as well as in Chapters 5 and 6.

Finally, capital development resources are funneled to local government authorities through the development budget. The allocations of capital development resources from the center to local government authorities are generally quite small and highly irregular. Local capital development funds will be discussed separately in Section 4.4 below.

Box 4.1
Sector-Wide Basket Funding in Health and Education

The Common Health Basket Fund provides additional funding to local government councils for recurrent health services, distributing an average of US\$0.50 per person to all local government authorities through supplementary sectoral allocations. The Health Basket Fund resources are distributed among districts based on the same formula as the Health Block Grant (see Box 4.2).

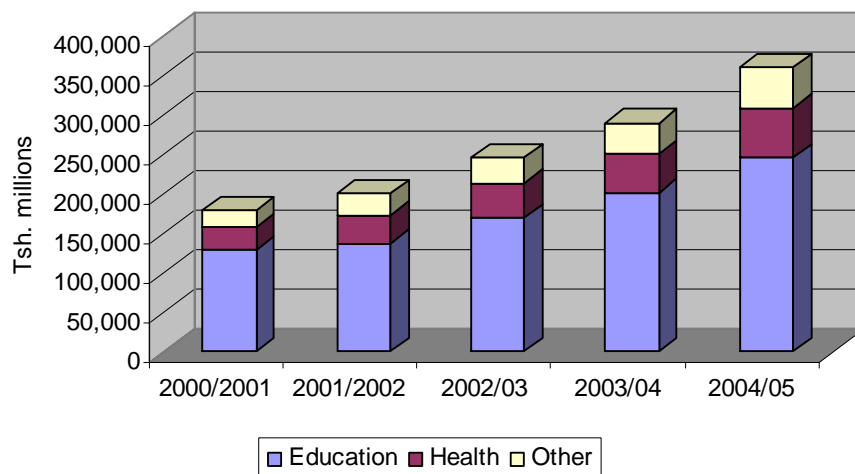
The Primary Education Development Programme (PEDP) provides additional funding to local government authorities for primary education through the government's system of budget accounts (i.e. as conditional recurrent OC education grants). As part of PEDP, local government authorities receive pooled grants from the PEDP Fund both for the purpose of recurrent expenditures as well as for infrastructure development projects. The grants are split into two parts: (1) a capitation grants (allocated on a per pupil basis) to support the operational costs of primary education (essentially replacing the resources lost by primary schools as a result of the abolition of primary school fees), and (2) investment grants for the maintenance and construction of educational facilities, such as classrooms and school furniture. These resources are supposed to be allocated in proportion to the physical needs of local government authorities.

4.2 Trends in local government grants

The main trends in local government grants over the past five years are indicated in Figure 4.1 and Table 4.2. Most notably, the transfer pool has increased steadily over the past years, actually doubling in size from TSh 180 billion in 2000/01 to TSh 360 billion in 2004/05. This increase had been almost proportional to the increase in size of the central budget resources, as transfers expressed as a percentage of central government expenditures has only increased marginally from 17.6 percent to 18.6 percent. Furthermore, the composition of local government grants has remained almost unchanged since 2001/02. The most notable increase has been the increase in Other Grants, which was caused by the introduction of Agriculture Grants in 2004, which were previously funded directly through the sectoral ministries.

Table 4.2					
Aggregate Budgeted Local Government Allocations by Sector, FY 2000/01 - 2004/05					
	2000/2001	2001/2002	2002/03	2003/04	2004/05
TSh million					
Education	129,804	137,914	170,242	202,240	245,945
Health	29,112	35,468	43,685	48,856	63,574
Other	20,638	27,737	33,100	39,878	52,248
Total	179,555	201,119	247,027	290,974	361,768
Percent of total					
Education	72.29	68.57	68.92	69.50	67.98
Health	16.21	17.64	17.68	16.79	17.57
Other	11.49	13.79	13.40	13.71	14.44
Total	100.00	100.00	100.00	100.00	100.00
Percent of central recurrent spending					
Education	12.74	12.30	11.44	12.55	12.64
Health	2.86	3.16	2.93	3.03	3.27
Other	2.03	2.47	2.22	2.48	2.69
Total	17.62	17.93	16.59	18.06	18.60
Source: Computed based on Ministry of Finance data.					

Figure 4.1
Trends in budgeted local government grants, 2000/01 – 2004/05



4.3 Recurrent grants

Tanzania’s Local Government Finance Act (1982) provides the Minister of PO-RALG substantial discretion in allocation grants to local government authorities. Section 10 of the Act speaks of two types of recurrent grants: first, recurrent earmarked grants (referred to in the Act just as “grants”) and, second, “block grants.” The overall size and distribution of regular recurrent grants are determined by the Minister as being “the cost incurred by [local government authorities] in the provision and maintenance of public health services, education services,...” and for spending in the government’s priority sectors, including water, roads maintenance, and agricultural extension. In contrast, recurrent grants for local administration are only provided to support (i.e., to partially fund) the general cost of operating a local government, covering between one-third and one-half of the wage cost of local administrative officials depending on the type of local government (e.g., district council versus town or city council). By law, block grants are defined as either conditional or unconditional grants, which are provided for the same purposes as regular recurrent sectoral grants.

Until the current budget year (FY 2004/05), no formula-based approach was used to divide the available local government resources among the different local government authorities. Instead, local government units were essentially treated like central government MDAs in the budget formulation process. At the beginning of the central government’s budget formulation cycle, budget

guidelines were circulated to local government authorities by PO-RALG tasking them to prepare budget requests based on a framework of “national minimum standards” (NMS). The NMS framework comprised a set of sectoral standards and norms that were supposed to assure a minimum level of service delivery across Tanzania’s national territory. For instance, the NMS for primary education prescribed a pupil/teacher ratio of 1 teacher for 45 students.

In formulating their budget requests, local budget figures for personnel emoluments (PE) were determined –and continue to be determined, for now at least- by the exact local government staffing levels (number of staff and specific classifications) in each local council as recorded by President’s Office -Public Service Management (PO-PSM). The local government budget requests for Other Charges (OC) were scrutinized and vetted by regional teams of PO-RALG and sectoral line ministry representatives. At the conclusion of the budget formulation process, the Budget Commissioner of the Ministry of Finance was then responsible for reconciling local government requests with available government resources, often relying more on incremental increases for all local government authorities and negotiations with individual councils rather than any systematic budget process.

As a result of the strong discretionary role played by central government officials in determining the local government allocations, local government authorities have only very limited discretion over the grant resources provided to them. Local government allocations are determined in a highly earmarked manner, with the central government’s annual budget estimates itemizing the intended local use of these resources in the central government’s budget. In practice, however, the disbursement of each sectoral grant scheme to the councils is done separately for personnel emoluments (PE) and other charges (OC).¹¹

In addition to limiting local budget autonomy, this discretionary approach to local government allocations has resulted in a rather uneven allocation of resources, with some local government authorities receiving substantially greater resources than other councils. Table 4.3 highlights the variation in local government allocations, with some local authorities systematically receiving as much as five times more than other councils. More in depth studies of local government allocations confirm that it is in fact wealthier – predominantly urban - local authorities in Tanzania that generally receive greater transfers.¹² This outcome is obviously at odds with the government’s stated policy objective of poverty reduction.

¹¹ These allocations are contained under a series of regional votes in the national budget (votes 70-95); while officially under PO-RALG, these sectoral grants are disbursed directly from the Treasury into sectoral bank accounts held by each LGA.

¹² Jameson Boex. “The incidence of local government allocations in Tanzania”, Public Administration and Development, 23 (2003): 1-11.

Table 4.3
Variations in budgeted local government allocations between districts,
FY 2000/01- 2004/05

	2000/2001	2001/2002	2002/03	2003/04	2004/05
Average	6,563	7,215	8,594	9,718	11,770
Standard Deviation	2,493	2,877	3,798	3,484	4,053
Coeff. of Variation	0.380	0.399	0.442	0.359	0.344
Minimum	2,251	2,604	3,152	4,330	5,805
Maximum	14,650	21,054	30,002	23,024	26,545

Based on a careful analysis of local government finances,¹³ the Government of Tanzania therefore saw the need to move away from the system of negotiated budget allocations for local government authorities based on national minimum standards.

In February 2004, Cabinet decided to move towards a formula-based system of sectoral block grants, where the level of grants that each local government authority receives for the various sectors is based on a number of transparent and objective client-focused financial norms. In accordance with the Cabinet decision, formula-based grants were introduced for primary education and local health services as part of the 2004/05 budget year (although the actual local allocations for education and health were in fact not fully consistent with the formula-based approach). The remaining local government sectors (including agriculture, water, and local roads) are expected to introduce their formula-based grant schemes with the FY 2005/06 budget year.

