

**EFFECTIVENESS OF DECENTRALIZATION BY DEVOLUTION: FINANCIAL  
RESOURCES VERSUS ABSORPTION CAPACITY**

# **FINAL REPORT**



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## ABBREVIATIONS

ASDP	Agricultural Sector Development Programme
CAG	Controller and Auditor General
CBG	Capacity Building Grant
D by D	Decentralization by Devolution
DPs	Development Partners
GBS	General Budget Support
GoT	Government of Tanzania
GPF	General Purpose Fund
HLGA	Higher Level Government Authority
INSET	In Service Training
LGAs	Local Government Authorities
LGDG	Local Government Development Grant
LGMD	Local Government Monitoring Database
LGRP	Local Government Reform Program
LLGA	Lower Level Government Authority
MoFEA	Ministry of Finance and Economic Affairs
MoEVT	Ministry of Education and Vocational Training
MoHSW	Ministry of Health and Social Welfare
M&E	Monitoring and Evaluation
MoU	Memorandum of Understanding
O&M	Operations and Management
PE	Personnel Emoluments
PEDP	Primary Education Development Programme
PETS	Public Expenditure tracking System
PlanRep	Planning and Reporting System
PMO-RALG	Prime Ministers Office, Regional Administration and Local Governments
PMU	Procurement Management Unit
TACAIDS	Tanzania Commission for AIDS
TASAF	Tanzania Social Action Fund
ToR	Terms of Reference
TPR	Teacher Pupil Ratio
TRC	Teacher Resource Centre
UDEM	Urban Development and Environment Management
UNDP	United Nations Development Programme
UNICEF	United Nations Children Fund
VEO	Village Executive Officer
WEO	Ward Executive Officer

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## EXECUTIVE SUMMARY

### **Background/rationale of the study**

Local Government Authorities (LGAs) are now the main providers of basic services to the people and are therefore major implementers of Government policies at the local level. Specifically, LGAs undertake the following functions: to oversee and execute the policies, laws, regulations, procedures and guidelines from the Central Government; to carry out community development in economic terms, for the people within the areas of their jurisdiction; to plan and execute development programmes and projects through participatory approaches; and to mobilize communities in the fight against poverty, ignorance, diseases and especially in the fight against poverty under the National programme on poverty alleviation.

Thus the general objective of this study is to analyze the effectiveness of decentralization by Devolution in terms of matching deployed financial resources with the absorption capacity at LGAs. This study focuses on two main service sectors: health and education. The study critically examines the factors that enhance and diminish absorption capacity on both the supply (e.g. functioning of transfer systems) and the demand sides (e.g. governance and administrative systems at local level).

### **Methodology**

In line with the ToR the study was carried out using a two-method approach: documentary review and field interviews in the selected LGAs (2 urban and 4 rural). The study team comprised of the team leader, Prof. Athumani Liviga and Maureen Roell and Prof. Amos K. L. Mhina as team members. The team worked very closely with MoFEA and PMO-RALG official throughout the process.

### **Findings**

#### General observations:

- (i) LGAs have accepted their role as lead implementers of government policies and directives as well as locally generated development projects based on their respective priority areas.
- (ii) LGAs appreciate increased amounts of financial resources currently being sent to them by the central government as well as DP
- (iii) With few exceptions (audit queries by the CAG) LGAs have exhibited increased competence in absorbing, managing and monitoring resources sent to them by the central government
- (iv) Delays in disbursement of development funds especially by DPs is hampering effective implementation of development projects approved for implementation in LGAs
- (v) LGAs absorption capacity is constrained by a number of factors from both the supply and demand sides. For example these constraints include respectively, late disbursement of development funds and inability to attract, recruit and retain qualified professional staff.

## **Conclusions**

### **(i) On governance and administrative systems**

Administrative systems are in place and have improved significantly since the introduction of the annual Assessment of LGDG grants system. Equally the governance aspects have improved because the Full Councils are increasingly under pressure to play their role.

