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MINISTRY OF FINANCE AND ECONOMIC AFFAIRS

DRAFT REPORT ON

ASSESSMENT OF THE EFFECTIVENESS OF FORMULA BASED BUDGETARY ALLOCATION TO LOCAL GOVERNMENT AUTHORITIES (LGAs)



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List of Abbreviations

CAG	- Controller and Auditor General
CBG	- Capacity Building Grant
CFs	- Council
CMT	- Council Management Team
D by D	- Decentralization by Devolution
DG	- Development Grant
DLG	- Division for Local Government
DPs	- Development Partners
DSC	- Division for Sector Coordination
FBA	- Formula Based Allocation
FSRP	- Financial Sector Reform Program
FY	- Financial Year
GBS	- General Budget Support
GoT	- Government of Tanzania
GPG	- General Purpose Grant
HoDs	- Head of Departments
IFMS	- Integrated Financial Management System
IPFs	- Indicative Planning Figures
LGAs	- Local Government Authority
LGCDG	- Local Government Capital Development Grant
LGFR	- Local Government Fiscal Reviews
LGMD	- Local Government Monitoring Database
LGRP	- Local Government Reform Program
LLG	- Lower Local Government Level
MDAs	- Ministries, Departments and Agencies Swahili abbreviation for the Tanzania's National Strategy for Growth and
MKUKUTA	- Reduction of Poverty (NSGRP)
MOFEA	- Ministry of Finance and Economic Affairs
MoU	- Memorandum of Understanding
MTEF	- Medium Term Expenditure Framework
NAO	- National Audit Office
NBS	- National Bureau of Statistics
O & OD	- Opportunities and Obstacles to Development
OC	- Other Charges
PADEP	- Participatory Agricultural Development and Extension Programme
PE	- Personal Evolutions
PFMRP	- Public Financial Management Reform Program
PLANREP	- Planning and Reporting
PMG	- Planning and Management Memorandum Prime Minister's Office- Regional Administration and Local
PMO-RALG	- Government
PO-PSM	- President's Office- Public Service Management

PRs	- Poverty Reduction Strategies
PSRP	- Public Service Reform Program
RCC	- Regional Consultative Committee
RS	- Regional Secretariat
SBAS	- Strategic Budget Allocation System
TWG	- Technical Working Group
VDPs	- Village Development Plans
VTTP	- Village Travel and Transport Programme
WDPs	- Ward Development Plans
WFs	- Ward Facilitators

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Executive Summary

As part of the review process of MKUKUTA Implementation, Ministry of Finance and Economic Affairs (MOFEA) commissioned Mzumbe University to carry out an assessment of the effectiveness of formula based budgetary allocation to LGAs. The formula based system started with the allocation of recurrent expenditures for health and education sectors in FY 2004/05 and since FY 2006/07 the FBA the system was extended to other sectors namely water, agriculture and rural road to cover recurrent expenditure (PE and OC), administration (General Purpose Grant (GPG)) and development. Ultimately all transfers to LGAs are expected to be harmonized with the FBA system for recurrent and Local Government Development Grants as basis for equitable distribution of resources across LGAs.

Although the adoption and implementation of FBA has been a remarkable achievement in fiscal decentralization, there has been a concern regarding its reliability and effectiveness. Hence, the main objective of the study was to enhance the effectiveness and impact of implementation of the formula based allocation to LGAs.

The study employed two methodological approaches. These included desk review and field interviews. Desk review involved a review of documents related to MKUKUTA and fiscal decentralization sourced from MOFEA, PMO-RALG, DPs, LGAs and scholarly reports. Field interviews were carried out with key informants purposefully selected basing on their resourcefulness on the implementation of D by D, fiscal decentralization and MKUKUTA in general. Six LGAs were sampled for this study. These were Dodoma and Kinondoni Municipal Councils (MC), Kibaha Town Council (TC), Kongwa and Mvomero District Councils (DCs). The selection was purposeful taking into account the time frame allowed for the study, the rural urban divide and geographical spread. The study was carried out between January and March, 2010 and data were collected before and after the introduction of FBA i.e from 2002/03 up to 2008/09.

In executing the assignment a four team member was involved. The team consisted of Dr. D.M.L Kasilo as team leader and Dr J.K. Sesabo, Messrs N.J.Sola and A.P. Maziku as team members.

Overall conclusion for the study shows that formula based allocation has provided a good ground work towards efforts to ensure transparency, equitability and reliability of budget systems in LGAs. This is also evidenced by some achievements that have been realized over time through the FBA.

Key achievements include improved accountability (administrative, political and financial); enhanced participatory planning and budgeting; more resources channeled to LGAs; increased transparency; linkage between the planning process and poverty reduction strategies; issuance of planning and budget guidelines and more focus on bottom-up planning.

However, on the other hand, the FBA system has been faced with a number of challenges (general and specific) which need to be addressed so as to realize the desired goals/ objectives.

Some key general challenges include delays in issuing planning and budgeting guidelines; inadequate coherence between Strategic Planning , MTEF and Village/Ward plans; non-compliance to budgetary norms; unclear coordination mechanisms for formulae formulation, resource allocation and expenditure tracking; lack of information sharing amongst key actors/stakeholders in the Formula Based Budgetary Allocation System (both horizontal and vertical); plans and budgets do not necessarily use most updated information/ data and important tools to facilitate FBA implementation (O&OD, Epicor) have not yet been rolled-out to all LGAs.

Specific challenges include inadequacy of key variables in all sector formulae; non-consideration of the size, characteristics (rural/urban) and variations in social economic activities in the sector formulae; population indicator treated as a homogenous factor in almost all formulae and PE indicators being general.

Key Recommendations

Based on the challenges, key general and specific challenges were made as follows:

General Recommendations

- Information sharing amongst key actors/stakeholders in the Formula Based Budgetary Allocation System should be improved (both horizontal and vertical). Key stakeholders include MoFEA, PMO_RALG, LGAs, DPs. This also goes along with timely release of all important information regarding FBA through various means like issue of documents (budgetary guidelines, ceilings, circulars etc) as well as posting into websites (E-governance).
- Ensure existence of clear coordination mechanisms for the formulae formulation, resource allocation and expenditure tracking. The need to establish a team or an organ that will coordinate the implementation, review of the formulae as well as enforce compliance. The team or organ could be comprised of experts from MoFEA, PMO-RALG, LGAs, NBS and Sectoral Ministries.
- Ensure that all tools that support /facilitate effective implementation of the FBA system are fully rolled-out in the LGAs
 - i.e. Roll-out of O & OD to all LGAs
 - Full and effective application of IFMS (EPICOR) as well as PLANREP to all LGAs.
- Institute a mechanism to capture and use updated information during the preparation of MTEFs from LGAs. Such information should also be used as inputs for regular review of the formulae
- The need to ensure coherence between Strategic Planning , MTEF and Village/Ward plans

- Improve capacity for financial management, monitoring and evaluation, supervision and utilization of funds at the LLGs levels. This should be made through training and/or coaching of staff at the LLGs.
- Ensure gradual growth and generation of LGAs' own revenue so as to reduce high level of dependency on central government funding. A strict condition could be incorporated in the annual assessment of LGAs, for instance, putting up a percentage range of increase eg between 5-10% on yearly basis.
- Key decisions to be taken by the government should take into account budgetary norms so as to avoid unnecessary budgetary adjustments.

Specific Recommendations to FBA

- Population is one of the key indicators in the sector formulae. However there is need to qualify it more to include sub-indicators relevant to the sector formulae rather than taking it into a homogeneous manner
- There is need to group/ grade LGAs according to common features (eg factor endowment, economic activities, infrastructure levels etc) and apply specific formulae relevant to the group/ grade of LGAs that will ensure equity distribution of funds. This however requires conducting in-depth studies on the profiles of each LGA and hence culminate into grading/grouping of LGAs with similar profiles/characteristics
- Undertake a thorough and in-depth review of all sector formulae so as to take into account all the specific formulae challenges that have been and are being experienced by LGAs i.e inadequacy of key variables in all sector formulae; non-consideration of the size, characteristics (rural/urban) and variations in social economic activities in the sector formulae; population indicator treated as a homogenous factor in almost all formulae and PE indicators being general. The review teams should include relevant sector experts, experts from MOFEA, PMO-RALG, NBS and LGAs.

1.0 Introduction and Background Information

This report is organized into 6 sections. Section one provide some background information about the study. Section two is about the terms of reference which guided the approach to the study and the presentation of the findings. The terms of reference provides among other things the purpose, the methodology and scope of the study. Section threes is a discussion of the approach or methodology used to carry out the study. The composition of the study team is also provided under this section. A summary of information gathered from desk review is presented under section four. This information draws international and local experiences of intergovernmental fiscal transfer and in specific the formula based allocation of financial resources to local governments.

In the case of Tanzania a discussion on the planning and budgeting system both at national and sub-national levels is summarized. In the summary the linkage between planning and budgeting and National Strategy for Growth and Reduction of Poverty (MKUKUTA) are outlined. More important the different tools and approaches to planning and budgeting including strategic planning, the MTEF, SBAS, O &OD and PlanRep are also briefly discussed. The section ends with a discussion of experience of application of the FBA in Tanzania.

The findings are presented under section 5. The presentation of the findings is in accordance to the requirements of the terms of reference. This presentation of this section follows the following format:

- a. Evidence based discussion on how financial allocation under the FBA has changed over time,
- b. An assessment of whether the FBA has been properly applied,
- c. Analysis of the performance of the FBA where problems related to indicators are identified,
- d. Recommendation of policy measures for enhancing the effectiveness and impact of implementing FBA to LGAs in Tanzania.

1.1 Background Information

Tanzania's National Strategy for Growth and Reduction of Poverty (MKUKUTA) has been the guiding framework for national development strategy (growth and poverty reduction). This strategy was adopted in 2005 following the signing of an MOU between the GOT and the Development Partners who agreed to support the initiative. MKUKUTA is a second generation of Poverty Reduction Strategies (PRSs) that has generated a strong agenda, aiming at sustaining broad-based growth alongside improving quality of life, social wellbeing and governance. Its implementation has introduced and strengthened several institutional structures through reform programs such as the Public Service Reform Program (PSRP), Local Government Reform Program (LGRP), Public Financial Management Reform Program (PFMRP), and Financial Sector Reform Program to mention some. These reforms were established to enhance performance results and accountability in the public sector service delivery.