Even though the benefits of introducing a formula-based allocation mechanism are unmistakable, it would be a mistake to introduce a new formula-based approach overnight. First, a gradual phasing-in of the formula-based approach over a period of several years would prevent large sudden increases in resource allocations to previously under-resourced councils, which could potentially result in inefficient allocation or even misappropriation of public resources. Second, under the formula-based approach all councils are supposed to be “held harmless” against decreases in their resource allocations. This means that no local government authority would receive fewer resources (in nominal terms) than in the previous year.

¹³ Local Government Reform Programme / Georgia State University. Final Report: Developing a System of Intergovernmental Grants in Tanzania, January 2003.

A final recent development in the allocation of local government grants is the introduction of the Compensation Grant in 2003, to compensate for abolition of the Development Levy and other nuisance taxes. For FY 2003/04, the amount of compensation funding disbursed was TSh 23 billion, and the budgeted amount for TSh 25 billion for FY 2004/05. For the time being, these funds are being distributed in proportion to an estimate of the lost revenues. However, there is a desire to move away from seeing these funds as temporary compensation and make this funding the basis for a formula-based, unconditional general-purpose grant. To this effect, the grant is renamed General Purpose Fund.

Box 4.2
Formula-Based Education and Health Block Grants

During the design stage of the block grant reforms, sector allocation formulas (one for education and one for health) were developed by sectoral implementation teams, which included representatives from the relevant sector ministry, PO-RALG, the Ministry of Finance, and other relevant stakeholders (often including donor partners). The allocation formula is then applied to the entire sectoral grant pool (PE plus OC). The sector ministries expect to use the same formula for the next three years, after which the formulas will be reviewed.

The horizontal allocation formula for education block grant is 100% based on the number of school-aged children. This means that the education grant pool is distributed among local authorities 100% in proportion to the number of school-aged children in each local authority. If a district has 5% of all school-aged children in (Mainland) Tanzania, it will receive 5% of the entire local education grant pool.

The formula for health block grant funding is slightly more complex. The health grant pool is distributed to local government authorities based on four factors:

- 70% of the health grant pool is distributed to local government authorities in proportion to population.
- 10% of the health grant pool is distributed in proportion to the estimated number of poor residents in a district.
- 10% of the health grant pool is distributed in proportion to the length of the official medical vehicle route in a district (providing more resources to rural districts).
- 10% of the health grant pool is distributed in proportion to the estimated morbidity count in each local authority (based on the infant mortality rate), as a proxy for Burden of Disease.

4.4 Capital development grants

As noted earlier in this chapter, the allocations of capital development resources from the center to local government authorities are generally quite small and highly irregular. An analysis of the development budget approved by the Parliament for FY 2003/04 revealed that out of the total budget of TSh 807.4 billion, only 4% (TSh 35.5 billion) was allocated to regions and local government authorities.¹⁴ This being said, it should be noted that in addition, most of the donors are financing the development budget through sector-based programmes such as the Primary Education Development Programme. These sector-based programmes are included in the amount budgeted for MDAs but are transferring substantial development funds to Local Government Authorities.

In order for local communities to be empowered with respect to their development activities, the government is seeking to move towards devolution of the development budget through the introduction of a formula-based system of Local Government Capital Development Grants. (Box 4.3)

Box 4.3
Development of a Local Capital Development Grant System
through the Local Government Support Programme

LGSP will provide a formula-based mechanism for the delivery of general-purpose development funding to LGAs. More specifically, the Government would like to see the framework developed under LGSP to act as a first step in developing a comprehensive system of formula-based Local Government Capital Development Grants which captures development resources now provided under donor-funded area-based programmes (ABPs), sector wide approach programmes (such as those for education, health, agriculture, and so on) as well as the development funds provided by the Government to LGAs.

The LGSP Universe

Based on administrative and funding considerations, it is being contemplated that the initial LGSP “universe” involves approximately 47 LGAs. Areas-based Programmes (ABPs) would move to align their programmes consistent with the LGCDG/LGSP approach. Only some 24 LGAs are neither in the LGSP universe nor supported by donor funded ABPs, allowing the LGCDG system to expand to national coverage in the near future.

¹⁴ LGSP/PWC. 2004. Background Paper: Development Funding To Regions and Local Government Authorities.

Performance Conditions for Access

Before the LGAs can access the discretionary capital development funds, they will have to meet a set of performance requirements within functional areas that would ensure that funds transferred to LGAs are properly used and in compliance with the laid down statutory and administrative requirements.

Capacity Building Grant

Councils that do not meet the performance conditions for capital development funding but do meet minimum conditions will receive a capacity building grant. LGAs can use these resources according to their own priorities for improvement of their performance and enhancement of their capacities. The use of the CBG is thus closely connected to the annual LGSP Performance Assessment. The access to the CBG is contingent upon the elaboration of a LGA Capacity Building Plan and prudent accounting and reporting for earlier allocated CBG funds.

Size of Grant

Based on thorough analysis of the investment needs and costs, the LGA absorption capacity, experiences from other programmes and grant schemes, and the supply side (the availability of the funds), it is planned to have an average annual allocation of capital grants of US\$1.50 per capita.

Investment menu

The capital grant will cater for a broad range of investments in infrastructure and service provision within the mandates of the LGAs. The grant will be a non-sectoral discretionary capital transfer to LGA for capital investments in new infrastructure and rehabilitation of the existing stock

Formula for Horizontal Distribution of Funds

It has been decided that the following formula and weighted elements will be used in distributing the LGSP capital grant funds:

- Population (70%)
- Poverty indicator (20%)
- Land Area (10%)

Vertical Distribution Between District-Level and Lower-Level Local government authorities

Based on the analysis of the capacity of the sub-district (or “lower-level”) local government authorities (LLGs) it is not planned at this stage to introduce a system where funds are transferred directly to the LLLGs. However, to facilitate LGA planning, stimulate public participation and realistic planning within a known resource envelope, notional indicative planning figures will be introduced within which the LLLGs can plan. Based on the analysis of the existing population, the size of the grants, the costs of the investments etc 50% of the funds will be retained at the district-level and 50% will be reserved for IPF for the ward level.

4.5 Challenges and the way forward

Much is happening in the realm of intergovernmental transfers in Tanzania. First, the system of Local Government Capital Development Grants (LGCDG) is set to begin operation during the upcoming year. Also starting with FY 2005/06, the formula-based recurrent grant system will be expanded to the remaining local government sectors, including agriculture extension, water and local road maintenance. In addition, a Local Government Financing Study will address the possibility of moving from the current system of conditional administrative grants to a formula-based general purpose grant to fund the general operation and administration of local governments.

Size of the vertical allocation (size of sectoral grant pools)

As noted in Table 4.2, the size of budget resources that has been made available to the local government level in the form of budget allocations (grants) has been virtually constant over the past five years. This is consistent with an incremental budget approach (by which all programmes increase by the same percentage from year to year). However, the trend is not consistent with the poverty-based priorities expressed in the PRSP.

Currently there is no “funding rule” that determines the “vertical” allocation of resources (the allocation of resources between different government levels); as a result, the size of each sectoral block grant pool is determined from year to year. The more formal division of resources between central and local government levels will be a point of consideration as part of the Local Government Financing Study which will take place from November 2004-March 2005.

The stagnation in the share of resources made available to local service delivery in the priority sectors may be offset somewhat by resources channeled to the local government level outside the regular recurrent transfers by other funding mechanisms, including PEDP, the Health Basket Fund, inter-ministerial subventions, the Road Board Fund, as well as other funding modalities. It will be important to more accurately account for these funding mechanisms as part of the system of local government finance.

Horizontal allocation of grants

The introduction of formula-based block grants for education and health in Tanzania in many ways was a significant departure of the previous system of discretionary local government transfers. Adding to the new system’s technical complexities was that the formula-based system was designed to be phased in over a number of years, as part of which councils are “held harmless” against declines in resource allocations under the new formula-based system. While it appears that preliminary computations for formula-

based grant amounts were used in the determination of the 2004/05 allocations, it appears that in the final stages of the budget process modifications were made to the budget estimates that departed from the formula-based approach. These changes resulted in rather substantive deviations from the formula-based allocations for both education and health care during FY 2004/05. Despite these initial implementation problems, the main stakeholders (including Ministry of Finance and PO-RALG) have reconfirmed their commitment to the formula-based block grant mechanism, including a number of steps designed to prevent such deviations in the future.

Transfers and the central government's budget processes

An important part of assuring that the local government finance system is a more integral part of the public sector's financial framework in future years will be to more closely integrate the system of formula-based grants into the central government's budget process, particularly in the context of the PRSII, PER and the MTEF. Although a formula-based transfer system treats LGAs differently from MDAs, the block grant approach is objective and transparent, assures affordability, and is fully consistent with the main themes of the PRS II. Since the sectoral budget priorities (ie, the sectoral grant pools) are explicitly determined as part of the budget frame informed by the PRS (before dividing grant resources among local governments) there is neither the fiscal room nor the incentive for sectoral ministries or LGAs to set sectoral policy objectives at an unaffordable level. At the same time, the formula-based division of resources assures that resources are divided among local government authorities consistent with their relative service delivery needs (consistent with the PRS II cluster approach), and allows the central government to impose the necessary conditions and financial management procedures (including both budgeting and reporting) to assure local governments use the resources in accordance with the goals of the national poverty reduction strategy.

