

ESRF POLICY BRIEF

ECONOMIC AND SOCIAL RESEARCH FOUNDATION

Challenges of Local Government Authorities Financing

By Prof. Godius Kahyarara, Dr. Donatilla Kaino, Charity Mugabi

SUMMARY

The Local Government Capital Development Grant (LGCDG) system was developed as one of three components of Local Government Support Project (LGSP) in order to transform intergovernmental transfers for Local Government Authorities (LGAs) sustainable operations. However, the study which was done by Economic and Social Research Foundation (ESRF) in 2015 found that, apart from different measures that have been taken by the Government to improve LGAs financing, LGCDG system was still not effective enough due to different challenges. The problems of delays in transmission of funds, inadequate accountability, transparency and significant budget deficits continued to face LGAs, and therefore, the capacity of LGAs to deliver and to implement the planned activities has remained limited. For the system to be effective, the study suggests the need for the mechanisms that will facilitate direct transfer of funds from treasury to the implementing units at the grass root level such as Wards and Villages; and to enforce laws and regulations in order to improve transparency, accountability and revenue collection.

BACKGROUND

Fiscal decentralization in Tanzania has been effected since 1984, systematically expanding the roles and financial responsibilities of Local Government Authorities (LGAs). However, the LGAs differ in terms of pattern of distribution of the tax base and the demand for public goods (their expenditure duties). In order to address these fiscal imbalances (both vertical and horizontal) and hence promote balanced growth of local government economies and their taxation bases, the Central Government has been transferring revenues to LGAs to cover the gaps. The transfers account for between 80 and 90 percent of most

of LGAs' revenues. However, a study by Georgia State University (2003) on the intergovernmental transfer system in Tanzania found that the allocation of the transfers was highly discretionary, lacked objective standards for allocating resources, failed to provide local governments with a predictable stream of resources, and was generally counter-equalizing.

In order to strengthen fiscal decentralization, improve accountability in the use of local government resources, and improve management of intergovernmental transfers systems; and improve revenue performance for sustainable operations, the Government developed the Local Government Support Project (LGSP) in 2004 which

comprises of three components including the support for Local Government Capital Development Grant (LGCDG) System which was introduced as a unified national transfer mechanism for the provision of development funding to Local Government Authorities; The system includes a Capital Development Grant (CDG), Capacity Building Grant (CBG) and additional sector grants such as the District Agricultural Development Grant (DADG), the Urban Development and Environmental Management grant (UDEM) as well as the Rural Water Supply and Sanitation Programme Grant (RWSSP). The LGCDG system includes in-built mechanisms that adjust and improve the effectiveness of the system, such as committees that discuss criteria that LGAs should meet, or the sector formula that determines the sector budgets allocated to each LGA. The LGAs clearly respond to the system of incentives and penalties, by for instance replacing the District Executive Director (DED) where performance is not satisfactory. The LGCDG transfers are expected to be non-sectoral and be distributed on a formula basis to LGAs, who would invest in accordance with local needs, as determined through local participatory planning, and budgetary processes. The System is expected to overtime become the mechanism through which all development funds would be transferred to LGAs.

The LGCDG system is implemented in parallel to the Tanzania Social Action Fund (TASAF) II. TASAF II works directly with communities to help them identify their most critical needs and directly finances interventions that are needed to address them, while the LGCDG system is a keystone of the Government's long term strategy for financing local infrastructure. Accord-

ingly, the intention is that LGCDG and TASAF II complement each other.

Although Vision 2025 was originally conceived in 1999, implementation towards achieving it floundered as annual budgetary submissions from the different ministries were often randomly presented with little or no coherence with the Vision 2025. Under the Big Results Now (BRN) initiative each Ministry and hence each LGA is expected to align its budget to the high-level initiatives of the government as defined within each Five Year Development Plan, which in turn are targeted at moving the country towards achieving Vision 2025.

Current Status of Local Government Financing

In 2014 Economic and Social Research Foundation (ESRF) was funded by African Capacity Building Foundation (ACBF) to conduct a research in five regions namely: Mwanza, Mara, Dodoma, Tanga and Morogoro and Tanga, in order to assess the efficiency and effectiveness of LGCDG systems in the presence of BRN. In particular the study assessed long-term trends and impact of the LGCDG in the implementation of development projects especially those related to Big Result Now initiatives. In particular, the study focused on the interactions between the local government governance systems and modalities under D by D as well as the LGCDG amid the implementation of programs in Big Results Now.