### **(ii) On gap between financial resources received and absorption capacity at LGAs.**

There is ample evidence that LGAs have the required absorption capacity to manage, supervise and report on additional financial resources made available to them.

### **(iii) On timeliness and adequacy of existing intergovernmental transfer systems**

Transfer of PE is consistent and timely as is the case with OC. The transfer of development funds generally starts towards the 3<sup>rd</sup> and 4<sup>th</sup> quarters. There are especially serious delays in the disbursement of development funds especially from DPs.

### **(iv) On effectiveness of formula –based allocation of resources**

The principle supports the better distribution of resources to especially remote councils. Although it has brought some improvements, the formula based allocation does not work as intended, because there are other factors, which need to be appreciated.

### **(v) On the recurrent and development budget performance at LGA level**

Overall performance is good, reflects plans and priorities. However, delays in disbursement of development funds have led to roll over funds becoming a regular and generalized practice. The formula based allocation has greatly increased reliability of funds and improved the planning process in LGAs

### **(vi) On latest reports of the CAG and action taken by various authorities**

There has been improvement in LGAs finance management as exemplified by the number of qualified opinions of the CAG. Despite improvement in audit certification there are many queries in councils and there seems to be an increasing laxity as the number of LGAs being awarded qualified certification is increasing.

### **(vii) On implementation role of PPP approach in service delivery**

In remote areas the LGAs cannot find the required expertise to outsource the works. Therefore LGAs are often forced to implement by themselves or to take below standard contractors. Some of the contractors used in the LGAs are sub-standard and produce shoddy work, because of, among other things, delays in payments.

### **(viii) On procurement regulations and the existence of procurement plans**

Procurement regulations are followed but not all LGAs have procurement plans that they strictly adhere to. The procurement Act and regulations for LGAs are constraining in a number of ways including the fact that they prohibit the signing of contracts before funds are secured. The delays in disbursement of funds result in frequent deviations from the procurement plans.

**(ix) On procedures around the production and submission of progress reports in facilitating the release of financial tranches**

There are too many and frequent report requirements as a condition for release of funds from both the central government and basket and other donors who demand separate reports. There is evidence that report writing is taking a lot of LGAs time and in some cases some planning officers are almost permanently involved in coordinating report writing.

**Recommendations**

Based on the conclusions listed above, the study has come up with a set of recommendations summarized as follows:

- Review the planning and budgeting cycle at LGA level in line with the reality of cash availability and unpredictability of funds in terms of timeliness and amounts.
- Develop or identify less complicated management tools and make them compatible with each other, especially regarding Epicor.
- Central government officials and DPs need to establish the type of information, which is needed in a year so that LGAs can produce more standardized reports.
- There is need increase further the management capacity of LGAs so as to ensure better accountability to allow management of increased finances.
- Upgrade the assessment criteria for LGDG as way of improving the quality of management in LGAs.
- Improve the information flows between MDAs and Regional Secretariat, so that they can play their role of supervisor and facilitator.
- Use appropriate channels and systemize the mechanisms to inform the LGAs on intergovernmental transfers
- All financial transfers need to be accompanied by paper work, which can be faxed to LGAs. Newspapers can be used as a transparency strategy to inform the public in the LGAs.
- CAG should have more power to enforce that LGA take the appropriate action in follow up of the audit reports.
- Or other mechanisms should be established eg. insert it in the criteria for the Assessment or next audit report will be qualified/adverse, etc.
- MoFEA might have statutory reasons, which prevent disbursement of development in the first quarter. However, it does not provide a firm date when the funds are to be disbursed. MoFEA needs to institute reliability in the exact month of transfer of development funds so that LGAs can make preliminary preparations for plan implementation.
- MoFEA needs to address these issues with the DPs and foresee/prepare for the different scenarios
- There is need to put into place special incentives to draw staff voluntarily to the underserved LGAs.
- By joining forces and comparing details, MoFEA and PMO-RALG could address the inequality of staff between the LGAs if they really want to.
- LGAs need to put more efforts to mobilize own funds by facilitating commercial activities, which would be sources of local tax.
- MoFEA needs to integrate the carry over system into the mainstream and clearly inform the LGAs on the procedures and reporting.