Community Participation is one of the mechanisms strengthening governance, broader citizen ownership and legitimacy of the development process. Chapter 6 of MKUKUTA document outlines the actors responsible for implementation of the strategy including, Central Government ministries and LGAs, independent departments and agencies MDAs to mention some. Local participation is envisaged during the planning and implementation of activities within the productive sectors such as agriculture and social service sectors such as health and education. At the district level, LGAs plan and implement development activities within their areas of jurisdiction, in collaboration with other actors, including communities and service facility committees through participatory process. Communities participate directly in planning, implementation and monitoring of community activities supported by the government and other actors.

The implementation of the MKUKUTA and ultimately the achievement of its goals depend, to a large extent, on the existence of clear and objective strategies for mobilization, allocation and utilization of fiscal resources. At the national level a General Budget Support (GBS) facility exists and is used by Development Partners (DPs) to support the Government of Tanzania (GoT) in its aim to reduce poverty.

Prior to MKUKUTA and fiscal decentralization under Local Government Reform Programme (LGRP) the financial transfers from Central Government (CG) to LGAs was unsystematic, based on unaffordable National Minimum Standards (NMS), inequitable, non transparent, unreliable and not based on performance incentives (PMO-RALG, 2004; 2008). This was contrary to the national Constitution which requires the government to ensure that national resources are used for the benefit of all citizens to bring about equal development and to eradicate poverty, illiteracy and illnesses. That is why one of the key goals of the LGRP is to improve the intergovernmental fiscal relations through fiscal decentralization and devolution of the control of resources to LGA. This was followed by the introduction of a formula based system of allocating the resources to LGAs with a view to rectifying the imbalances that existed before.

Initially formula based system started with the allocation of recurrent expenditures for health and education sectors in FY 2004/05 and since FY 2006/07 the FBA the system was extended to other sectors namely water, agriculture and rural road to cover recurrent expenditure (PE and OC), administration (General Purpose Grant (GPG)) and development. Ultimately all transfers to LGAs are expected to be harmonized with the FBA system for recurrent and Local Government Development Grants as basis for equitable distribution of resources across LGAs.

Although the implementation of LGRP has realized some significant improvements in strengthening the budget process making it a true catalyst for achieving the national economic growth and poverty reduction objectives, and the adoption and implementation of FBA has been a remarkable achievement in fiscal decentralization, there has been a concern regarding its reliability and effectiveness.

As a response to this concern, MOFEA commissioned Mzumbe University to undertake the study on the assessment of the effectiveness of formula based budgetary allocation to LGAs as part of the review process of MKUKUTA implementation for the period

2005/2006 to 2008/09. The objective is to enhance the effectiveness and impact of implementation of the formula based resource allocation to the LGAs.

2.0 Terms of Reference (TOR)

2.1 Objective of the Assessment

The objective of this study was to assess the effectiveness and impact of the implementation of the formula based resource allocation to the LGAs covering the period 2003/04 to 2008/09.

2.2 Scope of the Assessment

To address the objective the consultant was required to examine the councils' formula based budgets allocations since 2004 (on annual basis), including one financial year prior to the introduction of the FBA so as to provide before and after comparison.

According to the TOR the following tasks were to be performed:

- Review of council plans and budgets for the education, health, and other sectors where formula based resource allocation is applicable from a selected sample of LGAs;
- Establish how financial allocation (total amount) across LGAs has changed before and after the resource allocation formula;
- Assess whether the formula has been properly applied and established factors behind the observed performance in term variance of what the formula predicts and the actual allocation;
- Analyze the performance of the formula based allocation system to determine whether there have been any problems in the current formula based system (e.g. in terms of the indicators) or in its implementation;
- Recommend policy measures to enhance the effectiveness and impact of implementation of the formula based resource allocation to the councils.

3.0 Methodology and Team Composition

To accomplish the assigned tasks, two methodological approaches were employed. These included desk review and field interviews. Desk review involved a review of documents related to MKUKUTA and fiscal decentralization sourced from MOFEA, PMO-RALG, DPs, LGAs and scholarly reports. Field interviews were carried out with key informants purposefully selected basing on their resourcefulness on the implementation of D by D, fiscal decentralization and MKUKUTA in general. Lists of reviewed document and interviewed people are attached as appendences.

In addition to interviews, focus group discussions were carried out. These discussions involved selected officials from sampled LGAs and also some key officials at the PMORALG and MOFEA. Given the nature of the task it was also necessary to collect

some quantitative data and this therefore required a quantitative data collection instrument to be developed and administered. Six LGAs were sampled for this study. These were Dodoma and Kinondoni Municipal Councils (MC), Kibaha Town Council (TC), Kongwa and Mvomero District Councils (DCs). The selection was purposeful taking into account the time frame allowed for the study, the rural urban divide and geographical spread.

In executing the assignment a four team member was involved. The team consisted of Dr. D.M.L Kasilo as team leader and Dr J.K. Sesabo, Messrs A.P. Maziku and N.J.Sola as team members.

4.0 Literature Review

In this section summary of information obtained from various literature is presented. The review focuses on Intergovernmental Fiscal Transfers (IFTs), fiscal decentralization and the process of planning and budgeting in Tanzania. Moreover, the literature review draw experiences from both developed and developing countries.

4.1 An Overview of Intergovernmental Fiscal Transfer

Any country has a central government that exercises jurisdiction over the entire national territory. In addition, virtually all countries have one or more levels of sub-national governments, which only exercise jurisdiction over a particular region, district or locality. Intergovernmental fiscal relations and fiscal decentralisation deal with how public expenditure is organised between these different levels of government and how it is financed. *Fiscal* decentralisation thus constitutes the public finance dimension to decentralisation *in general*, defining how and in what way expenditures and revenues are organised between and across different levels of government in the national polity (UNDP, 2005).

Intergovernmental fiscal transfers play an important role in the system of intergovernmental relations. In many countries the lower levels of government undertake important fiscal functions, both on the expenditure side and with respect to revenues (Boadway et al., 2000). Intergovernmental relations, both vertical (between levels of government) and horizontal (within levels) are important for the development and operation of an efficient and effective public sector. In a nutshell, the objective of intergovernmental fiscal arrangements in any country is to ensure that these intergovernmental responsibilities are carried out in the spirit of co-operation, equity and efficiency.

Fiscal decentralization according to UNDP (op cit), is not just a question of transferring resources to Local Governments (LGs) but is also about the extent to which LGs are empowered, the authority and control they exercise over the use and management of devolved resources, measured in terms of their control over (i) the provision of local

services for which they are responsible; (ii) the level of local taxes and revenues (base, rates and collection); and (iii) the grant resources with which they finance the delivery of local public services.

Fiscal decentralization cannot succeed in achieving pro-poor outcomes unless there is political and administrative decentralization as a strategy to politically empower LGs. It is through democratically elected and representative LGAs, local communities that citizens will be able to hold their local governments accountable. At the same time, unless LGs have administrative control over the services that they are supposed to deliver by having effective control over their human resources, then they are not truly empowered to serve their communities.

The way intergovernmental fiscal systems are organized varies from country to country. These differences partly reflect historical, geographical and institutional characteristics of each country, as well as on the expenditure assignments that the transfer mechanism intends to fund. There are various ways of transfer mechanisms:

- (i) *Single scheme approach*: in this approach some countries provide sub-national governments predominantly or exclusively with general purpose resources that flows into the general account of each local government in addition to local own revenue sources. Local governments are then required to fund their services from these general resources. The approach is commonly used in some countries such as South Africa, Japan, and Indonesia (Boex, 2005).
- (ii) *Multi-grant scheme*: In this approach different funding flows are established for different purposes so that different grant schemes are earmarked for specific purposes. Although the approach varies from one country to another, the grant flows may originate from different votes or sections in the national budget. Countries that relied in multiple-grant programs have separate funds for different sector programs e.g education, health, etc. the system separated recurrent grants from capital development grants. The approach is common in countries such as Netherlands, USA and Australia. (ibid).

Both mechanisms have their advantages and disadvantages. The multiple grant schemes for instance have a key advantage of having closer linkage between specific mandated local responsibilities e.g. primary education or rural water and the funding for those activities. However, the system has a potential disadvantage of possible excessive imposition of conditionalities which could reduce local government autonomy.

In the case of single scheme, the scheme is simple on financial management perspective due to fact the transfers of funds flow in to one general account of the LGAs even if they earmarked for different uses. This makes it easier for managing finances both at central as well as at local government level. The choice between the two schemes depends on the conditions imposed on the local level through budgetary regulations and sectoral standards. In such situation both approaches could be structured to result in the same

outcome. A number of approaches are used to allocate the transfer pool funds among sub-national governments.

First, tax-sharing transfer returns to a particular sub-national government all or some portion of central government tax collected within its geographical jurisdiction. Such transfers can be elastic in terms of their growth if the tax being shared has significant growth potential; however, they are usually counter equalizing since sub national government with larger tax bases will derive greater amounts of transfers. Thus, these types of transfers are based on sub-national fiscal capacity and are not good instrument for redistribution across sub-national jurisdictions.

Second, transfers allocated on the basis of an objectively defined formula are increasingly becoming popular because they meet some of the key evaluative criteria (*such revenue adequacy and growth, predictability, simplicity and transparency, allocative efficiency, equity, and incentive for sound fiscal management and sub-national resource mobilization*). Specifically, they are transparent for the recipient governments and can give the granting government considerable latitude on determining which of the main objectives (such as ability to provide for legitimate local spending needs). One limitation of formula-based transfers in developing countries is the lack of timely and adequate data required to implement the allocation formula. In addition, there is sometimes a tendency to try to meet too many objectives with a single transfer program, and so many indicators are added to the formula that its overall effects are not clear, as in the case of Ethiopia. According to Boex, (ibid), the presence of formula based allocation mechanisms in itself does not assure that the allocation of resources is objective, fair, and efficient of stable. In many countries the central government has a to unilaterally change the factors included in the allocation formula and change their relative weight from year to year, giving the central bank de facto control to alter the effective distribution of grant resources as it sees fit.