Inconsistencies between financing and staffing at the local government level

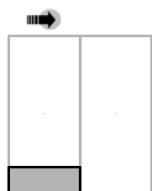
While the formula-based block grant system is fully consistent with the government's Local Government Reform Policy (1998) and the legal and regulatory framework for the Public Service Act (2001), implementation of the Public Service Act and its regulations concerning staffing at the local level are seriously lagging behind. This is resulting in a major disconnect between the financing mechanism and the staffing mechanism at the local government level: while the formula now determines the resource envelope for individual local councils, sector ministries are still able to post staff (teachers, clinic workers, and so on) at the local government level outside the context of the formula-based grants. In essence, LGAs are required to pay for staff from the

regional votes (Vote 71-95), but effectively, they have not been given any control over posting of staff in their councils. As such, the government should immediately pursue inclusion of a "circuit-breaker" in the administration of local service postings that requires Council Executive Directors to sign off on any new postings within the council. Failure to do so quickly will seriously jeopardize adherence to the formula in the upcoming budget year.

Strengthen capacity for monitoring and reporting

The local government finance data gathering exercise conducted by LGRP in early 2004 has highlighted some serious shortcomings in the monitoring and reporting of local government finances, but also identifies potential problems in basic local government accounting procedures (see Box 1.4). As such, the ongoing push to improve the reporting and monitoring of transfer resources (including their usage at the local level) should also encompass a comprehensive review of local government financial management processes and the local government financial operations manual.

Attention should also be paid to the institutional framework for strengthening Tanzania's capacity to track, tabulate, and analyze local government finances. In many ways, this Review is an effort to contribute to this analytical framework. Given the respective roles and capacities of the different institutional stakeholders in Tanzania, the Ministry of Finance should play a strong supporting role to the role already played by PO-RALG. In fact, the Coordinating (or Overarching) Block Grant Implementation Team is well-positioned to evolve into a permanent inter-ministerial Local Government Finance Coordination Group.



Chapter 5

Local Government Borrowing

In a well-developed system of local government finances, local government borrowing is an important part of the system of local government finances. While government borrowing for recurrent spending is generally considered a bad practice, policy experts generally agree that it is appropriate for responsible and accountable local government authorities to borrow for capital investments. Borrowing would enable local government authorities to finance capital developments (such as roads or school buildings) that produce benefits over a longer period of time and spread out the financial burden for this investment over a number of years, thus providing a stronger link between the costs and benefits of the capital investment over time.

Despite this ideal situation, local government borrowing is much less common in developing economies for a variety of reasons. Consistent with experiences in other less developed economies, local government authorities in Tanzania have only very limited access to capital development funding from borrowing.

5.1 An overview of local government borrowing

While in principle the Local Government Finance Act (1982) allows local government authorities in Tanzania to borrow with ministerial permission, PO-RALG and the Ministry of Finance currently oppose providing loan guarantees for local government borrowing and resists local government borrowing in the absence of loan guarantees. In the absence of a well-developed capital market in Tanzania where local government authorities can borrow for the purpose of funding capital development (see Box 5.1), the only avenue available to local government authorities is to borrow from the Local Government Loans Board (LGLB), a government-supported financial intermediary for local government authorities. However, borrowing through the LGLB constitutes a minute share of local government resources. Table 1.1 in this review noted that local government borrowing through the LGLB

constituted only 0.1 percent of all resource inflows for local government authorities.

Box 5.1
Private sector borrowing by local government authorities in Tanzania

In many developed economies, local government authorities who are deemed fiscally responsible and financially solvent are often able to directly borrow from private financial institutions and on the capital market. The market mechanism enforces accountability: if local government authorities are not fiscally prudent or if they cannot demonstrate that they are responsible lenders, the market will not be willing to lend to them, or will only lend funds at very high interest rates.

In the absence of well-developed capital markets and a sound framework for local government accounts, private financial institutions such as banks are often unwilling to lend to local government as the risk of local government authorities defaulting on repayment is often considered high.

Indeed, in Tanzania, there is no local government borrowing from the private (commercial) financial institutions due to strict terms and conditions imposed by these institutions. These institutions perceive Local Government Authorities as not being credit worthy and hence highly risky. This is partly explained by their higher lending interest rates they charge which range from 18 - 21% as opposed to 12% interest rate charged by the Local Government Loans Board.

One option sometimes suggested by local officials to assure better local access to capital resources is for the central government to guarantee local borrowing, as this would reduce the risk to lenders by ensuring repayment of the loan. Despite the initial attractiveness of this option, loan guarantees by central government (or even the belief that the central government will repay defaulted local government loans at some point in the future) provides an incentive for local government authorities not to repay loans.

A second option is to provide local government authorities with capital funding through an intermediary financial institution, such as a Local Government Bank or a Loans Board. However, since such financial intermediaries are typically part of the public sector, again, there are often very few incentives for local government authorities to honor their loan obligations.

The Local Government Loans Board, established in 1986, derives its legitimacy from the Local Government Finances Act of 1982. The Board is intended to serve as a source of capital financing for local authorities by way of loans for capital investment. The aim of the capital finance is to stimulate

economic development by supporting the implementation of economic projects. The Board comprises of seven Board Members appointed by the Minister responsible for Local Government. They include persons from the central government, local government and a private sector financial institution.

Section 57 of the Local Government Finances Act stipulates that one of the functions which the Board is mandated to perform is to lend funds to Local Government Authorities for development projects and other economic activities geared towards improving and/or increasing Local Government revenue capacity. It also approves loan applications submitted by Local Government Authorities after scrutiny and recommendation by the technical staff of the Board. The Board further performs the role of policy advisor and advises the Minister responsible for Local Government on policy issues regarding local government borrowing.

5.2 Trends in local government borrowing

Trend in local government borrowing from the LGLB

Lending to local government authorities is the main activity performed by the Board. Although the Local Government Loans Board was established in 1986, effectively lending activities only started in 1992/93. As of June 30, 2004, a cumulative total of TSh 1.6 billion has been lent out to local government authorities since the beginning of the Board's operation. Loan applications submitted by Local Government Authorities over the same period totaled more than TSh 4.8 billion. However, lending operations have varied significantly from year to year.

Table 5.1			
Lending from the Local Government Loans Board			
(in TSh million)			
Year	Loan Application	Loans Issued	Ratio
2001	153.1	50.0	32.6
2002	229.9	225.0	97.9
2003	1,512.4	317.5	21.0
Source: LGLB Annual Financial Reports.			

Annual lending over the past 3 years has increased from TSh 50 million in 2001 to TSh 317.5 million in 2003. Despite the significant increase in

borrowing, loan applications continue to significantly exceed the Board's available resources. The most significant constraint on further borrowing is the insufficient funds on the part of the Board which limits the volume of lending.

Financial resources available to the LGLB

In order to perform the mandated functions, the Local Government Loans Board derives its funds from a number of sources as stipulated under Section 59 of the Local Government Finances Act (LGFA):

- Contributions from Central Government as authorized by the law,
- Funds deposited (contributed) by Local Government Authorities as required by the law,
- Income from investment in the form of interest charged on loans, interest from fixed deposits with the Banking Institutions, dividends from shares and income from rent,
- Grants and/or donations from any person or body of persons.

The Act (Section 60) also allows the LGLB –with permission from the Ministry of Finance and PO-RALG- to borrow funds for the purpose of on-lending these resources to local government authorities.

Contributions from central government. Under Section 59 of the Local Government Finances Act, the central government is authorized to make a provision in its annual budget for grants to the Board. The grants also form part of the funds and working capital of the Board. For 2003, grants totaling TSh 200.0 million were transferred to the Board through its annual budget (Table 5.2). For the current financial year (2004/05), a total of TSh 200.0 million is again included in the national budget for grants to the Board.

Table 5.2		
Contributions to the Loans Board		
(in TSh million)		
Year	Local government contributions	Central government contributions
2001	145.6	0.0
2002	302.7	150.0
2003	97.2	200.0
<p>Note: Central government contributions reported by fiscal year. Source: LGLB Annual Financial Reports.</p>		

It is worth noting that central government contributions were not made consistently in the past. In fact, there were no provisions made in the respective annual budgets of the central government for grants to the Board for six consecutive financial years from 1996/97 to 2001/02. The lack of support by the central government to the LGLB was mainly due to insufficient resources as a result of the many competing demands nationwide. The LGLB on the other hand was seen as a purely local government institution, thus it was assumed that the local government authorities have the primary responsibility of strengthening the LGLB, including providing financing/funding.