- LGAs need to avoid compromising their supervisory tasks through giving contractors work when there are no funds to pay them.
- Joint revision of the regulations should smoothen the expenditure of funds.
- Guidelines on how to deal with procurement at village level need to be developed based on simple and uncomplicated rules

### **Specific Recommendations for the different institutions:**

#### **MoFEA**

- Review the planning and budgeting cycle: make it shorter for the HLGA-LLGA level
- Renegotiate conditionalities with DPs on the timing of progress reports
- Review the regulations for procurement at village level
- Refine formula's and apply formula to PE
- Create special funds for attracting staff to remote areas

#### **LGAs:**

- Improve on internal auditing and follow up of CAG reports
- Improve on own revenue collection
- Follow up on ward and village expenditure and implementation
- Include ward and village levels in reporting

#### **PMO-RALG:**

- Review PE payrolls together with MoFEA and insist on improving distribution of staff
- Strengthen RS and systematically involve them

## **PART ONE: BACKGROUND AND PURPOSE OF THE STUDY**

### **1.0 Introduction**

The Government of the United Republic of Tanzania, through the Ministry of Finance and Economic Affairs, has decided to carry out a study to analyze the effectiveness of decentralization by Devolution (D by D) looking specifically at financial resources versus absorptive capacity of LGAs.

LGAs are now the main providers of services to the people and are therefore major implementers of Government policies at the local level. LGAs perform, among other functions, the following:

- They oversee policies, laws, regulations, procedures and guidelines from the central government;
- They carry out community development in economic terms for the people within their areas of jurisdiction;
- They plan and execute development programmes and projects through participatory approaches; and
- They mobilize communities in the fight against poverty, ignorance, diseases and especially the fight against poverty under the national programme on poverty alleviation.

The importance of LGAs cannot therefore be overemphasized. LGAs constitute an important link between the central government and the people in the development process in general and poverty alleviation in particular. Such a critical link needs to be solid and capable of meeting its obligations including building its capacity to discharge its obligations.

### **1.1 Objectives of the Study**

#### ***General objective***

The objective of the consultancy is to analyze the effectiveness of Decentralization by Devolution in terms of matching deployed financial resources with the absorptive capacity at the LGAs. The study focuses mainly on two main service sectors: health and education. The study aims to critically examine the factors that enhance and diminish absorptive capacity on both the supply (e.g. functioning of transfer systems) and the demand side (e.g. governance and administrative systems at local level).

#### ***Specific Objectives and Focus of the Study***

To achieve the general objective of the study the following specific objectives have been identified and form the focus of the study:

- to assess existing LGAs business/operational practices (governance and administrative systems) in relation to increased resource at that level;

- to assess the existing gap (upward or downward) between financial resources received and absorptive capacity at LGAs (the level of resources that is actually spent/could be spent if made available);
- to assess the flow of information (information systems) at all levels; centre, regional secretariats, LGAs and lower level LGAs and how this affects absorptive capacity;
- to assess existing intergovernmental transfer systems, the way funds are disbursed from the Treasury to LGAs, in terms of timeliness and adequacy;
- to provide an assessment of the effectiveness of formula-based allocation of resources. Also assess the relevance of the variables used in determining allocation of resources on the basis of formula in various sectors;
- to analyze the recurrent and development budget performance at LGA level for the past three years paying special attention to the following:
  - Showing clearly the trends in expenditures at sectoral and sub-sectoral level and assessing whether and how far these trends reflect policy objectives;
  - Assessing the rationale of resource allocation among LGAs for both development and recurrent expenditures with reference to formula-based approach;
  - Assessing the effectiveness of the current system for allocation of Personnel Emoluments (PE);
  - Examining how rolled-over funds have been utilized and reported;
  - Analyzing the profile of staffing levels (trained staff) at LGAs and assessing their capacities and competencies to monitor the resources disbursed to LGAs; and
  - Reviewing the latest report of the Controller and Auditor General (CAG) and action taken by PMO-RALG, Regional Secretariats and LGAs to address the main issues raised;
- to assess the implementation role of the Public-Private Partnership approach in service delivery at all levels of LGAs. Also articulate their contribution in terms of financial resources and apportions as a percentage of total expenditures within the last three years;
- to assess procurement regulations and processes and the existence of procurement plans;
- to assess procedures around the production and submission of progress reports in facilitating the release of financial tranches; and
- to analyze any other issue found to be relevant to the study that impact on the efficient functioning of LGAs.