Third, cost-sharing transfers reimburse sub-national governments for expenditures on particular priority activities that are considered worthy of subsidization. Such grants can be either total- or partial- cost sharing.

Finally, some transfer allocation mechanisms depend on ad hoc decisions of the granting authority in determining how much of the transfer pool each jurisdiction receives. Such mechanism may create great uncertainty on the part of transfer recipients since they do not know how their grant will be subjective, non-transparent allocations that may work against broader public sector goals. Some federal systems such as Argentina use a fair degree of non-transparent criteria in their transfer programs

4.2 The Planning and Budgeting System in Tanzania and

The planning and budgeting processes of LGAs in Tanzania are guided by a number of policy and legal documents such as the Local Government Finance Act (1982), Local

Government Financial Memorandum (1997), the Local Authority Accounting Manual (1992), the Planning and Management Guide (PMG)¹ and the guidelines for the O & OD Participatory Planning². These documents specify the financial procedures and management control of local government finances as well as relationships among various stakeholders from different levels of the local government structure.

In terms of planning, two interlinked approaches to planning exist in the local government system in Tanzania (Mainland). These are the multi-sectoral and sector-wide approach. The multi-sectoral approach refers specifically to planning at community level where the O&OD³ planning tool is used. This planning approach is consistent with key national development policies and strategies including the MKUKUTA and National Development Vision 2025. The sector-wide approach is mainly based on sector specific programme and is used at the local government level. The major difference between these two approaches is that the former is meant to foster initiatives at community level while the latter focuses on the sector attaching importance to effective and efficient implementation of interventions for attaining the objectives and strategies. In other words, the former is purely bottom-up while the latter has both bottom-up and top-down features.

Budgeting on the other hand involves the determination of resources and their use for planned and prioritized activities for attainment of government objectives. A sound budget serves as a tool for economic and financial management, accountability and as a mechanism for allocating resources among different needs and priorities.

In essence all LGAs are supposed to prepare three sets of plans; namely strategic plan, MTEF plan and sector specific plans but in some cases they are also required to prepare project specific plans and budgets e.g. PFM, VTTP, PADEP to mention some. Whereas the strategic planning concept was introduced to LGA during LGRP phase 1, MTEF tool was introduced by MOFEA as a tool for planning and budgeting.

The MTEF is a major planning and budgeting tool with a three years horizon. It is a process and an approach to planning and budgeting based on clearly defined performance targets. This approach enables LGAs to link resources to the attainment of specific objectives drawn from MKUKUTA clusters. The MTEF tool is augmented with other instruments including Strategic Budget Allocation System (SBAS)⁴, Integrated Financial Management System (IFMS)⁵, Local Government Monitoring Database (LGMD)⁶ and Planning and Reporting (PLANREP)⁷.

¹ The PMG of 1997 is meant the Regional Secretariat (RS) provides among other things an outline of the relationship between the RS and LGAs with regards to the planning process.

² The Government of Tanzania (GoT) developed the O&OD methodology in the LGAs structure to facilitate participatory planning and as response to implement Article No. 145 and 146 of the 1977 National Constitution, which requires the empowerment of the people to make decisions on their development endeavour. This was also prompted by the Local Government Reforms (Regional Administration Act No. 19 of 1997 and the Miscellaneous Amendment Act No. 6 of 1999), which enact the devolution of power to the grassroots to enhance service delivery and eradication of poverty.

³ By the end of 2009, the government has rolled out the O&OD planning framework in 105 of the 132 LGAs in Tanzania.

⁴ SBAS is a software tool to facilitate resource allocation including preparation of budget ceilings by the Plan and Budget Guidelines Committee (PBGC).

⁵ IFMS is a tool to support public financial management functions (budgeting and accounting). In Tanzania EPICOR is the accounting software used for the GoT's IFMS and is currently in operation in majority of LGAs.

The planning and budgeting cycle in Tanzania goes through a number of processes or steps. At lower local government level planning (O&OD) goes through four main steps namely sensitization of councillors and council management team (CMT), capacity building to LGA and Ward officers to become council (CFs) and ward facilitators (WFs), community planning process where village and ward plans are generated and finally integration of community plans into LGA plan.

At the local government level the cycle begins immediately after the planning and budget guidelines as well as Indicative Planning Figures (IPFs) have been issued by MOFEA (see Table 1). The guidelines provide a performance review of the previous financial year (FY) and recapitulates sector policies and areas which are accorded as priority within MKUKUTA and the National Development Vision 2025 while the IPFs provide budget ceiling.

4.3 Intergovernmental Transfers in Tanzania

Local government authorities in Tanzania fund their expenditures from three main sources, notably intergovernmental transfers, own local sources, and local government borrowing. Intergovernmental transfers fund roughly 90 percent of all local government spending, while local governments' own source revenues (including local rates and other locally collected revenue sources) account for approximately 10 percent of local financial resources. Local borrowing accounts for approximately 0.1 percent of local spending.

Intergovernmental transfers⁸ include recurrent sectoral block grants, sectoral basket funds and ministerial subventions, as well as development grants. Recurrent block grants account for about two-thirds of all intergovernmental transfers. Both the recurrent block grants and development grants are disbursed to LGAs on formula-based approach by the Treasury. Until 2004, Tanzania had a discretionary system of intergovernmental grants. Among its many shortcomings were dis-equalising tendencies which allocated a relatively high share to wealthier and urban jurisdictions (Boex and Martinex – Vazquez, 2006). Starting in FY 2004/2005, a new system of formula-based transfers was introduced.

4.3.1 Experience of the Formula Based Allocation (FBA) system in Tanzania

As mentioned before, the FBA system in Tanzania started in 2004/05 with two key sectors: health and education because they attract over 80% of the grants allocated to LGAs. Currently, the system is applied as recurrent block grants to finance PE and OCs as well as development grants in the following sectors:- education (secondary and

⁶ LGMD is software used by each LGA to capture information on education, health, agriculture, land and water as well as capturing data from villages and wards. This data from LGAs is forwarded to RS and PMO-RALG for aggregation.

⁷ PPlanRep is software that has been designed by PMO-RALG and MOFEA to enable LGAs to have consistent planning and reporting system.

⁸ An intergovernmental transfer comprises local and foreign (DPs) funds which put under General Budget Support (GBS).

primary education), health services, agriculture (extension services), roads (rural roads), water (rural water supply and sanitation), and administration. These sectors have been identified by the central government as priority areas under the MKUKUTA clusters. They are also referred to as the pro-poor sectors. While the formulation of the formulae for recurrent grants are set jointly by MOFEA, PMO-RALG and respective Sector Ministries.

In addition to the recurrent block grant, there are other recurrent grants earmarked for sectoral subventions (e.g Health Basket Fund, Road Fund, HIV/AIDS Subvention). Nearly all sectors benefitting from subventions use the same formulae used recurrent block grants except for HIV/AIDS the criteria of which is population 70% number of poor residence 10%, district medical vehicle root 10% and the LGAs estimated HIV/AIDS prevalence rate 10%.ent block grant and subventions

Up until 2004, development interventions in LGAs relied almost entirely on selected sector projects or various Area Based Programmes funded by bilateral donors for their development funds. In FY 2004/2005 the LGCDG was introduced as discretionary development grants provided to LGAs according to a formula and annual assessment of their institutional performance. Donor support to the LGCDG combines both convectional projects support, traceable earmarked sector budget support to fund the LGCDG, and associated Capacity Building Grant (CBG). Initially the LGCDG was a non-sector development grant financed by World Bank-Funded Local Government Support Project where only 45 LGAs were involved.

A rapid expansion of the funding mechanisms started in 2005 as other development partners joined financing the LGCDG the result of which was the involvement of all LGAs. Currently all key sectors (health, education, agriculture, rural roads, rural water and sanitation) channel most of their development funds through LGCDG system, now LGDG. The MKUKUTA provides framework for the participation of various stakeholders at different levels both in the public and private sectors related to planning and implementing the cluster activities in respective sectors. The various roles are also reflected in other documents including the planning and guidelines issued by MOFEA for the preparation of plans and budgets, MOU signed between DPs and the GoT for various projects and programmes etc. For example the management of the LGDG is done through three committees; i.e. national steering committee, a technical committee and common basket fund steering committee. Each of these committees has specific role (Per Tiedmand, 2009).

In the formula-based allocation there are key targeted aspects which are in consonance with MKUKUTA⁹ aspirations. For example the formula targets the poor, the rural population, children under five years old, accessibility to services. The process of accessing the resources under formula base requires the LGAs to meet certain minimum conditions and performance criteria.

⁹ MKUKUTA has three broad clusters namely growth and reduction of income poverty, improve quality of life and social wellbeing, governance and accountability.

Expenditure is monitored and guided through various instruments including the Local Government Finance Act 9 (1982), budget memorandums and accounting manuals, and financial regulations. LGAs therefore are required by law to prepare revenue and expenditure books, action and cash flow plans, quarterly financial reports and financial statements. In addition, both internal and external audit are carried out periodically depend on the scope of both types of audit.

In summary the implementation of the FBA involves a number of stakeholders each with a role to play as summarised in the table below.