Minimum Compulsory Reserve (MCR) Contributions. The Minimum Compulsory Reserve Contribution is a statutory contribution under Section 36 of the Local Government Finances Act, which each Local Government Authority is required to contribute and maintain with the Board. The Minister responsible for Local Government determines the rate and the manner in which the reserve (contribution) shall be paid and maintained.

The reserve forms part of the working capital of the lending activities of the Board and is so far the main source of funds for the Board. Table 5.2 shows the trend of local government contributions for the past 3 years.

Repayment and loan recovery trends

The terms for loans from the LGLB are between a minimum of one year and a maximum of 5 years. The cumulative recovery rate for LGLB loans has increased significantly since 2001. In that year, the Board was only able to recover 43.41% of cumulative outstanding payments due. By June 2004, the repayment rate had drastically improved. Of the cumulative total amount of repayments due (TSh 876.3 million), a total of TSh 628.4 million had been repaid as of June 30, 2004. This is equivalent to a 71.71 percent recovery rate. Table 5.3 gives a general trend of cumulative loan recoveries for the last three years.

Table 5.3
Cumulative loans, repayment and recovery
(in TSh million)

Year	Cumulative loans issued	Cumulative payment due	Cumulative repayments	Cumulative recovery rate
2001	783.0	714.8	310.3	43.41
2002	1,008.0	762.2	472.9	62.05
2003	1,325.6	814.9	558.1	68.48
June 2004	1,635.5	876.3	628.4	71.71
Source: LGLB Loan Application Schedule and Annual Financial Reports.				

5.3 Challenges and the Way Forward

Although Minimum Compulsory Reserve (MCR) contributions have historically been the main source of finance for the Board, local government contributions to the LGLB have been declining in recent years. Given the reductions in own revenue sources available to local government authorities over the past two years (as discussed in Chapter 3 of this review), it is unlikely that MCR contributions from local government authorities themselves will significantly enhance the working capital of the LGLB in the future.

In contrast, contributions from the central government budget (which were conspicuously absent in the past) have been increased significantly since 2002. Improved repayment rates for existing loans also contribute to an increased pool of resources available to the LGLB for lending purposes. Nonetheless, local government lending continues to be only a small fraction of the financial resources available to local government authorities.

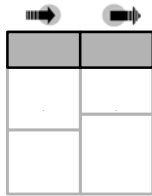
Since local government access to private commercial credit institutions is difficult in a developing environment like that of Tanzania, it is expedient that local government authorities have access to a credit for capital development purposes through the Local Government Loans Board. The main challenges therefore facing the Board include how to attract sufficient working capital; how to increase the efficiency with which it manages the lending process; assure repayment; and assure a positive impact on the services provided by Local Government Authorities.

As noted throughout this Review, at present the local government system in Tanzania is undergoing a process of reform whose overall objective is to improve the quality and access to public services provided through or facilitated by Local Government Authorities. As an integral part of the local government system in Tanzania, the Board is currently undergoing a review and structuring process to enhance its role in the social-economic development of the people through a reformed local government system (Box 5.2).

Box 5.2
Restructuring and reform of the Local Government Loans Board

A study is currently being undertaken to review and restructure the Local Government Loans Board, aimed at enhancing efficiency in the operations of the Board and hence be able to increase lending activities. This will in turn have a positive impact on the services provided by Local Government Authorities. Among others, the restructuring process is intended to address the following issues:

- Reviewing and revising as necessary an appropriate structure for the Board,
- Building the financial capacity of the Board with a particular emphasis on expanding its funding modalities,
- Building the capacity to manage and to supervise lending/loan operations,
- Changing/ amending the legislation to make the Board more autonomous,
- Increasing the volume of lending activity by raising the number of loans issued and the amount of money per loan,
- Considering extending the mandate of the Board to include consultancy and advisory services with regard to investments as proposed by Local Government Authorities,
- Expanding the nature of activities to be financed through loans by including lending to social sectors such as education, health, water supply etc.



Chapter 6

The Financing of Primary Education

Delivery of primary and secondary education in Tanzania is governed by the Education Act of 1978 and guided by the Education and Training Policy (ETP-1995). The country's education system is organised in two broad categories being, on one hand, basic education (pre-primary, primary, secondary and non-formal teacher education), and on the other hand, tertiary and higher education. The formulation and delivery of education services rests in the hands of multiple of institutions ranging from the central government (through the Ministry of Education and Culture or MOEC), local government authorities as well as private and non-government organizations and individuals. Local government authorities play a crucial role in that -in accordance with the Local Government Act and the Education Act- LGAs are responsible for the provision of primary education in Tanzania. Primary education is understood by MOEC to include elementary education from standard one to seven as well as adult education and non-formal education.¹⁵

6.1 An overview of primary education

The pivotal role accorded to education is articulated in the Tanzania Development Vision 2025 and the Poverty Reduction Paper (PRSP) specifying education as one of the priority sectors in Tanzania's efforts towards poverty reduction. The government's development vision is to achieve a well educated nation by 2025 in order to resolve the development challenges which face the nation and to assure a high quality of life for

¹⁵ The delivery of secondary education is currently not a responsibility of local government authorities. However, the devolution of this responsibility to the local level is currently under consideration as part of the development of the Secondary Education Development Programme (SEDP).

Tanzanians. The Poverty Reduction Strategic Paper re-emphasizes that education is an essential component for development and has clearly prioritised education sector development in the effort to alleviate poverty. The PRSP provides a mechanism to articulate the government's overall development priorities as a basis for prioritizing budget allocation decisions.

Universal primary education was re-introduced in Tanzania in 2001 whereby school fees were abolished. Consequently, a sector-wide programme, the Education Sector Development Programme (ESDP), was formulated in 1997 for improving the quality of education. Within the framework of ESDP, attendant programmes have been put in place. Among them is the Primary Education Development Programme (PEDP). PEDP was put in place to assure improved access to education and to improve the quality of education (Box 6.1). In this line, PEDP has set several goals it wishes to achieve, including the attainment of a pupil-teacher ratio of 40-to-1 and a norm of spending on school materials of US\$ 10 per pupil. In light of the government's emphasis on primary education as a policy priority, the budgetary allocations provided to local government authorities for primary education have steadily increased in recent years.

Box 6.1
The Primary Education Development Programme (PEDP)

Following the Education and Training Policy, a sector wide approach was initiated to help achieve the government's long term human development and poverty eradication targets and to redress the problem of fragmented interventions. The Primary Education Development Programme (2002-2006) is one of the first outcomes of ESDP which covers primary education provision as well as education for out of school children and youths. The PEDP targets are enrolment expansion focussing on classroom construction, teachers' engagement and deployment; quality improvement encompassing in-service and pre-service training, teaching and learning material, materials' provision; and system wide management improvements through a wide range of capacity building efforts.

To facilitate a community and/or school based implementation of the PEDP, funds are disbursed directly to the school through the councils. The grants are split into *capitation* grant and *investment* grant in order to provide recurrent funding for improvements in the quality of education service delivery as well as construction costs at school level, respectively. School committees determine the precise use of these resources in inclusive and transparent manner with general guidelines and parameters set by MOEC and PO-RALG. The capitation grant is allocated the basis of the number of enrolled pupils per year, with the aim of providing each school with US\$ 10 per pupil in capitation funding for school materials. The government has set explicit and supervisory mechanisms to ensure smooth flow of capitation funds to avoid delay and other bottlenecks at the central and district

levels.

The investment grant covers costs for construction of new classrooms and teachers' houses, and major rehabilitation of existing buildings. This grant is based on the development plans and the attendant investment budget approved for each school by the council in accordance with nationally set policies criteria and guidelines. The grant is also determined on the basis of need to prioritise schools that are disadvantaged.

6.2 The institutional framework at the local level

Consistent with the “decentralisation by devolution” policy of the Government of Tanzania, the organisational arrangements which underpin the ongoing local government reforms have moved the responsibility for the delivery of primary education from the Ministry of Education and Culture (MOEC) to the Local Government Authorities (LGAs). MOEC’s roles and functions in primary education are confined to policy making, setting standards and quality assurance in collaboration with the President’s Office Regional Administration and Local Government (PO-RALG). (Box 6.2)

The role of local government authorities (LGAs). The real and heaviest load in the provision and implementation of primary education services belongs to LGAs. However, while the LGA is the legal provider of primary education, the LGA has to provide primary education through a community framework that surrounds the schools, with participation of sub-district councils (e.g., Village Councils) and School Committees in the plan preparation and implementation. Thus, in addition to receiving guidance from the national level on the provision of primary education, LGAs are in turn supposed to guide, support and coordinate the implementation of the communities and the school committees.