## **1.2 Methodology**

### **1.2.1 Approach**

The Consultants used a participative approach, which ensured that the client retained ownership of the process at all times. To that end the consultants submitted to the client a schedule of activities that were discussed and agreed by both parties. The process involved also interviewing some of the main stakeholders.

### **1.2.2 Methods**

In order to achieve the objectives of the assignment the consultants carried out the following activities:

- Conduct a review of relevant literature/documentation as stated in the ToR and make an analysis as required by the ToR
- Conducting a series of meetings and interviews with key and relevant representatives of the key stakeholders (jointly agreed upon between the Consultant and Client).
- Prepare report, synthesize information generated from the documents and views of stakeholders on issues identified in both the general purpose of the study as well as the specific objectives of the study.

### **1.3 Report Outline**

The organization of this report is largely in line with the terms of reference. Part 1 presents the objectives of the study and the methodology used to collect information and data. Part 2 the main findings of the study. This part is subdivided into seven sub-sections responding to specific questions as outlined in the ToR (tasks for the study). Part 3 presents conclusions and recommendations of the study.

## **PART TWO: THE STUDY FINDINGS**

### **2.0 Introduction**

The examination of the absorption capacity of LGAs financial resources has to take into consideration perspectives from two levels which often complement each other but at times differ. The central government level supports the devolution process financially but in some cases directs on the priorities to be followed. The local government level complements the very significant increases of resources, both financial and human, provided to them but at times feels that their own priorities are not adequately appreciated. The findings of the study present the absorption capacity of LGAs, but also present some of the perspectives.

### **2.1 Governance and Administrative Systems**

#### **2.1.1. The set up**

LGAs have the task of providing social and other services to societies within their areas of jurisdiction. Critical to this task is poverty reduction among the urban and rural people most of whom are poor. In this regard the provision of basic education and health services is not only important but also critical. Recently the bar of basic education has been raised to secondary level with a massive increase in Ward Secondary schools. In the health sector there is a move to build dispensaries in most villages and health centres at the Ward levels. These are lofty objectives, which nevertheless have important costs.

The provision of such services has led to two challenges facing LGAs. The first is that of raising own funds from precarious sources to particularly meet the costs of new secondary schools. The second challenge is to create absorption capacity for utilizing grants from the central government and donor resources from the basket funds and beyond. The business and operational practices of LGAs are determined by the revenues available to them as well as the governance and administrative systems in place. The picture of revenues available to LGAs shows some differences. While the percentage of own funds for Moshi Municipality was 19% in 2006/07 and 21% in 2007/08, that of Korogwe has consistently stood at 1%. The differences can be attributed to governance issues, illustrated in the differences in the levy compensation from Treasury, which is calculated from the level of LGAs collections before the abolition of nuisance taxes. Some LGAs are able to mobilize their communities to contribute to development than others. Governance here refers to management and councilors working together effectively and efficiently to mobilize resources. There are however other reasons attributed to limited tax sources especially for Rural Councils, which affect the level of service provision and consequently poverty reduction. Both Morogoro and Korogwe District Councils whose own collection account for 1% of their revenue have for example large areas under plantations whose taxes are collected directly by the Central Government