Table 1: The Role of Various Actors in FBA Formulation Implementation

MOFEA	DPs	PMO-RALG	MDAs	LGAs
Formula Based Allocation Committee	Contribute to GBS	Coordinate the preparation of the formulae guidelines	Participate in setting the sector formulae	Internalize the formula and provide updated information.
Participate in setting the formulae	Participating in Annual Public Expenditure reviews	Determine allocation of the OC pool	Determine the PE allocation for each council (POPSM)	Implement the formulae and provide reports periodically
Issue of PBG in which the formulae are reflected	Participating in LGFR	Compliance of D by D through the Chief Secretary	Member of TWGs/task forces	Participate in various for a where their MTEF are discussed e.g. the RCC
Disburses PE for each council based on PO-PSM information	Enters agreement with GOT	Member of TWG		
Track Expenditure	Suggest/issues procedures, policies on how funds should be managed	Coordinate implementation of programmes at regional and LGA level		

5.0 Findings

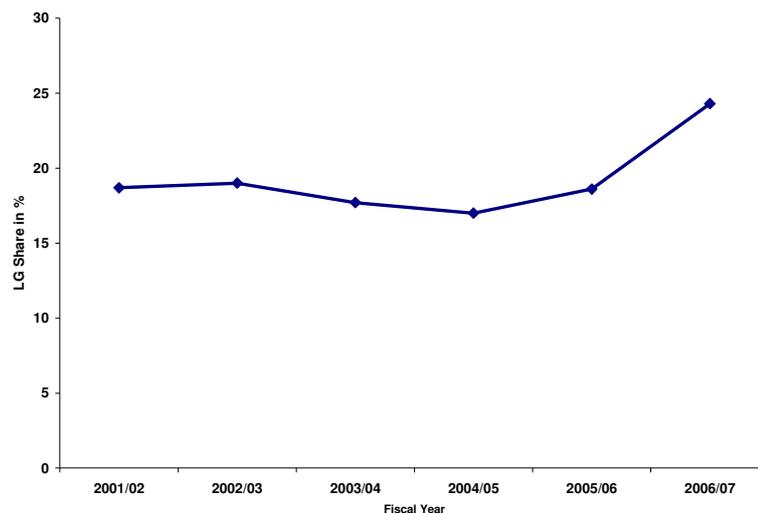
In this the findings are presented in three subsection as follows: a) evidence based discussion on how financial allocation under the FBA has changed over time, b) an assessment of whether the FBA has been properly applied, and analysis of the performance of the FBA where problems related to indicators are identified. This is then followed with some conclusions and recommendation of policy measures for enhancing the effectiveness and impact of implementing FBA to LGAs in Tanzania.

5.1 How Financial Allocation has changed over time across LGAs

From the documentary sources, it was observed that more resources were channelled to LGAs. The findings indicated that in the five year period i.e. from FY 2002/2003 to FY 2006/2007, the level of central government transfers to LGAs increased by 143 percent from TSh 247.0 billion to TSh 600.3 billion. Moreover, all LGAs are supposed to disburse 20% of the General Purpose Grant (GPG) and for development grant is 50% of the LGDG to LLG. In this case also the allocation of funds to LLGs was increased.

Following the increase of financial allocation to LGAs, Fig 2 shows a steady increase in the local governments' share of recurrent spending from 17% in FY 2004/05 to over 24% in FY 2006/07. In part, the increase in the recurrent expenditure has been driven by high increase in wage bill resulting from decentralization of Human Resources as part of the implementation of D by D.

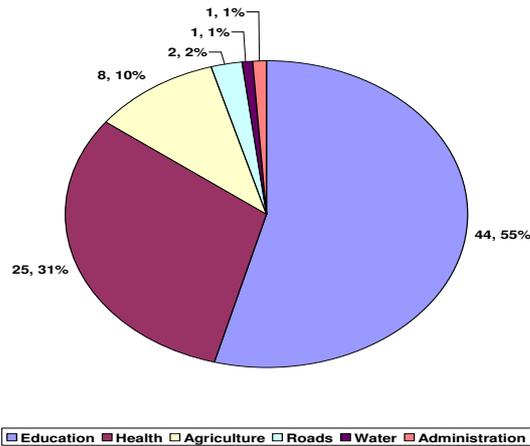
Figure 1: Local Government Shares of Public Expenditure over a five year period



Source: Per Tidemand, 2009

Data collected from the sampled LGAs confirms findings from the reviewed literature that large part of the recurrent expenditure is on PE. For example, data from Kibaha DC indicates that the total recurrent expenditure for the FY 2006/07 was 3,042,750,400 and that 86% was spent on PE while only 14% was earmarked for OC. The largest consumer of the PE is education followed by health an indication that the two sectors are the two main employers (Figure 2).

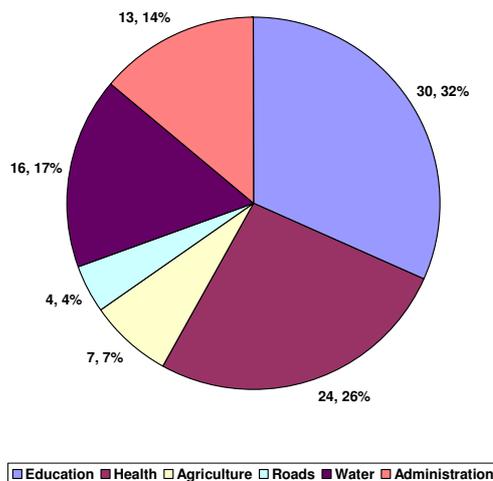
Figure 2: Percent of sectors PE of total PE expenditure for Kibaha DC FY 2006/07



Source: Kibaha DC, 2007

As for the OC, education remains the main consumer (30%) but varies year after year for the other sectors. For example the FY 2006/07 the second largest consumer was health (24%) followed closely by water (16%) and administration (13%). Roads and agriculture have the smallest shares of less than 10% (figure 2). The following FY 2007/08 after education (34%) the second largest consumer of the OC was administration (26%) followed by health (14%) and water (9%).

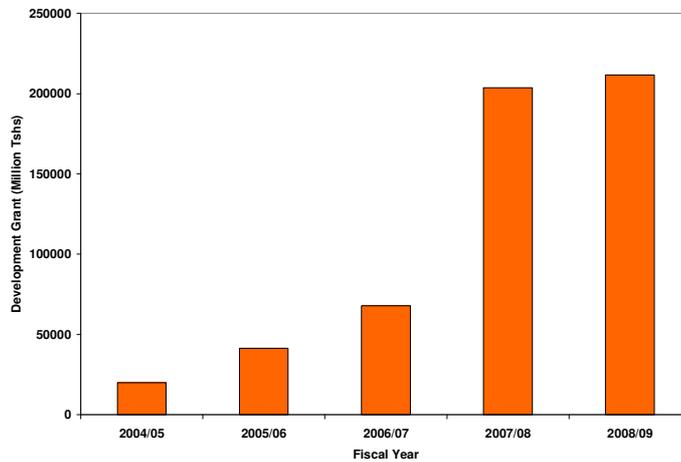
Figure 3: Percent of sectors OC of total OC expenditure for Kibaha DC FY 2006/07



Source: Kibaha DC 2007

From the desk review, development grants transfers have also been increasing rapidly over the four-year period. Fig 4 indicates the significant increase of approximately 20 million TShs to 211 Million Tshs.

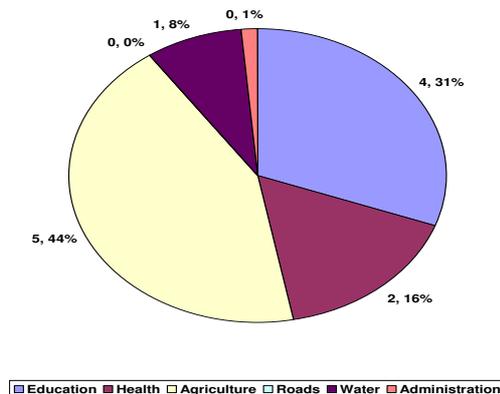
Figure 4: Development Grant transfers for 2004 – 2009



Source: Per Tidemand 2009)

Findings from sampled LGAs show that allocation of development expenditure through the LGDG across the sectors portrays a different picture. Unlike the recurrent expenditure where education dominates, development expenditure varies from sector to sector and year after year. This is because sector specific transfers to the LGDG system started gradually in FY 2006/07. Using Kibaha DC again as a case rural roads had the biggest share of the LGDG (5%), followed by education (4%), health (2%) and agriculture (1%), during the FY 2006/07. Water did not appear then because development funding for water was not allocated through sector windows under the system. In the FY 2007/08 water had the largest share (19%), followed closely by agriculture (18%), roads (4%) and then the other sectors.

Figure 5 Percent of sectors Development Grant of Total DG



Source: Kibaha DC 2007

In relation to local sources, the findings indicate that implementation of FBA has resulted to an increase in LGAs own sources revenue generation capacity. For example, taking two cases of Kinondoni MC and Mvomero DC the following facts were obtained; In FY 2006/07 and 2007/08 actual revenue collected for Kinondoni MC was 6.4 millions Tshs and 8.8 million Tshs respectively. In case of Mvomero DC the findings indicate an increase of own source revenue from 1.8 millions Tshs in FY 2006/07 to 2.6 millions in FY 2007/08.

This however, does not mean that the FBA system has granted LGAs more financial autonomy. Findings from the reviewed literature show that LGAs are becoming even more dependent on the government grants. For example, it is noted that there has been an increase in the level of dependency of the LGAs on fiscal transfers from the central government i.e. from 81% in 2002/03 to 90.7% in 2006/07(*source unidentified*).

5.2 Assessment of the application of FBA system

5.2.1 The institutional arrangement

There are several ways of looking at the application of the FBA. One way is to look at the existing institutional arrangements. It has been noted above that although the setting of the formulae is jointly done by PMO-RALG, MoFEA and MDAs, there is no indication that the LGAs are involved in the process. Field findings revealed lack of sound information sharing and coordination systems or strategies among these key players. Consequently, sharing of information within PMO-RALG is also a challenge. For example the block grant is coordinated under the Division for Sector Coordination (DSC) while the LGDG is under the Division for Local Government (DLG) but the two do not share information. Even within the DSC itself evidence of information sharing could not be established. This raises some doubt about the effectiveness and efficiency of the existing coordination, monitoring and evaluation mechanisms including expenditure tracking.

Evidence from LGAs revealed that apart from the Planning Officers and in some cases the Council Treasurers, most of the Heads of Departments (HoDs) are not aware about the formulae based allocation system. However, these formulae are available in most of the sector specific documents including planning and budgeting guideline issued by MOFEA on annual basis. This is also an indication that reading culture and information sharing at the LGA levels is lacking. Most of the respondents said it was less important for them to know the formula since they have limited influence on the budget funded through intergovernmental transfers i.e. they have very limited influence on the budget guidelines on the indicative planning figures issued by MOFEA. For instance they noted that each year when formulating the MTEF document they are required to provide accurate and up to date information in order to reflect the true situation prevailing in their areas but there is no direct evidence that such information was being used.