There are three points worth noting regarding the role of the LGAs in the provision of primary education. First, the Council Education Officer (CEO) is posted by MOEC, but he/she reports to the Council Executive Director (CED). In turn, all teachers and education staff report to the CEO, who decides their posting within the LGA. Second, although the CEO reports to the Council Executive Director and the Council, the CEO is responsible for meeting the technical standards set forth by MOEC. As such, the CEO has to have a Council Education Plan in place, which has been developed in a participatory manner through the school mapping and micro-planning processes. Third, although the CEO has some discretion in how to best provide primary education services, he or she needs to follow central guidance with respect to the distribution of resources across the LGA. Broadly speaking, the local

government budget guidelines and PEDP guidelines instruct the local government authority and CEO to distribute teachers and school materials equitably across the area of the council.

The roles of the Village Council, Mtaa Committee and School Committees. Tanzania's Local Government Reform Policy (1998) recognizes that devolution to the LGA-level is not sufficient to assure maximum local ownership. As such, there is an important role for sub-district councils and School Committees, as the core users of primary education at this level. As such, the village government / mtaa committee basic roles include:

- To prepare participatory three year education plan
- To promote community ownership of primary schools
- To provide support to school committees
- To enhance the availability of education information
- To ensure school committees are responsive to and accountable to the people
- To exercise general oversight of the school committees so that they become more accountable and transparent
- To promote and inculcate a culture of school ownership

The School Committee is composed of parents who are elected at a parents meeting every three years. The School Committee has a significant role in the implementation of primary education delivery, as well as in local oversight. Its role includes:

- To facilitate planning, budgeting and implementation of primary education
- To mobilise voluntary contributions which may either be in the form of money or in-kind contributions (such as labour).
- To manage funds received for programme implementation (for instance, PEDP project funds) whilst ensuring transparency and accountability
- To provide accessible information to the community on the implementation process, indicating progress achieved, problems encountered, funds used, etc
- To prepare and submit school plans, budgets and quarterly financial and progress reports

Box 6.2
The roles of MOEC and PO-RALG in the delivery of primary education

MOEC roles and functions in primary education are confined to policy making, setting standards and quality assurance in collaboration with the President's Office

Regional Administration and Local Government (PO-RALG)

Following the decentralisation of primary education, the residual roles and functions of MOEC to primary education sub-sector is confined to participatory planning, policy making regulating, monitoring and evaluations of outcomes and impact of quality assurance. It is also responsible for all the centralised components of ESDP which include:

- Curriculum and teacher development
- Strengthening systems and institutions
- To prepare in a collaborative manner PEDP implementation
- To build and support technical capacity of Local Government education officers
- To monitor, review and evaluate progress, outcomes and the impact of primary education programmes, policies and spending

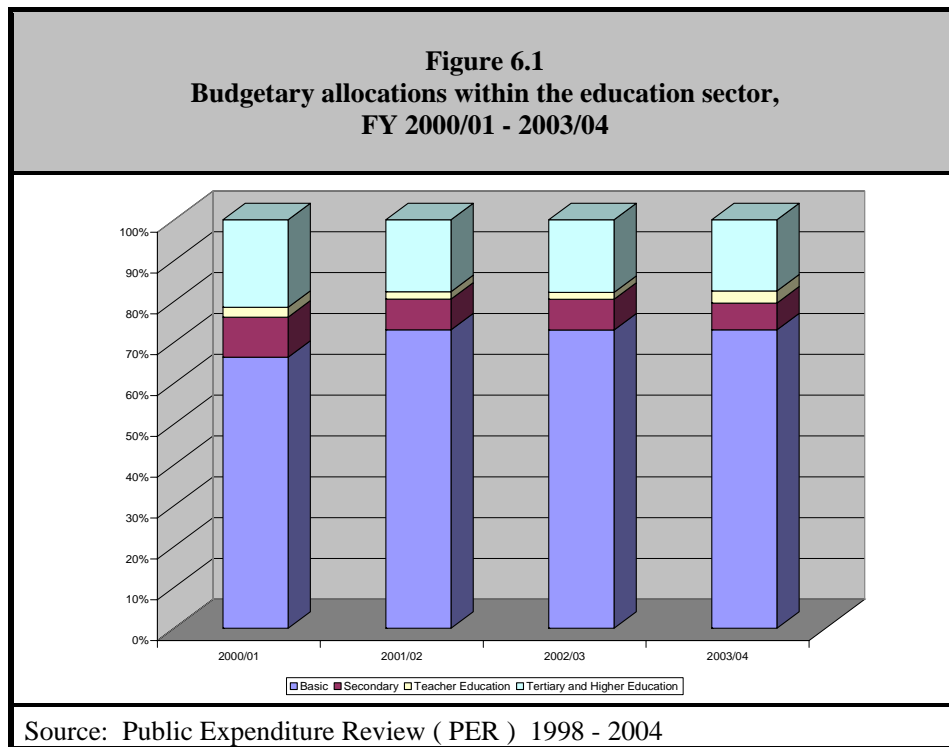
PO-RALG's role and mandate is to oversee and coordinate the delivery of services by LGAs. Its specific functions for primary education are:

- To lead and coordinate the implementation of grant-based components
- To coordinate and oversee the planning and delivery of education by the LGAs
- To ensure that LGAs prepare and consolidate three year education plans that conform to government development goals and MOEC education policy and quality assurance standards
- To support and build the capacity of district education officers
- To collaborate with MOEC in order to monitor, review and evaluate primary education outputs and inputs
- To communicate education information to all system levels and interested stake holders
- To collaborate with MOEC in monitoring and evaluating the qualitative outputs and outcomes for the cost efficiency in education service delivery against the set service standards and later by providing feedback to LGAs

6.3 Primary education financing trends

As noted in Chapters 1 and 2, there are some gaps in the data on primary education spending levels by local government authorities. However, as discussed in Chapter 4, there is consistent data available for the amount of central government resources budgeted and transferred to each LGA for PE and OC in the provision of primary education. Unfortunately, similar data is not readily available at this stage for OC disbursements from the PEDP pooled fund. Hence, the subsequent analysis focuses predominantly on the government's education resources and on the incidence of the government's education transfers.

According to Public Expenditure Review documents (2004), the size of the basic education sector has more than doubled since 2000, from a sectoral budget of TSh 217.8 billion in FY 2000/01, to a total budget of TSh 494.7 for FY 2003/04. Over this period, the budget for basic education grew from 66.4 % to 73.1 % of education spending. (Figure 6.1)



Over the same time period, the funding provided to LGAs for primary education has increased significantly as well. However, it is unclear whether we can conclude that the government's spending on the delivery of primary education has indeed been prioritized. Table 6.1 indicates that budget resources provided to the local government level for the delivery of primary education has remained more or less steady over the past five years at around 14% of the national recurrent budget.

In addition to the central government's own education transfers to local authorities for primary education, the government in collaboration with several donors have operated a PEDP Pooled Fund Account in the Bank of Tanzania which is used to channel PEDP funds to central government agencies and local government authorities. We should note that analysis in Table 6.1 excludes the PEDP funding from the pooled donor account, which does not flow directly to

LGAs through the regional votes in the budget. In the case of disbursing funds to LGAs, the MOF initiates the disbursement of funds to the LGAs after getting approval from the Basic Education Development Committee (BEDC). MOEC and PO-RALG are responsible for accounting of the funds through submission of quarterly financial and progress reports.¹⁶

Table 6.1					
Budgeted Education Transfers to Local government authorities, FY 2000/01 - 2004/05					
	2000/01	2001/02	2002/03	2003/04	2004/05
TSh Millions	129,804	137,914	170,242	202,240	245,945
Percent of educ. sector spending	59.58	40.22	43.01	40.88	--
Percent of total grants	72.32	68.57	68.92	69.50	67.98
Percent of total recur. spending	14.71	13.81	14.04	13.67	13.40
Source: Based on data extracted from Table 4.2 and PER (2004). Note: -- indicates not available.					

Until FY 2003/04, the central government used a highly discretionary approach to distribute the available education resources between the various local government authorities. Although the allocations were supposed to be guided by a set of national minimum standards, in fact local government allocations (transfer) were made in a discretionary and incremental manner from year to year. As a result, local government authorities in Tanzania received vastly different amounts of education funding when considered in per-pupil terms or per-child terms. Table 6.2 suggests that the best-off LGA receives over 4 times more in education funding per school-aged child than the least-resourced LGA. In fact, urban and wealthier districts generally ended up receiving greater transfers than poorer and needier councils. The variation in

¹⁶ Based on the existing financial management procedures for PEDP, the MOF upon receipt of approval from the BEDC will transfer the funds to the education accounts to the councils by issuing exchequer notification to respective councils. The MOF having done that sends advice to MOEC and PO-RALG informing them of the transfer. The council Directors write cheques to banks of the respective schools and inform the schools accordingly for them to start spending.

grant allocations between districts is further discussed in Section 4.3 of this Review.¹⁷

Table 6.2		
Variations in allocations for primary education between districts, FY 2003/04		
	Per Capita	Per School-Aged Child (7-13)
Average	6,492	34,625
Standard Deviation	1,919	10,852
Coefficient of Variation	0.296	0.313
Minimum	3,252	16,123
Maximum	12,262	66,544
Source: Computed based on MOF and Census data.		