The level of external revenues in the form of Central Government Grants and donor funds has increased significantly. This is recognized in all Councils and by officials of LGAs. It

has made both the Central Government and LGAs visible to people at all levels of the local government system and raised the legitimacy of both Central Government and LGAs. At the same time governance and administrative systems have improved significantly. Before the reforms many local government workers were demoralized and dysfunctional. In the words of one Director the role of a Director then was virtually chasing after salaries to be paid to workers at the end of the month and the task seemed endless as the search would restart immediately. Availability of increased funds has included allocation for capacity building in the form of supporting governance and administrative structures. At the same time there are conditions for accounting for funds provided in the form of progress reports, which are required before next fund tranches are released. There is also frequent external auditing aimed at establishing whether funds are being used appropriately and whether purchases and works reflected value for money.

Such requirements have made governance and administrative systems in LGAs to work far better than before. Management teams are performing better and Full Councils have to play the oversight role more effectively. There is much room for improvement both at the level of management and that of Councilors, whose ability is at times seen as inadequate. This has often been highlighted by members of the Parliamentary committee on local government. However, the evidence for improvement is that today fewer LGAs are failing in the annual assessment for qualification to obtain LCDG funds. In addition they are faring better in CAG reports.

#### **2.1.2. Governance:**

##### **Management structure**

In both urban and rural LGAs, the Council operates under the directives of the full Council, which is the supreme body for legislative responsibilities. Under the full Council there are three committees, which are answerable to it. The Council Director is the Chief Executive of the Council and is responsible for the day-to-day activities of the council. According to section 33(4) of the Local Government Finances Act No.9 of 1982 (as revised in 2000) the Council Director is also the Accounting Officer of the Council. The structure of the Council provides also the position of Internal Auditor and a Legal Officer with responsibilities of advising the Directors on matters falling under their areas of jurisdiction. In addition, the structure provides for functional departments that include: Administration, Finance, Economic and Trade, Health, Education, Works, Planning and Environment, Agriculture, Livestock and Co-operatives as well as Social Welfare and Community Development.

##### **Internal Control System**

Each LGA establishes a system of internal control provided for under Orders 9 through 11 of the Local Authority Financial Memorandum (1997). These orders require the Finance and Administration Committee to adopt written procedures for control of finances. The Director and Treasurer are also required to assign specific responsibilities to individual officers based on the approved organo-gram of the Council. It is also a requirement that each LGA (Council) employs an Internal Auditor who reports directly to the Director. Similarly, the Procurement Act No. 2 of 2004 Section 28(1) requires the Council to establish a Tender Board and section 34 (1) provides for the establishment of a

Procurement Management Unit (PMU). In all the six LGAs visited by the study team, the internal control system complies with these Orders and the Public procurement Act.

### **Management – Councillor Relationship and Absorption Capacity**

Absorption capacity can be defined as the extent to which an LGA is able to fully spend allocated financial resources from the Central Government and Development Partners in an effective and efficient way. To be able to do so, an LGA has to command a number of capabilities that include the following:

- Implementation of annual action plans within the specified time so as to avoid frequent roll over budgets.
- Ability to select competent contractors and supervise projects so as to ensure value for money.
- Ability to mobilize own funds and community contributions to supplement external funds.
- Ability to satisfy external audits.
- Ability to produce satisfactory progress reports to be able to get all allocated external funds.
- Ability to pass assessment criteria so as to obtain all development grants aimed at its population.
- Ability to improve and extend capacity so as to be able to utilize increased funding.

Absorption capacity at LGA level can be achieved when the administrative and management wing on the one hand, and the representative and political wing on the other, work together harmoniously as they engage communities for provision of better social services and poverty reduction. The prevailing situation in the LGAs in general and the six visited by the study team (as has been presented under section 2.9.1 below) does not always provide the supportive environment management would require to fulfill its obligations.

#### **2.1.3. The Planning and Budgeting Cycle and Absorption Capacity**

The time that elapses between the request for support, to the decision at central level to funding a particular activity and the reception of the funding by the beneficiaries (services facilities) depends on a chain of steps to be taken. Most of the systems are in place to let the money flow, but there are a number of obstacles or bottlenecks that hamper smooth transfers.