In short their main concern is allocation as per the approved budgets and timely disbursement of funds in accordance to their approved action plans.

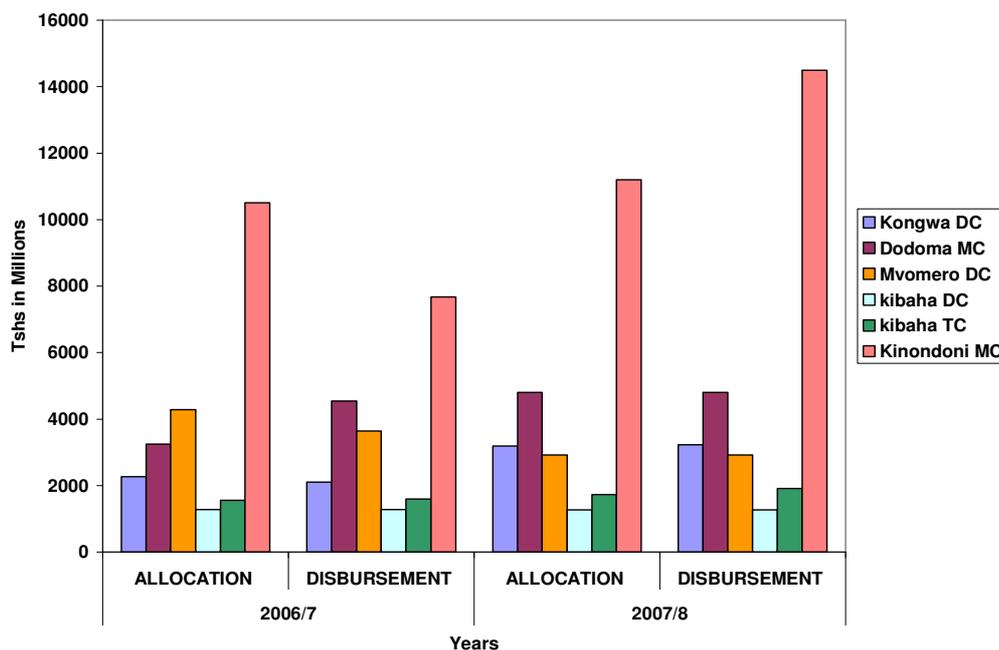
5.2.2 Consistency between allocation and disbursement of funds

Although the available literature suggests that allocation and disbursement of the grants (recurrent and development) has been increasing since the formula based allocation started as depicted in the table, this increase is not uniform across all the LGAs or all sectors. Taking the six sampled LGAs and the education sector as an example one can easily see the inconsistency and variations among the LGAs in terms of the allocated and disbursed amounts. For example, available data shows increased allocation and disbursement of recurrent expenditure for Education during the FYs 2006/07 and 2007/08 to both Kinondoni and Dodoma MCs. However, in both MCs there is no match between what was allocated and the actual disbursements. During the FY 2006/07 for example Kinondoni was allocated Tshs 10,500 million but the disbursed was 7,300 million

equivalents to 73% or 27% less. In the following FY 2007/08, the same MC was allocated 11,000 million but the disbursed was 129,000 million which was 40% more. In contrast allocations and disbursements to Dodoma MC varied during the FY 2006/07 where more was disbursed than the allocated but in the following FY (2007/08) the allocated was what was disbursed.

In the case of the district councils (DCs) Mvomero and Kongwa, the case was the opposite where there was a relatively small variation between the allocated and the disbursed

Figure 6 Allocation and Disbursement of Funds for Education sector from Sampled LGA



Source: PMO-RALG, 2007

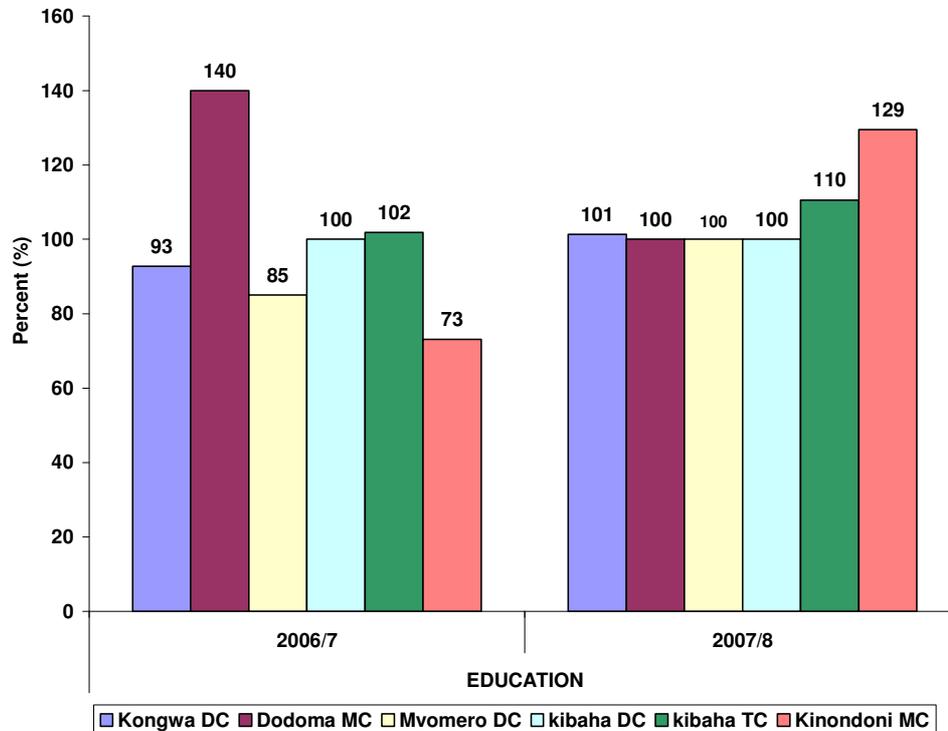
Trends in the allocation of funds vs disbursements show some inconsistency across LGAs. In some there is a sharp increase while in others a decrease. For example in the FY 2006/07 Dodoma MC received 140% of the allocated funds while in the FY 2007/08 the disbursed was less i.e. 100%. On the other hand within the same period Kibaha DC received 102% in 2006/07 FY and 110% the following FY i.e. 2007/08. This inconsistency raises some doubt whether the formula is truly being followed or not.

Furthermore, disbursement of funds does not follow the councils' action plans due to delays¹⁰ in disbursement of more funds than indicated in the councils' MTEFs and action plans. In some cases clarification regarding the use of the excess funds is not provided. For example, more money (OC for education) was sent to Kongwa and up until the

¹⁰ The OC funds are disbursed on monthly basis (2nd or 3rd week of the month) but LGAs noted that the OC funds are not disbursed timely. For example both Mvomero and Kongwa reported that they had not received OC for the past two months.

time of this study they were seeking some clarifications through the RS about what to do with it.

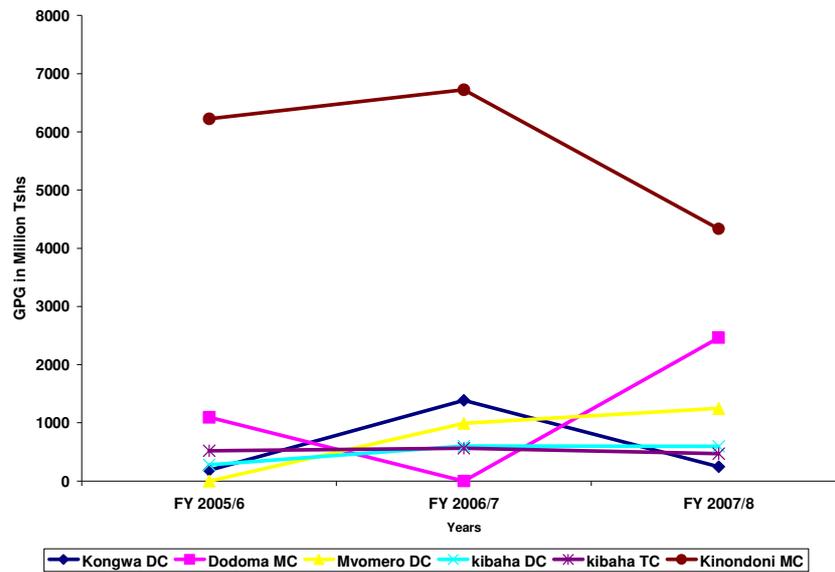
Figure 7 Percent of Disbursement Vs Allocated of Fund in Education Sector



Source: PMO-RALG, LGA Finance Statistics, FY 2006/7 and FY 2007/8 (LOGIN)

In the case of GPG, the findings show that the purpose of GPG has been changing over time. Earlier the GPG was referred to as a compensation grant and later in FY 2009/10 as equalization grant which was supposed to support council administration and other non-grants departments including finance, land and natural resources, trade legal and cultural development. In the FY 2010/11 the same is earmarked for expanding LGAs revenue bases and provided additional services (to finance council administration), to co-fund under LGDG, and to finance for non-grant aided sectors). To the contrary disbursement of GPG to LGAs has remained unpredictable. For some of LGAs the GPG has been increasing sharply while in other there has been a drastic drop (see Figure below). For example between the FY 2005/06 and FY 2006/07 allocation of GPG to Kinondoni MC increased gradually from Tshs 6,221 millions to 6,722 millions but after 2006/07 there was a drastic decrease to 4,332 millions. In comparison within the same period GPG allocation to Dodoma MC started a sharp decrease from Tshs .1094 millions to 0 before shooting up to 2464 millions. (See Figure 8 below)

Figure 8 Trends of GPG utilization in sampled LGAs



Source: PMO-RALG, LGA Finance Statistics, FY 2006/7 and FY 2007/8 (LOGIN)

5.3 Analysis of the performance of the FBA system

5.3.1 General observations regarding the performance of the FBA system

Based on the literature review and the field interviews there are a number of general issues raised regarding the performance of the FBA system in terms of achievements and challenges. These observations are summarised as follows:

Achievements

a) *Enhanced Participatory Planning and Budgeting*

Community members at village and mitaa level as well as service facility committees are directly involved in the planning process which can if properly coordinated can enhance efficiency in executing development projects and the provision of services at LLG level.

b) *Improved accountability (administrative, political and financial)*

There have been on average improved financial management practices in most of LGAs since the FBA started in 2004/05. This is being achieved through periodic reporting of progress in plan and budget execution, the internal and external auditing process, value for money audits, LGDG annual assessments etc. The mass media has also been playing an active role in creating community awareness. Evidence from CAG reports indicate that the number of LGAs receiving clean reports has been increasing over the years as depicted in the following Table 2.