As noted in Chapter 4 of this Review, in February 2004, Cabinet decided to move towards a formula-based system of sectoral block grants, where the level of grants that each local government authority receives for the various sectors is based on a number of transparent and objective client-focused financial norms. In accordance with the Cabinet decision, formula-based grants were introduced for primary education as part of the 2004/05 budget year.

The formula adopted by the Ministry of Education and Culture –after discussions with PO-RALG and MOF- is 100% based on the number of school-aged children (as reported by the Census), although funding for special needs (e.g., boarding schools) is treated outside the formula. Although there are advantages and disadvantageous to using the number of school-aged children in the formula, there are two main reasons why the formula relies on the number of school-aged children, rather than on reported enrolment figures. First, there would be an incentive problem with relying on self-reported enrolment figures, since local government authorities would have an incentive and ability to over-report their enrolment in order to secure greater funding. A second, important reason why the formula is based on the number of school-aged children is because this population group should be considered a better measure of local education needs. Enrolment figures are not really a reflection of the demand for education, but they rather reflect the quantity of education

¹⁷ Additional information and analysis about the variation in education grants between districts is provided in the GSU/LGRP Intergovernmental Grant Study (January 2003) and J. Boex (2003). “The incidence of local government allocations in Tanzania”, Public Administration and Development, 23: 1-11.

service supplied, failing to provide funding for school-aged children who are currently not enrolled.

In order to assure an orderly transition to the formula-based allocation mechanism, a phasing-in of the formula-based primary education grant was agreed in order to prevent large sudden increases in resource allocations to previously under-resourced councils. Second, under the formula-based approach all councils are supposed to be “held harmless” against decreases in their resource allocations. This means that no local government authority should receive fewer education resources (in nominal terms) than in the previous year.

Finally, the introduction of formula-based sectoral grants for primary education is that the actual local allocations for education were in fact not fully consistent with the formula-based approach for FY 2004/05 (as discussed in Box 4.2 in Chapter 4). The primary reason for the departure from the formula-based allocation was due to a decision made to recruit new teachers as the budget for the year 2004/05 was being finalized. This decision meant the transfer of additional funds without regard to the formula-based allocation. As such, local government authorities were not able to exercise their discretion over the allocation of grants between PE and OC. Consequently, the local government authorities which were affected by this move have had to be held harmless for the impact of staffing decisions made by the central government.

6.4 Challenges and the way forward

The basic challenges in the delivery and financing of primary education at the local government level in Tanzania include:

Level of resources for primary education

There is a concern about a possible mismatch between primary education resource requirements and the resources available to the sector. If primary education delivery is indeed a true government priority, the relative share of spending on this activity should have increased over time, which has not been the case (Table 6.1). The lack of prioritization of primary education funding thus limits the improvements in service delivery and education outcomes that are envisioned under the PRS.

Given that the government has abolished school fees and other related contributions that provided additional resources to the funding of primary schools, the education sector has become increasingly reliant on grant funding and on donor-funded resources in particular. It is therefore questionable whether the government would be able to fully finance the primary education sub-sector if international donors were to withdraw their funding.

Monitoring and reporting issues

Primary education is funded through a variety of funding modalities; councils receive funds from MOEC, PO-RALG and MOF. Each funding mechanism comes with its particular funding flows and monitoring and reporting requirements. Of course, the different financing mechanisms from the central level to the council level create substantial confusion and administrative duplication.

The government is in the process of rolling out a computerized financial management and accounting system at the local level (see Box 2.6). This system can be linked to Planning and Reporting (Plan-Rep) software which has the capacity to link financial performance with strategies, objectives and activities, and can systematically report local budget data to the central government. As noted in Chapter 2, the integrated financial management system has been introduced in 32 LGAs. The PEDP financial reporting and monitoring arrangements, however, have not taken advantage of this system.

Need for greater harmonization between education grants and PEDP

The budget accounts in Tanzania have not been able to adequately capture the amount of resources financing directly some of the priority interventions in the country. This problem is not unique to primary education, as it is also evident in other sectors such as water and energy. For example, there are cases where primary school classrooms have been constructed by some donors or NGOs by disbursing funds directly to beneficiaries thus by-passing the central government. There is thus a continued need to bring these resources inside the sector-wide approach (SWAP).

In addition, there is also a need to harmonize the PEDP more closely with the new formula-based block grant system. When PEDP was conceived, the government's own resources were distributed in an incremental, discretionary manner, providing a rationale for accounting separately for PEDP donor contribution. In many ways, the government has now included many of the successful features of PEDP into its block grant mechanism, including an objective and transparent formula, requirements for these resources to be passed down to the school-level, and other conditions on the use of these resources. One step that could immediately be taken for the PEDP Pooled Fund, is to modify its formula in order to allocate funds in accordance with the number of school-aged children in accordance with the education block grant formula (rather than according to the number of enrolled pupils per school, as is currently the case).

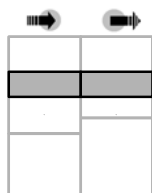
Now that the government has structured its own system of education finances in a sound manner, having a parallel PEDP funding modality is in fact resulting in duplication of administrative effort and a loss of transparency.

Unpredictable of donor funding.

Due to delays and problems in the timely monitoring and reporting of PEDP's donor resources, the government's donor partners at times delay putting the money in the PEDP Pooled Fund Holding Account. Although an understandable "circuit-breaker" in order to assure that reporting requirements are fulfilled, this practice causes disruptions in disbursements and delay in executing the planned activities.

Local capital development funding for primary education

In the near future, funds for classroom construction and other education capital works may be forthcoming under the emerging local government capital development grants (LGCDG) system, for which a major funding source is the LGSP (see Box 4.3). Although these resources may be used for classroom construction and other educational infrastructure (in addition to other capital development in other sectors), access to such funds is contingent upon fulfilment of some minimum conditions on local governance and financial management.



Chapter 7

The Financing of Council Health Services

Local government authorities in Tanzania are responsible for delivering of primary health care services. In accordance with the Local Government Act, council health services include promoting public health and the establishment and maintenance of hospitals, health care centers, maternity clinics, dispensaries, and orphanages. Local government authorities share the responsibility for delivering health services with the Ministry of Health (MOH). About one third of total health care expenditures are directly funded through local government authorities while two thirds of funding for the provision of health care services (at regional and national level) are provided through the Ministry of Health.

To achieve the goal of decentralised health service, the MOH is committed to empowering local government authorities in the delivery of health services at the council. As a result, local government authorities will be able to mobilize, manage, and account for health resources and implement health activities in line with their plans and budget allocations. This means local government will be more effective in delivering health services and more accountable for their decisions to their local constituents.

7.1 An overview of council health services

The health sector is among the social sectors in Tanzania which has been identified as a focal sector for Poverty Reduction Strategy initiatives. In this regard, the Health Sector Strategic Plan 2003 – 2008 put emphasis on the implementation of basic health care interventions, such as strengthening of the immunization programme, improvement of availability of drugs supply, and provision of quality health services through the delivery of an essential health package, with special emphasis on the indigent.

It is the mandate of the Ministry of Health to make health services available and accessible to all Tanzanians by making sure that a local health facility is located within a radius of 5 kilometers of every household. Based on the incidence of disease across population groups, health care services specifically take into account the special needs of expecting mothers and the under-five population. The older population group, 15 to 49 years, has a disproportionately higher burden of HIV/AIDS and other HIV-related illnesses including opportunistic infections.

The provision of local health care services requires a functioning health care delivery system, well managed and well supplied. In most councils, the provision of local health care services in Tanzania is organized around a District Hospital. Several health centers feed into the District Hospital. In turn, Health Posts and Dispensaries feed into the health centers. For more serious illnesses, District Hospitals refer patients to more advanced health care services provided at regional and national hospitals, which fall directly under MOH. In some districts, the role of District Hospital is done by Designated District Hospitals.

In principle, health facilities in Tanzania are allowed to charge fees for services. Yet they are required to exempt or waive charges to those who are not able to pay for health services due to poverty or illness. This means that in reality local health services are primarily funded by intergovernmental grants from the central government.

7.2 The institutional framework at the local level

The local government is responsible for provision of quality and efficient health services to the local population as well as managing the health care service delivery in the councils. In addition, local government authorities are responsible for provision of human resources, improvement of the health infrastructure, supply of hospital equipment, medical instruments, and other supplies.