The analysis of Controller and Auditor General (CAG) reports (for the period from 2008 till 2013) on accountability and governance of public financial resources by local governments suggest that over all there has been an improvement of the quality of audit opinions issued. This achievement has been attained due to the Local Government

Reform Programme (LGRP) undertaken in the Government, seriousness in implementing CAG's recommendations and the enforcement of the use of IFMS EPICOR version 9.05 within the LGAs.

Despite the achievement experienced by the LGAs, the implementation of LGCDP system also faces a number of challenges which need to be addressed for the projects to be implemented smoothly. This Policy Brief briefly therefore, provides the key study findings as far as challenges facing the LGAs in the implementation of LGCDG system and provides policy recommendations which if adopted may help the LGAs to overcome the challenges.

Challenges of Local Government Financing

Key challenges which LGAs face in the implementation of LGCDG system are as follows:-

There are delays in the transmission of funds from the central government to Local Government Authorities. Despite the delays, the received funds are in most cases insufficient and their real value decreases over years. As a result, many LGAs fail to implement many activities in their plans and those that fall under BRN..

Transparency is not fully adhered to in some LGAs; Some District, Wards and Villages do not put on notice boards the breakdown of the use of funds transferred from central government as well as revenues collected from their local sources.

Sharing of revenue between higher local government [the district] and lower local government [wards and villages] is still a problem because there are no clear guidelines.

The amount of revenue collections not remitted

to the LGAs by agents is increasing from year to year. This implies weak internal controls over revenue collection and inadequate follow up and monitoring mechanism of revenue contracts.

Investment priorities identified by the people at grass-root through O & OD arrangement are in most cases not honored when resources are allocated, instead, projects suggested by the District offices and Central Government in order to implement national programs are given priority. Currently, projects under BRN are given priority over all other projects. This arrangement discourages the participation of people at the grass root in mobilizing resources and implementation of the projects funded. Consequently, the projects are not implemented properly and are insecure because there is no ownership feeling by the people at the grass root.

Staff managing funds in the LGAs lack some knowledge on new technologies to simplify their work, or fail to use the technologies because there is no reliable source of electricity and lack of reliable internet connection.

3.0 Policy Recommendations.

In order to minimize delays in the transmission of funds from Central Government to LGAs, it is important the Government revises the system so that the funds are transmitted directly to LGAs overseeing the implementation of the projects to be funded.

LGAs should prioritize their priorities for funding so that only few projects are fully funded instead of distributing the limited revenue over a number of projects which cannot be fully funded. The Government could

also distribute revenues to LGAs by phases e.g. projects in a quarter of all LGAs could be funded in a given quarter of the financial year. This could also help to improve the monitoring of funded projects.

The Government should find another source of revenues to fund projects under BRN which are not among the LGA's priorities.

Law and Legal measure must be enforced to make sure that there is full transparency and accountability in the management of LGAs funds. Also internal control measure over revenue collections be strengthened and make Agents who are not submitting revenues as greed be countable.

Since O & OD system (bottom-up) of identifying priority projects is opposite with BRN system (Top-down) , it is important to have a mechanism whereby the two systems meet in order to merge the priorities and let people in the LGAs decide on the most critical ones to be implemented. This will help to minimize the number of projects underfunded and make people at grass root own the project and participate fully in their implementation.

PMO-RALG should issue clear guidelines on sharing local revenues between higher local government and lower local government, as well as other revenues and follow up their implementation

Law and regulations should be re-enforce to stop politicians who mislead people this includes politicians and local people to participate in each level of preparation and implementation.

Internal audit units in most of the councils are now relatively strong in terms of human capacity. However, these units still need a considerable amount of training and equipment to help in revenue logistics.

REFERENCES

Georgia State University (GSU 2003) 'Final Report: Developing a System of Intergovernmental Grants in Tanzania' Available at; http://www.tzdpg.or.tz/fileadmin/documents/external/public_expenditure_review/Reports/Vol-ume_I_LGA_Final_Report_30.04.14_final_final.pdf. : Accessed 18/10/2015



The Economic and Social Research Foundation (ESRF)

51 Uporoto Street, Ursino Estate. P.O Box 31226, Dar es Salaam, Tanzania

Mobile: +255-754 780133, +255-655 780233

Tel: +255-22 2926084 - 90

Fax: +255-22 2926083

E-mail: esrf@esrf.or.tz

Website: <http://www.esrf.or.tz>