Table 2 Number of LGAs (in percentage) receive clean audit report from 2004/5 to 2007/8

Financial Year	2004/5	2005/6	2006/7	2007/8
Number of Total LGAs	117	124	124	133
number of LGAs with clean report	62	52	100	72
% of LGA with Clean Reports	53%	42%	81%	54%

Source (NAO, 2009)

As can be noted there was a decline in the number of LGAs that received clean audit report for the FY 2007/08 compared to the previous FY 2006/07 due to among other things widening scope of audit to include such issues like value for money, payroll and IT systems in LGAs (NAO, 2009).

- c) *More focus on bottom up planning*
Current trend in planning and budgeting requires activities to originate from the community rather than from officers of the council. This approach promotes community commitment to the implementation of the village and ward development plans (VDPs and WDPs).
- d) *Enhanced capacity for planning and budgeting at lower local government*
Capacity for planning, budgeting and reporting is enhanced through various training interventions to community leaders at village and ward levels as well as to service facility committee members etc.
- e) *Increased and improved application of MTEF with strategic resource allocation and predictability of funding*
There is clear indication that the MTEF process has become more institutionalized in the budget formulation process in the local government system.
- f) *Issuance of planning and budget guidelines*
Issuance of the Planning and budgeting guidelines to MDAs and LGAs has resulted into coherence between various levels of government in planning, budgeting, implementation and reporting at all levels
- g) *Linkage between the planning process and poverty reduction strategies (NDV 2025 and MKUKUTA)*
Both planning at LLG and LG levels have clear linkage with the MKUKUTA as they are intended to accelerate the achievement of the national goals in the NDV 2025.

Challenges

- a) *Delays in issuing planning and budgeting guidelines*
Planning and budgeting guidelines are supposed to be received by LGAs in January. However, there has been a delay in issuance of the guidelines from MOFEA. For example in FY 2008/09 and 2009/10 LGAs receive the guidelines in March.

- b) *Coherence between Strategic Planning , MTEF and Village/Ward plans*
 There is no clear evidence whether the LGA MTEFs are drawn from Council Strategic Plans or whether the prioritized villages/wards plans are integrated into the council plans. From the literature reviewed it was found out that rarely LLG plans are reflected in the LGA plans if they are not in accordance to national priorities.
- c) *Non-compliance to budgetary norms*
 Some decisions have been taken without proper regard into their budgetary implications. For instance the Kilimo Kwanza policy was announced while budgets were already under implementation. The same apply to decision of the government to have secondary school built in every ward in the country. These decisions have resulted into unplanned budgetary adjustments.
- d) *Limited control over Revenue assignment.*
 The financial ability of LGAs to raise its own revenue for both recurrent and development expenditure is limited. For example, the current contribution of LGAs from their own sources to finance their total expenditure accounts for less than 10%. The persistent dependency on central government funding and unreliability of financial flows poses the risk of LGA inflating their budgets through submission of unrealistic budget figures.
- e) *O&OD planning tools has not been rolled out to all LGAs*
 Still there are some LGAs that have not rolled out the O&OD planning process which means community members in these LGAs are denied opportunity of having their own village and ward plans generated through O&OD process.
- f) *Limited application of planning and budgeting tools and related instruments –*
 There is limited application of some of planning and budgeting instruments which are supposed to enhance alignment of budget with interventions. The application of PLANREP for example is currently limited to planning at the expense of reporting. Likewise there is still limited or partial application of IFMS (EPICOR) let alone the fact that the system has not been rolled out to all LGA.
- g) *Issue of E-governance remains a critical challenge*
 The application of e governance could be a solution to some of the problems resulting from delays in communicating important information to various stakeholders. Despite the fact that reliability of electricity and budgetary allocation for operating and maintenance are a pre-condition to reliable e-government systems, many LGAs are increasingly making use of the internet facility either through acquisition or reliance on private providers. Unfortunately, both MOFEA and PMORALG sometimes lag behind in providing updated information through websites. For example, the planning and budget guidelines and the IPFs were not in the MOFEA website by the time of preparing this report.

- h) *Plans and budgets do not necessarily use most updated information/data*
Although LGAs provide updated information during the preparation of their MTEFs, there is no evidence that this information is being used for budgeting and fiscal resource allocation on the basis of existing formulae. Sometimes the IPFs (for OC) issued by MOFEA do not reflect any significant changes over a period of time. For example the IPFs for the 2010/11 for OC are similar to those of FY 2009/10.
- i) *Quite often national priorities override local priorities (political influence is a major factor)*
There is always an assumption that communities have different needs and resources, and that their priorities differ from one community to another. This is used as a justification for having interventions imposed from above instead of local priorities being used to determine national priorities.
- j) *Limited interaction between LGA and LLG*
Despite the guideline for revenue sharing between the LGA and LLG, it was found out that there is still a problem in sharing the local revenue and General Purpose Grant as per guidelines. For example in Annual Assessment of 2008/2009 showed that only 51 (43%) LGAs shared equal or more than the commended percentage while the 65(54%) shared out a percentage less than recommended. Four LGAs (3%) did not remit anything to LLGs.
- k) *Limited capacity for financial management at LLGs*
With increased financial flows to LLGs capacity for supervision and monitoring implementation of development projects as well as capacity for utilizing and accounting for expenditure by the LLG is also required. There is evidence that capacity for monitoring and evaluation, supervision and utilization is still wanting (see NAO Report 2009).
- l) *Unclear coordination mechanisms for formulae formulation, resource allocation and expenditure tracking*
It is known that formulae for the transfers of recurrent grant are set jointly by MOFEA, PMO-RALG, and respective Sector Ministries. However, there is lack of or inadequate representation of LGAs and the National Bureau of Statistics (NBS). It is not clear what happens after the formulae have been set since there is not indication of an existence of a team or organ to coordinate implementation, review of the formulae or enforce compliance.

5.3.2 Targeting the pro-poor sectors

LGAs support the idea of applying the FBA in favour of the key sectors as a strategy for tackling poverty but with some reservations. Both the OC and Development grants target the pro poor sectors more than the other sectors. In the case of OC there have been some improvements by extending the fund to other departments that were not benefitting

before. It was revealed that of late other departments that have been receiving OC include Community Development, Cooperatives, Planning and Internal Audit. Other departments and or units such as Human Resources, Finance, Lands, Natural Resources and Environment, Trade, Legal unit and the newly introduced Procurement Management Unit are yet to receive the fund. The argument raised by LGAs for having all departments covered with the OC is due to the fact each has a role to play in the fight against poverty i.e.

- Some like the finance department and internal audit have very important supportive role. For example if the accounting procedures are not followed, or contracts are not properly drafted or if there is lack of expenditure tracking in the LLGs it is because the two above are not properly functioning mostly due to lack of resources.
- Others like Trade, Lands, Natural Resources and Environment are equally important since they in one way or another contribute to poverty reduction. For example, quite a big number of the populations in urban areas rely on small, medium and big businesses for their livelihoods. Moreover in some villages of Tanzania fishing and beekeeping constitute are among the major economic activities.

5.3.3 Adequacy and Fund Utilization

From the LGAs view point the funding modalities through the FBA has not been able to adequately meet the councils' and communities' needs. This is despite the fact that the flow of funding has been increasing over the years as noted above. It was noted that the funds are in most cases meant to address national rather than local priorities. The amount disbursed as GPG and its intended purpose was the case in point. According to the budget guidelines the GPG is intended to support the councils' administration; to enable them expand their revenue bases and provide some additional local services, particularly outside the grant aided sectors as an enhancement to local own sources. In almost all the LGAs visited particularly Kongwa, Mvomero and Kibaha DCs the OC amount is very small and is mostly used to cover costs of running the standing committees' and full councils' meetings. The OC is therefore under the direct control of the Councils' Directors and therefore sharing with the other non –non grant sectors depends on the mercy of the warrant holder.

From the field interviews (PMO-RALG and LGA), it was confirmed that spending of disbursed funds was a problem. From PMO-RALG side failure of LGAs to fail to spend disbursed funds was attributed to limited capacity, delayed disbursement and long procurement process. Data from PMO-RALG on agricultural financial performance for the FY 2006/07 to December 2009 show for example that for the FY 2008/09, out of the 132 LGA that received grants for agriculture 81 or 61.4% failed to utilize all disbursed funds.

LGAs on their part noted delayed disbursement and disbursement of excess funds without expenditure guidelines as some of the factors behind underutilization of the disbursed funds. For example, Mvomero and Kongwa reported that they had not received the OC

(now issued on monthly basis) for January and February 2010. In Kongwa the Education department reported to have received funds without any covering letter to clarify on expenditure. Since the disbursement is at times not in line with the LGAs action plans and budgets the possibility of confusion regarding the use of disbursed funds is likely. Spending of disbursed is also a function of the timeframe given for spending in relation to the timing of release.

According to the CAG (2009), there is lack of close supervision on the part of LGA to supervise and monitor implementation of development projects being implemented at LLGs and that increase of funds transferred to LGAs under the D by D has high demand on capacity for financial management at various levels.

Another important concern regarding the utilization of the funds was whether they are utilized for the intended purposes. It was informed that it was difficult for LGAs to utilise the funds as per intended purposes because of either political influence or unplanned for events such as natural calamities (floods, drought etc).

5.3.4 Comments specific Formula and Indicators used.

a) The recurrent block grant for PE

The formula for personal emoluments did not exist up until recently. It was introduced in the guidelines for the preparation of the MTEF for the 2010/11 – 2012/13. The variables in this formula include:

- number of existing employees in the payroll,
- number of existing employees not in payroll, and
- number of employees to be recruited.