The District Medical Officer (DMO) is the focal point for the management and organization of delivery of health services at the local level. The DMO is posted by the MOH but he/she reports to the council director. All local medical staff report are under the supervision of the DMO, who decides their posting within the local government authority. Although the DMO reports to the Council Director, the DMO is responsible for meeting the technical standards set forth by MOH. Sectoral regulations dictate the relationship between different health care facilities, the appropriate staffing of each facility, medical standards and procedures, and the staffing qualification of the various types of medical staff. In order to ensure consistency, the District

Medical Officer is supposed to co-ordinate health care services in accordance with a locally developed annual Comprehensive Council Health Plan (CCHP).

Establishment of the Health Service Board is according to the Local Government Act No. 7 of 1982 (Section 86 A) which gives mandate to every council to establish service boards in order to execute its operations in the council. In this case, Health Services Board oversees management of health services in the councils. Members of the Board assume their roles for a period of three consecutive years. The members are of two categories, voted members and elected members. Voted members include; four representatives from civil society, among which two of them must be women, one representative from non- profit private providers, Chairman of the social service committee. Elected members include, District Medical Officer as a secretary of the Board, District Planning Officer, one representative from the district hospital or from non- profit provider and one representative from the Regional Health Management Team.

The roles and responsibilities of the Board include:

- To ensure provision of quality health services to the citizens
- To allocate available resources according to the needs at all levels of service
- To review and assist on preparation of the Council Health Plans by ensuring community participation.
- To receive, review and analyze council implementation reports from the Health Service Committees.
- To collect and initiate mechanism for securing additional resources for provision of health services in the council.
- To ensure that there is adequate number of health personnel in the council in accordance with the establishment.

Box 7.1

The role of central government in the management of Council Health Services

The Ministry of Health (MOH) oversees implementation of health sector reforms at all levels, including at the national, regional, district and community levels. To the extent that health reforms take place at the local government level, the MOH does so in collaboration with PO-RALG. The two ministries coordinate directly through the established SWAPS and BFCs.

In order to ensure an effective coordination of both Health Sector and Local Government reforms at national level, the MOH and PORALG in March each year conducts a Joint Annual Health Sector Review. This review meeting is organized by technical officers from MOH and PORALG and co-chaired by Permanent Secretaries

from the two ministries. Similarly, the two ministries conduct joint Basket Financing Committee (BFC) meetings and Sector Wide approach (SWAP) meetings.

At the Regional level, the Regional Secretariat (RS) is responsible for assisting the councils on preparation of Comprehensive Council Health Plans (CCHP), preparation of both technical and financial reports (on a quarterly basis), supporting health services delivery through Regional Management teams, undertake major rehabilitation of district hospitals and primary health care facilities. Both in the planning and management processes, the RS ensures community participation for effective and sustainability of health services in the districts/councils.

7.3 Council health financing trends

There are two major sources of financial resources directed to the district councils for recurrent provision of health services. These are allocations from the central government budget for local health care services (now referred to as health block grants) and grants from the health sector basket fund. (Table 7.1)

Table 7.1 Budgeted Health Transfers and Basket Funds to Local government authorities, FY 2000/01 - 2004/05					
	2000/01	2001/02	2002/03	2003/04	2004/05
Health Grants: TSh Millions	29,112	35,468	43,685	48,856	63,574
Percent of total grants	16.21	17.64	17.68	16.79	17.57
Percent of total recur. spending	2.86	3.16	2.93	3.03	3.27
Health Basket: TSh Millions	2,186	10,103	10,094	16,516	18,697
Source: Based on data extracted from Table 4.2; Health Basket Fund data.					

Health Block Grants. The local health care system in Tanzania is mainly funded through intergovernmental transfers. As discussed in Chapter 4, the total pool of resources set aside by the central government for local health services varies each year depending on the available resources especially on the government revenue collections through taxes. The size of these grants has

more than doubled over the past five years, from roughly TSh 29.1 billion in 2000/01 to a budget of TSh 63.6 billion for FY 2004/05.

Administratively, these local government allocations are divided into two categories depending on the purpose; Personnel Emolument (PE) for salaries and employee's fringe benefits, and Other Charges (OC) for carrying out administrative activities.¹⁸ The allocation of health transfers to the various districts was done on historical basis by making references to what was allocated in the preceding year plus some incremental amount, determined by central government officials. As noted in Chapter 4, these transfers were traditionally highly earmarked by the central government and itemized in the central government budget. The PE allocation for each local government was determined as the cost of funding existing staff commitments of each council, plus the cost of any additional staff posting approved by the central government. This method of allocation indicates an impoverished budget and heavy donor dependence.

In this regard, some districts receive a large share compared to others. For instance, local government authorities in Coast region consistently receive the largest amount in per capita transfers when compared to all other regions (average of TSh 11,234 per person in FY 2002/03) whereas local government authorities in Shinyanga Region consistently receive the smallest amount per capita transfers compared to other regions (TSh 5,260 per person). These numbers show the existence of variation in allocation across regions without clear reasons or justification. Substantial variations in health care funding were also noted within regions, and between urban and rural councils (Intergovernmental Transfer Study, January 2003). To address the imbalances in the allocation of resources among districts, the government through LGRP commissioned an Intergovernmental Transfer Study to develop recommendations for a transparent and an objective mechanism of allocating resources across the districts.

In addition to these health allocations (now health block grants), the districts receive funds for procurement of drugs and medical supplies through the Ministry of Health. Funds for drugs were allocated by the Chief Pharmacist at the Ministry to the districts in accordance with certain minimum standards of need and the number of hospital beds. However, this allocation system calls for a reform of the current approach into a transparent mechanism for allocation of drugs and medical supplies. Local government authorities also receive other financial or in-kind support for the delivery of local health care services from the MOH on a more or less discretionary basis.

¹⁸ Currently, with the new allocation formula, the block grant is determined for PE and OC combined together. In principle, this allows the councils to determine how much will be allocated for each category within the context of their local health plan. The health grants are sector specific.

Health Basket Fund. The Health Basket Fund is a conditional grant funded by the development partners to supplement the resources available for the provision of health care services. These funds are restricted to recurrent expenditure under which the activities are likely to improve health services and should be reflected in the Comprehensive Council Health Plan (CCHP). Based on a funding rule of US\$ 0.50 per person, the size of the health basket fund is approximately TSh 18 billion for FY 2004/05. However, the basket fund is not permanently fixed as it varies from year to year according to the willingness of the donor community to support the sector and the political will of the central government (Table 7.1).

In order to ensure that resources are spent in support of a comprehensive local health plan, the CCHP and budget is forwarded to the Regional Secretariat for review and approval. The RS scrutinizes the plans and forwards them to the MOH and PORALG for final scrutiny before submission to the BFC Meeting for funding. At each level, only the CCHPs which pass the required criteria are accepted. The BFC meeting approves funding on quarterly basis, and based on the approval, PO-RALG requests the Accountant General to transfer the money from the holding account to the Consolidated Funds Services (CFS).

Box 7.2
Preparation of Comprehensive Council Health Plans (CCHP)

Preparation of the CCHP is required to follow an approved prototype format in order to have uniformity in the planning and reporting of district health services in the country.

The council Planning Team is composed of District Planning Officer, or Technician representative, as a chairperson, Community Development Programme Officer, District Medical Officer, as a Secretary. Other Members of the CHMT can be co-opted and include a representative of the Private sector, a representative of NGOs, a representative of Faith Based service providers, and one member of the Regional Health Management Team or from the Regional Secretariat who is familiar with the planning techniques.

Members of the Planning team prepare a draft Comprehensive Council Health Plan , and submit to the Regional Secretariat for scrutiny. The RS review the plan to see if it is prepared according to the pre-set criteria. The RS forwards the approved CCHP to the MOH and PORALG for further assessment and submission to the Basket Financing Committee for Approval. Only councils whose plan adhered to the required criteria get their basket funds share. After approval of the plans, PORALG requests the Accountant General to transfer the funds from the US Dollar Holding Account into the consolidated fund.

Allocation of Health Basket and Block Grants. Before January 2004, allocation of Health Basket Fund to the councils was based on a norm of US\$ 0.50 per capita. In this case, each council was getting its share according to the population alone. Although an equal per-capita norm was more equalizing than the disequalizing nature of the government's own local health transfers, the simple "formula" nonetheless failed to take into account other important variables which are necessary for addressing equity the allocation of the meager resources. As a result, it was felt that the allocation mechanism lead to an inequitable allocation of resources by favoring densely populated areas (e.g., urban councils) compared to rural councils, as rural councils received the same amount of resources in spite of a poor health status of its population, higher transportation costs, and its location which does not attract many qualified staff to work in these areas.

With effect from January 1, 2004, the Basket Financing Committee approved a new resources allocation formula with the following variables: Population, 70%; under-five mortality (as a proxy for the burden of disease) 10%; vehicle route mileage (as a proxy for the size of the district for managing supplies and distribution) 10%; and poverty level, 10%. This same formula was applied to the government's own recurrent health transfers starting July 1, 2004.