The whole planning and budgeting cycle is long and it is not flowing in terms of timing. A general problem for the LGAs is that the guidelines (MTEF) and ceilings are published late, for the LGAs to be able to plan and budget on time. By the time that the Ceilings, as defined by the Budget Committee, are finalized in April, the LGAs already have submitted their plans and budgets to be scrutinized by the LAAC committee. By the time the ceilings are published and approved by the parliament, the financial year has started. The sector ministries then still need to plan and finalize the sector budget allocation during the August House session. In the mean time, the councils will have to use the carry over money of the previous year to survive the first quarter(s) of the financial year.

**Figure 1: Planning and budgeting cycle**



The MTEF was meant to be a three year rolling plan, where the first year would be clear and the 2nd and 3rd year would be more or less known (+/- 5%). However, due to the unreliability of the funds, the 2nd and 3rd year are not known and therefore the system does not work.

The planning and budgeting process needs to be shortened and simplified. The planning and budgeting should stay closer to the community level, where statutory meetings could become meaningful again, if (some of the) priorities will be implemented within the year that they were jointly planned and agreed upon. The advantage of the village level governance is, that there are official and unofficial watchdogs. The quarterly assembly meetings could be used for discussing priorities for the money received from the District Council plus own contributions. The community will be maybe not very good in reporting, but they will probably be more alert to get value for money.

This idea seems to be supported by the Mid-Term Review of LGSP<sup>1</sup> which found (in a sample of 4 districts) that investment funds managed by villages and other community level institutions was satisfactory, that money was well spent and that unit costs generally were lower when villages managed projects compared to district managed funds.

<sup>1</sup> Mid-Term Review of LGSP for PMO-RALG 2007, Final report Component 1&3, DEGE Consult



The recent Value For Money Audit<sup>2</sup> (PMO-RALG, 2009) confirmed those findings from a larger sample (24 LGAs), where it was found that only 2% out of the reviewed projects implemented 2005-2007 were of “poor quality” and the remaining of “fair (14%), good (50%) and best (34%) quality.

#### **2.1.4. Flow of Information and Absorption Capacity**

The flow of information so as to facilitate the financial absorption capacity of LGAs has to be both ways in order to facilitate poverty reduction. As indicated above the budgetary process in Tanzania starts at the community. The LGA planning team involves communities through a participatory process, which involves the drawing of priorities and proposing projects. Once the budget is approved most LGAs find mechanisms of informing communities regarding the approved budget lines. The flow of information from the national level to LGAs (council level and from that level to lowest levels – wards and villages) and vice versa is important for good governance. There is also the Regional level which now plays a supporting role as stipulated by The Regional Administration Act 1997.

As stated above, LGAs are both political and technical entities and have both political and management arms. The two operate harmoniously when both recognize the limits of resources that decisions can be inflated when resources are available. Political directives become a problem when they are issued without taking into consideration the limits of existing resources, especially budgeted financial resources. There are examples where the flow of information has been top-down without consideration for budgetary allocations. One political directive, which has had impact on budgeted resources, is the drive for building Secondary Schools, which, although progressive, has been often done at the expense of other priorities.

In Kinondoni, for example, most of the funds used for building Secondary Schools came from own funds. In the 2007/08 financial year a directive was made by the Prime Minister to build classes when the annual budget was already in place. Tzs. 5.2 billion was used for that task. The funds used had been budgeted for other projects, which came up from the participatory planning with communities at Ward level. Consequently many members of the community were not happy that the other priorities in health and water infrastructure had to be abandoned. The crisis of providing classes has continued as this year (2009/10) 16,921 pupils have “passed” and are to enter form 1 in those public secondary schools. In general, 400 classes are needed, 248 of them immediately. These classes will cost more than Tzs. 2.2 billion without desks and more than Tzs.4.3 billion with desks. The Council has a Tshs. 1.7 billion carry over debt in this item and therefore the whole exercise this financial year will need Tzs. 6 billion. Kinondoni Municipality had already allocated in its budget Tshs. 5.52 billion for development projects from its own revenue. Once again some projects already planned will not be financed this financial year.