A number of observations were made regarding the existing system of preparing PEs and the problems encountered by LGAs. One of the issues that came up was that the process was too long as it has to pass through a number of stages and through different ministries/institution i.e. PO-PSM, MOFEA etc. Another observation is that LGA submit PE budgets for approved recruitment permits even before the newly recruited staff have reported and signed the employment contracts. Their experience is that not all recruited staff report to work.

As for the new formula it was observed that the indicators/variables were too general and that there was need for specificity to limit the possibility for submitting PE budgets based on unreliable data. For instance, the number of employees in the payroll does not specify whether is the payroll for the previous FY or the exclusion of staff who passed away, absconded, transferred etc.

b) Use of population as one of criteria in almost all sector formulae

Population features as in important indicator in most of the sector formulae. The concern from the LGAs is that the criteria could be misleading because population is not a homogeneous entity. Issues of need for the service, affordability and exclusivity came up strongly. For example, it was observed that not all people were in need for

public health services particularly in urban areas where there are many private providers. They suggested the need for qualifying this criterion. For example in the case of health to reflect the population that uses the public health services.

c) Use of villages and rural population

Some of the respondents raised concern about the use of villages and rural population as criteria in some of the formulae (eg roads) while some LGAs were purely urban. Moreover, as they noted it is not clear whether in the case of urban LGAs with villages and mitaa (like Dodoma MC) it was the existing villages or both villages and mitaa that were being used. They suggested the need for setting up for separate formulae specific to rural LGA and others for urban LGAs. This is because of differences in the social and economic activities, resources endowment and availability of infrastructural services

d) The formula for water services.

Two criteria are used for allocating the recurrent block grant i.e. number of un-served rural residents 90% and equal shares 10%. As noted above the formula is skewed towards rural LGAs again justifying the earlier suggestion for having criteria specific to urban LGAs. Some respondents observed that the criteria used does not match the grants intended purpose and that the type of water scheme and location (distances from sources to consumers) should have been taken into consideration.

e) The allocation through FBA to some degree does not take into consideration the size, characteristics (rural/urban) and variations in social economic activities eg farmers/ cattle herders

f) **Agriculture-** Use of rainfall index tend to favour area with heavy rainfall (i.e areas where both cash and food crops) grow well. This means semi-arid areas where there is limited crop farming will get less.

g) Inadequate indicators in some of the formulae. For instance in the health sector, the formulae doesn't capture important indicators like areas with incidence of chronic diseases like malaria, diarrhoea i.e "indemic areas"; consideration for handicapped and disadvantaged groups eg schools and hospitals dealing with people with disabilities

6.0 Conclusion and Recommendations

6.1 Conclusion

The study on assessment of the effectiveness of formula based budgetary allocation to LGAs was carried out as part of the review process of MKUKUTA Implementation for the period 2004/05 to 2008/09. The main objective of the study was to enhance the effectiveness and impact of implementation of the formula based allocation to LGAs.

Overall conclusion for the study shows that formula based allocation has provided a ground work towards efforts to ensure transparency, equitability and reliability of budget systems in LGAs. This is also evidenced by some achievements that have been realized over time through the FBA.

Key achievements include improved accountability (administrative, political and financial); enhanced participatory planning and budgeting; more resources channeled to LGAs; increased transparency; linkage between the planning process and poverty reduction strategies; issuance of planning and budget guidelines and more focus on bottom-up planning.

However, on the other hand, the FBA system has been faced with a number of challenges (general and specific) which need to be addressed so as to realize the desired goals/ objectives.

Some key general challenges include delays in issuing planning and budgeting guidelines; inadequate coherence between Strategic Planning , MTEF and Village/Ward plans; non-compliance to budgetary norms; unclear coordination mechanisms for formulae formulation, resource allocation and expenditure tracking; lack of information sharing amongst key actors/stakeholders in the Formula Based Budgetary Allocation System (both horizontal and vertical); plans and budgets do not necessarily use most updated information/ data and important tools to facilitate FBA implementation (O&OD, Epicor) have not yet been rolled-out to all LGAs.

Specific challenges include inadequacy of key variables in all sector formulae; non-consideration of the size, characteristics (rural/urban) and variations in social economic activities in the sector formulae; population indicator treated as a homogenous factor in almost all formulae and PE indicators being general.

6.2 Recommendations

6.2.1 General Recommendations

- Information sharing amongst key actors/stakeholders in the Formula Based Budgetary Allocation System should be improved (both horizontal and vertical). Key stakeholders include MoFEA, PMO_RALG, LGAs, DPs. This also goes along with timely release of all important information regarding FBA through various means like issue of documents (budgetary guidelines, ceilings, circulars etc) as well as posting into websites (E-governance).
- Ensure existence of clear coordination mechanisms for the formulae formulation, resource allocation and expenditure tracking. The need to establish a team or an organ that will coordinate the implementation, review of the formulae as well as enforce compliance. The team or organ could be comprised of experts from MoFEA, PMO-RALG, LGAs, NBS and Sectoral Ministries.
- Ensure that all tools that support /facilitate effective implementation of the FBA system are fully rolled-out in the LGAs
 - i.e. Roll-out of O & OD to all LGAs
 - Full and effective application of IFMS (EPICOR) as well as PLANREP to all LGAs.
- Institute a mechanism to capture and use updated information during the preparation of MTEFs from LGAs. Such information should also be used as inputs for regular review of the formulae
- The need to ensure coherence between Strategic Planning , MTEF and Village/Ward plans
- Improve capacity for financial management, monitoring and evaluation, supervision and utilization of funds at the LLGs levels. This should be made through training and/or coaching of staff at the LLGs.
- Ensure gradual growth and generation of LGAs' own revenue so as to reduce high level of dependency on central government funding. A strict condition could be incorporated in the annual assessment of LGAs, for instance, putting up a percentage range of increase eg between 5-10% on yearly basis.
- Key decisions to be taken by the government should take into account budgetary norms so as to avoid unnecessary budgetary adjustments.

6.2.2 Specific Recommendations to FBA

- Population is one of the key indicators in the sector formulae. However there is need to qualify it more to include sub-indicators relevant to the sector formulae rather than taking it into a homogeneous manner
- There is need to group/ grade LGAs according to common features (eg factor endowment, economic activities, infrastructure levels etc) and apply specific formulae relevant to the group/ grade of LGAs that will ensure equity distribution of funds. This however requires conducting in-depth studies on the profiles of each LGA and hence culminate into grading/grouping of LGAs with similar profiles/characteristics
- Undertake a thorough and in-depth review of all sector formulae so as to take into account all the specific formulae challenges that have been and are being experienced by LGAs (highlighted in item 5.3.4) i.e inadequacy of key variables in all sector formulae; non-consideration of the size, characteristics (rural/urban) and variations in social economic activities in the sector formulae; population indicator treated as a homogenous factor in almost all formulae and PE indicators being general. The review teams should include relevant sector experts, experts from MOFEA, PMO-RALG, NBS and LGAs.

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Appendences

Appendix 1

List of officials/peoples met

1. Athuman Akalama	DED	Kongwa District Council
2. E. M. Kajuna	DPLO	-“-
3. Said A. Panga	PLO	-“-
4. Dr Nestory Limbanga	Ag DMO	-“-
5. Michael Liloga	DEO (PR)	-“-
6. Michael S. Marco	DT	-“-
7. E.Y. Lyimo	Ag DE	-“-
8. Timoth Bernad	DEO (SEC)	-“-
9. F.M. Ngotonie	DALDO	-“-
10. Siraji Iddi	Ag DWE	-“-
11. Anna G. Mgoyezi	DHRO	-“-
12. Eng Beda Labule	Ag MD	Dodoma Municipal Council
13. Sebastian Masanja	MHRO	-“-
14. Neema Chamgeni	Ag MEC	-“-
15. Mdendemi Rehema	Ag MALDO	-“-
16. Raphael Chitemo	P/TECH	-“-
17. Eliud Njogela	AET	-“-
18. Dr Kelvin Mtavangu	Ag MOH/DMO	-“-
19. Nicolaus Bureta	MSEO	-“-
20. Inviolata Laswai	H/S	-“-
21. Eng. R. Baseki	MWE	-“-
22. Mr John Mwilima	Ag Assistant Commissioner Budget	MOFEA
23. Mr Shallanda	Commissioner – Policy Analysis	MOFEA
24. Mr Hetsom Msalala	ASDP Coordinator	PMO-RALG
25. Mr. T. Bagandachwa	Ag DPP	-“-
26. Mr Daniel Lyakinana	Economist	-“-
27. Eng Shemagala	Road Engineer	-“-
28. Ms Cesilia Nzamita	VTT Coordinator	-“-
29. Mr Johnson Nyingi	LGT Coordinator	-“-
30. Mr Liboi	Coordinator- Primary Education	-“-
31. Mr Sayile	Coordinator- JHRP	-“-
32. Emmanuel Mahinga	Assitant Director DMIS	-“-
33. Ms Sarah Linuma	DED	Mvomero
34. George Mhina	DALDO	-“-
35. Eng. M.B. Magumbo	DWE	-“-
36. A.A. Mwakalyelye	DHRO	-“-
37. K.M. Stima	DT	-“-
38. Nimrod Mahenge	SLO	-“-
39. Eng A.S. Mdee	Ag DE	-“-

40. Dr Mbena Omari
41. Ms Singano

Ag DMO
ME

-“-
Kinondoni Municipal Council

TERMS OF REFERENCE

1. Background

The Government of the United Republic of Tanzania, through the Ministry of Finance and Economic Affairs, has set aside funds for the operations of the Ministry of Finance and Economic Affairs during financial year 2009/2010. It is intended that part of these funds will be applied to cover eligible payments for the provision of consultant services to study on Assessment of the effectiveness of formula based budgetary allocation to LGAs. This assessment is part of the review process of MKUKUTA implementation for the period 2005/06 to 2008/09.

Tanzania's National Strategies for Growth and Reduction of Poverty (MKUKUTA and MKUZA) have been the national guiding frameworks for growth and poverty reduction in the second half of 2000s. These second generation PTSs generated a strong agenda, aiming at sustaining broad-based growth whilst emphasizing improvement in quality of life and social wellbeing as well as equity and good governance.