In recognition of the individual as the main client-recipient of health care services 70 percent of the health funds will be distributed in proportion to the population of each district. In addition to the overall population, councils receive additional resources for three "special needs categories" namely the special needs of poor population (10% of the health resources), the special needs of rural population (10%) and the needs of districts with a higher burden of disease. The formula recognizes the higher expenditure needs of rural areas by including the mileage of the route regularly traveled by medical supplies vehicles. It also takes into account the higher operational cost of delivering health services to the rural population and to scarcely populated areas, including higher costs faced in drug distribution, immunization and supervision. The formula also aims at directing resources (10%) to place with high burden of diseases; here the under-five mortality (U5M) is considered an appropriate proxy for burden of diseases.

Conditions for allocation of Health Basket and Block Grant. To ensure that the allocations of health resources are directed to the grass roots level, a number of conditions were instituted to provide guidance on how the resources can be allocated efficiently. There are two types of conditions depending on the purpose. The first type of condition describes how the resources can be allocated according to the cost centers, and the other one provides restrictions in terms of the areas of expenditure and the limits or ceilings for specific

services such as are transport, training, and maintenance. The objective of setting the ceilings for the named activities is to ensure that more funds are directed to interventions which relate to improvement of services delivery.

Private financing sources for public health services. In order to reduce the financing gap in the health sector, the government has introduced two different pre-payment schemes: a compulsory National Health Insurance Scheme (NHIS) for civil service employees was enacted by the parliament in 1999, and the Community Health Fund (CHF) which is a voluntary health-care funding scheme for the informal sector.

User fees in public health care were introduced in July 1993 in all government district and regional hospitals. To ensure that the complementary financing mechanism addresses equity, the government put in place a mechanism for exemption and waiver for those who are unable to pay. The exemptions are provided for the following category of people; treatment for children under five years, pregnant women, chronically ill such as sickle cell, tuberculosis, leprosy, and so on. In addition, all health facilities are provided with guidelines on how to use the funds collected. In fact most of the cost sharing proceeds are spent on the procurement of drugs and other services related to improvement of quality of care. This primarily makes the services available at highly subsidized prices (e.g., 50% cost of drug items)

Health care expenditure trends. Despite health being among the poverty reduction priority sectors, the results from the Public Expenditure Review for 2004 revealed that there has been a continued decline in the relative share of government resources allocated to the health sector, and the allocation of resources within the sector. This negative trend would be made worse if the basket donor funds would be reduced in any way.

According to the MOH Public Expenditure Review for 2004, absolute expenditures on health have increased from about 119 billion Tanzanian Shillings in 2000/2001 to about 201 billion shillings in 2003/2004 (actual increase, see Table 7.2). However, despite the increased financial resources allocated to health, two important constraints emerge: the first is reliance on external funding, with about 53% of this public spending from donors. The second is that the expenditure per capita on health still translates to about US\$5.88, significantly less even than the minimum level recommended by the World Bank of US\$12 per capita. Thus there is severe under financing of the health sector that calls for seriousness in achieving efficiency in allocation of resources. This is compounded by the growing pressure of HIV/AIDS burden on the ailing health systems.

While overall allocations have remained low, there have been important efforts to ensure a more fair distribution of available resources to the local

government level, with budgetary allocations to councils increasing from 18% in 1998 of health sector resources to 31% in 2002. Councils were also able to raise income for health through cost sharing and the Community Health Fund (CHF). These sources are estimated to provide between 0-20% of total council expenditures on health services. The local government authorities have started to enjoy the gains from the National Health Insurance Fund, the Drugs Revolving Fund and the user fees at the district hospitals. This will make the services sustainable in the long run.

Table 7.2
Total Health Expenditure in Tanzania, FY 2000 to 2004
(TSh Billion)

	2000/01	2001/02	2002/03	2003/04
Local Govt. Recurrent	36.35	46.26	57.66	66.14
Total Recurrent	91.95	123.89	154.60	167.97
Local Gov Development	1.73	1.70	1.75	2.34
Total Development	26.81	36.12	40.80	33.05
Total Expenditure	118.76	160.01	195.4	201.02
Source: MOH Public Expenditure Review, 2004				

Analysis of 2002 health care expenditures indicates that 34.5% of the budget was disbursed “off budget”, i.e., outside the context of the local budget plans. Analysis of actual health expenditure vs. line item budget allocation on drugs, for example, indicated variations of between -53% (Dar es Salaam) and +123% in Coast Region. However despite the variation in resource allocation by geographical regions and districts, it was based on incremental basis and not on the differences on deprivation between areas and hence did not consider equity.

7.4 Challenges and the way forward

Impact of HIV/ AIDS on provision of Council Health Services

HIV/AIDS has become the major cause of adult morbidity and mortality with a serious impact on health services in terms of quality of care. As a result there is a high attrition of medical staff and an increased number of patients with HIV/AIDS related illness. The average bed occupancy rate is over 60%. There is also an out migration of medical staff from clinical services because of the increased risk of infection as HIV/AIDS is now an occupational risk. To monitor the impact of HIV/AIDS in the health sector, the Government has put

in place a mechanism of tracking all the costs associated with HIV/AIDS throughout the country. This was made possible by use of sub-item code No. 260409. However the NGOs funded activities by parallel systems cannot be captured. Table 7.3 indicates these costs for a period of three years (2002 to 2004).

While significant additional financial resources are to be made available to the local level through TACAIDS during the coming budget year, these resources will in fact create yet another parallel funding mechanism. Although the funding modality for these financial resources has not yet been finalized, these resources are intended to flow directly to the village level and circumvent district-level accounts and district health officials altogether.

Table 7.3			
HIV/AIDS spending at Local Government authorities			
(TSh millions)			
	HIV/AIDS	Health OC	Percentage
2002	150.8	11,749.5	1.28%
2003	297.4	13,739.1	2.16%
2004	428.2	16,804.4	2.55%

Lack of appropriate staff mix for provision of district health services

The situation of human resources in the councils is alarming and mirrors what is found at all levels of service delivery. There has been a wide gap between availability of skilled staff and the staffing requirement for service delivery. The situation is of crisis proportions. During the Annual Joint Health Sector Review in March 2004 which was attended by senior officials from MOH, PORALG, the meeting heard both from MOH and from PO-PSM how the current procedures work for human resource planning, recruitment and management. Yet local government authorities have failed to employ adequate qualified staff and 33% of positions defined by the official staffing norms remain vacant. Currently over 40% of the posts are empty and the majority of the remaining posts are filled by untrained staff (RMO conference 2004 Tanga).

The problem of human resource recruitment is not only one of inadequate finances but also due to procedural obstacles in the recruitment process. Local government authorities and health management teams are not fully conversant with the procedures, and even funded posts may go unfilled. To avoid these

problems, the review suggested that the procedures need to be disseminated more effectively and councils assisted to follow them.

It was also suggested that there is a need to develop incentive packages to fill hardship posts in the hard to reach areas or remote areas as this might be the best way to attract qualified personnel in these areas. There was also a suggestion to apply the previous recruitment mechanism of posting the new recruits or after internship medical practitioners as this process performed better in achieving equitable staff distribution, rather than the “open market” recruitment system.

In order to respond to the urgency of the human resource crisis, the PO-PSM called upon the health sector to finalize its human resources plan and to work closely with PORALG on strategies to recruit and retain staff in rural areas¹⁹. Also another review milestone was set for the PS MOH to lead a team to seek for a solution.

Health infrastructure rehabilitation

The state of our health infrastructure especially the buildings are in bad state of repair. It is unfortunate that a number of them were built many years ago, and some of them were built before independence or immediately after independence in 1961. Since then, most of these building are in bad state of repair and therefore call for immediate attention. A number of donors have shown some interest to support rehabilitation of primary health infrastructure. The need for maintenance, rehabilitation, and construction of all required facilities is critical if the desired quality of care is to be achieved.

It is for this reason that the improvement all the health facilities, in order to provide quality health services to the population, is a government priority.

Sustainability of the financing schemes as well as donor funded projects/interventions

The financing of health services relies heavily on donor support. In addition to the government Block Grant, council health services receive some substantial funding from Basket Funds which are managed under the Sector Wide Approach. While the withdrawal of some contributors from the Health Sector Common Basket Fund in favor of budget support is positively taken in line with Tanzania Assistance Strategy, the need to continue regarding the health sector as a priority for funding should be underscored.

For the sustainability of health services, the government should seek home grown solutions. The country should rely less on donor funding and more on

¹⁹ Details on how to resolve the human resources problems is discussed in the Annual Joint Health Sector Main Review report, for 2004.

its internally generated funds. These include Community and Household Financing, The need to strengthen the National Health Insurance Fund, the Community Health Fund, the Drugs Revolving Funds and user fees cannot be over-emphasized as a cushion from externally generated shocks. A safety net for the poor can only be maintained if the services are available and not otherwise.