During the implementation of MKUKUTA and MKUZA, there have been significant improvements in strengthening the budget process making it a true catalyst for achieving the country's national economic growth and poverty reduction objectives. A comprehensive Medium Term Expenditure Framework (MTEF) has remained the major budgeting tool. Recently, this tool has been augmented with other instruments such as SBAS, IFIMS and PlanRep, in order to enhance alignment of the budget with interventions. Another development that has been witnessed is increasing tendency to allocate more budgetary resources to LGAs through government's agenda of Decentralization by Devolution (D by D).

One of the measures associated with these reforms include the introduction of formula based allocation of budgetary resources to LGAs in FY 2004/05. The formula based allocation is intended to address inequity that existed in the previous allocation modalities in health and education sectors. As of 2006/07, formula based allocation systems was extended to cover other changes (OC) in 4 sectors of LGAs namely; agriculture, water, road and administration (General Purpose Grant). In the health budget for example, the previous allocation modalities were based on the number of hospital beds, health facilities, and population per councils. As a result, resources tended to be skewed to councils with high investments in health facilities while disregarding health needs and demands of underserved areas. With the advent of the formula based allocation, the criteria are based on the population size, poverty index, under five mortality rates, and distance covered for supervision of health facilities and distribution of drugs, supplies and other medical equipment. Despite the efforts, some studies have shown significant deviations in budget allocated and that which the formula predicts.

2. Objective

The objective is to enhance the effectiveness and impact of implementation of the formula based resource allocation to the council.

3. Scope

To address the objectives stated above, the consultant shall examine the council's formula based budget allocations since 2004 (on annual basis). One financial year before the introduction of the formula should be included to provide 'before and after' comparison.

4. Specific tasks

Specific tasks include the following:

- i. Review council plans and budgets for the education, health and other sectors where formula based resource allocation is applicable in a selected sample of councils.
- ii. Establish how financial resources allocation (total amount) across councils has changed before and after the resource allocation formula.
- iii. Assess whether the formula has been properly applied and established factors behind the observed performances in term variance of what the formula predicts and the actual allocation.
- iv. Analyze the performance of the formula based allocation system and determine whether there have been any problems in the current formula based system (e.g. in terms of the indicator) or in its implementation.
- v. Recommend policy measures to enhance the effectiveness and impact of implementation of the formula based resource allocation to the councils.

5. Methodology

Thus, a great deal of the study will use a desk review approach. The assignment will involve review of sample council's plans and budgets of the sectors applying the allocation formula. This task may draw inputs from the findings of the study on formula based allocation to LGAs presented in the GBS Annual Review 2008. This assignment and released/disbursed to councils. A comparative analysis of the magnitude of these variables from years before and after the introduction of the formula will ascertain drifts away from the old allocation criteria.

The consultant will be required to provide details of the appropriate methodology in the technical proposal and in the inception report. The proposal should show how the consultant will compose the team to work on this assignment. The consultants will work with relevant departments in the Ministry of Finance and Economic Affairs to identify and collect the relevant documents to be reviewed.

6. Expected output

One week after signing the contract the consultant, in collaboration with other interim report tow weeks after the acceptance of inception report to be discussed at the sector working group level.

One week after receiving comments on the interim report, the consultant in collaboration with other members of the team, shall produce a final report. A report should show relevance and applicability of OC and PE formula based allocation system and includes recommendations for the way forward on how the Government can improve the implementation of the formula based resource allocation.

7. Human Resource Requirement

Given the nature of the assignment, it is proposed that the consultant firm to undertake the task to be strong familiar with the overall government budget and planning process. Specifically, it is preferably that the consultant should be well familiar with the comprehensive MTEF and PER process and the D by D policy (formula base resource allocation arrangement). In addition he/she should be familiar with instruments such as SBAs, IFIMS, PlanRep etc. Professional wise, the consultant team should be led by an economist or public sector expert holding a PhD. Experience with other similar case studies (in country or internationally) will have an additive advantage. Team wise, it is proposed that a group of three people to accomplish the study.

8. Time Frame

In order for the output to feed into MKUKUTA/MKUZA Review process, the draft consultant report is expected to be submitted after 30 working days from commencement date of the assignment. The assignment is expected to commence in October, 2009 after signing the contract.

9. Activities

S/No.	Activity	Time frame (Working days)
1	Desk study review of policy documents, financing framework etc and literature review	5 days
2	Produce Inception Report including working program	4 days
3	Data collection (survey and consultations) and analysis and report writing	14 days
4	Draft report and dissemination workshop	3 days
5	Final report	4 days

10. Payment terms

First instalment of 30 percent of the contract price shall be paid upon signing the contract, 40 percent upon submission of interim report and 30 percent upon acceptance of the final report.

11. Institutional Arrangements

All technical matters related to this study (e.g. review of all reports) will be coordinated by the CPAD – MOFEA. However, the overall coordination shall be provided by the PEED-MOFEA (PEED). Thus, the consultant shall report to PEED-MOFEA through CPAD-MOFEA.

Appendix 3

The Planning and Budgeting Cycle at different levels

Time	National Level	PMO-RALG	RS	Local government Level	Lower Local Government Level
September	MOFEA starts Planning for Financial Year (CPAD)				
November - December	Central Government Budget framework approved by Cabinet				
December - January	Local Government Budget guidelines and IPFs are issued by MOFEA	Receives and distribute to LGAs through RS	Receive and distribute to respective LGAs	<ul style="list-style-type: none"> • Participatory planning and budgeting process starts through revenue and expenditure estimates • Identification of community needs • Dissemination of IPFs to Wards and Villages 	<ul style="list-style-type: none"> • Council, wards, and village/mtaa facilitation teams revisit existing plans and prioritize • Cost centers prepare plans and budgets
February - March				Budget preparation	<ul style="list-style-type: none"> • Submission village plans as approved by village assembly to Wards • Wards through WDC compile villages plans at Ward Level • Submission of Ward Plans to LGAs
March - April			Provide required support, guidance and advice to LGAs	<ul style="list-style-type: none"> • LLGAs plans and budgets discussed and consolidated into councils plans and 	

				budgets <ul style="list-style-type: none"> • Finance and planning committees discuss councils plans and budgets • Full councils approve council plans and budgets 	
April - May		Review the council budgets and plans (MTEF)		LGAs submit council plans and budgets to PMO-RALG and MOFEA through RS	
May - June	MOFEA consolidate National Budget				
June	Parliament approves the National Budget				

Appendix 4

TYPES OF GRANT	OBJECTIVE	CURRENT FORMULA IN USE
HEALTH		
Block Grant for Primary Health	To provide funds for the operation and delivery of primary health care services at the council level,	Population (70%), poverty count (10%), district vehicle route (10%) morbidity count – under five (10%).
Health Sector Basket Fund (HSBF)	To supplement the OC funds provided under the Health Block Grant for the operation and delivery of primary health care services at the council level	same formula as above
TACAIDS (HIV/AIDS) Subvention	To address the HIV and AIDS epidemic in Tanzania.	The subvention used the same formula of allocation as Health Block Grant in 2007/08 and a new formula which take into account overall population, prevalence rates, as well as the number of orphans across different local government authorities in 2008/2009 as well as 2009/2010.
Health Sector development Grant (HSDG):	Provide earmarked health development funds that are used to implement Primary Health Services Development Programme (MMAM).	The same formula as the Health Recurrent Block Grant plus LGDG assessment score
	Joint Health Infrastructure Rehabilitation	
EDUCATION		
BLOCK GRANT FOR PIMARY AND SECONDARY EDUCATION	To finance personal Emoluments (PE) and Other Charges (OC)	Primary school: Number of school-aged children (100%)
		Secondary School: number of enrolled students (day and boarding) 100%
EDUCATION SECTOR DEVELOPMENT GRANT	a window within the LGDG which aim at supporting LGAs in improving the accessibility and quality of primary, secondary and adult education through rehabilitation/construction of basic infrastructure	Number of school-aged children (70%); classroom shortage (20%); level of poverty (10%) plus assessment reports (very good (100%); good (80%); poor (50%))

AGRICULTURE EXTENSION		
Recurrent Block Grant- Agriculture	To finance personal Emoluments (PE) and Other Charges (OC)	Number of villages (80%); rural population (10%) and Rainfall index (10%)
Block Grant for Agricultural and Livestock Development services	To enable LGAs to administer and deliver effective and livestock extension services	Allocate maximum of 20% for administration; least 80% for agriculture and livestock extension at ward and village levels
District Agricultural Development Grant	To finance local agricultural development expenditure	Performance assessment (very good (100%); good (80%); poor (50%))

agriculture Extension Block Grant (A-EBG)	to provide fund for both public extension services and for Non State Actors	The same formula for agriculture extension block grant plus and performance assessment and conditions as outlined in the 2008 LGDG Assessment Manual
Agricultural Capacity Building Grant (A- CBG)	to provide finance for capacity building in the context of Agricultural Development	The presence of acceptable building plan as well as the good annual performance assessments conducted by PMO-RALG.

WATER		
Recurrent Block Grant- Water	To finance personal Emoluments (PE) and Other Charges (OC)	Number of unserved rural residents (90%); Equal share (10%)
Block Grant for Water	to provide recurrent funding for local water activities (monitoring and implementation)	
Water Sector Development Grant (WSDG)	To finance capacity building and development activities	
Water Sector Development Grant (WSDG) – Council Development Grant (CDG)	To finance implementation of infrastructures	Population (70%), Technological options (30%) plus the level of performance status (very good (100%); good (80%); poor (50%))
WSDG – Capacity Building Grant (CBG)	to provide finance for capacity building for District Water Sanitation Teams	Is allocated on equal lump-sum basis. All LGAs are allocated 100%

LOCAL ROADS		
Recurrent Block Grant – Local Roads	To finance personal Emoluments (PE) and Other Charges (OC)	Road networks length (75%), Land area (cropped) (15%), Number of Poor residents (10%)
Block grants for	To provide funding for the	Using a ceiling

Council Roads	core maintenance of council roads	
Road Fund Maintenance Budget		
Village Travel and transport Programme (VTTP)		
GENERAL PURPOSE GRANT (ADMINISTRATION)		
General Purpose Grant		Total population (50%), Total number of rural residents (30%), fixed lump (10%), total number of villages (10%)