<sup>2</sup> Independent procurement review 2 VFM

Information is also communicated between the CG and LGAs by using the Ministry of Finance and Economic Affairs' (MoFEA) website as well announcements in the Newspapers. The system is working, but it is showing signs of slacking and so the detailed information required is not always available and accessible. It would seem that in addition to using the above method, there is need for more detailed paper work to accompany the transfers. The use of fax as is the case with banks can improve the efficiency of the system. MoFEA (sub treasury) budget desk officers for each region could also come in handy in this regard. Each council has over 40 accounts (on average) or more and it is hard from them to follow each account. Therefore, it can also happen that LGAs are waiting for funds while it is already on their account.

The MoFEA is aware of this issue and has now instituted measures to systematically inform the LGAs and copy the respective information to the Regional Secretariats (RSs) so that they can also communicate with the LGAs and make follow ups. It came to light during the interviews that the RSs are not sufficiently involved in the monitoring and follow up of the projects at ward and village levels. It was also made clear that PMO-RALG should actively encourage and facilitate the RSs to become more active. The sector clusters within the RSs have been empowered within especially the Health and Education Sectors, which should facilitate the process of monitoring. LGAs reported that there is still not enough capacity at the regional level to supervise and follow up although it is government policy to involve the Regional Secretariats systematically even though most of the finances are now directly going from MoFEA to the LGAs (instead of via the RSs).

It was further observed that information flows between Central Government and Local Government increasingly take place also through the internet and mobile phones, though letters and circulars are still the core distribution channels, because not all LGAs have access to internet, mobile phone network or electricity. IT equipment is still rather "fragile" for the local conditions in terms of climate and there is hardly provision of maintenance or technical support of the hardware.

### **2.1.5 Production and submission of reports**

LGAs interact with many stakeholders. They have institutional linkages with the central government (MDAs as well as the regional and district administrations – RC/RAS and DC/DAS). They relate with the PMO-RALG, PO-PSM, the MoFEA as well as DPs on policy, financial and HRM matters on a regular basis. LGAs receive from the central government policy directives, guidelines (e.g. planning and budget ceilings), and orders as the case may be. In addition to these directives LGAs also receive as presented below (section 2.2 and 2.3) financial resources. LGAs are required therefore to report on all activities they engage in including, but not limited to, production of the following:

- Quarterly reports to each of the basket funds (education, health and roads) funded by DP, which form the basis for disbursement of the next installment.
- Quarterly progress reports for all projects to PMO-RAG. These reports are presented first to their respective committees, the full Council and finally to PMO-RALG.

- Responses to auditors' queries presented to Local Authorities Accounts Committee of Parliament.
- Responses to External Auditors reports on each of the basket funds.
- Preparation for assessment for qualification for LCDG detailing, among other things, staffing position and financial liquidity.
- Implementation of the Election Manifesto of the Ruling Party (progress report). Revenue and expenditure report for CAG
- Preparation of the books of accounts ready for external auditors from the National Audit (i.e. CAG).

There is evidence that report writing is taking a lot of LGAs time and in some cases some planning officers are almost permanently involved in coordinating report writing. The number of reports given at the Morogoro Council is 26 for each quarter, each with a strict deadline. In a way report writing is inevitable with the increase of grants and diversity of donors. Some LGAs stated that they did not mind report writing because it implied increased funds. It was the case in Moshi Municipality. It would seem however that there is room to improve through reducing the number and size of reports by sorting out that type of information required by different stakeholders so as to produce more standardized reports for multiple uses/users. The same applies to the donor basket funds. The standardized reports can be used by donors to extract information for reports, which meet the requirements of individual countries.

Reporting is an issue at Higher Local Council (HLGA) level and even more at LLGA level in terms of timeliness for disbursement of subsequent tranches of donor funds. There are a number of reasons for late and incomplete reporting:

- the disbursement of development funds is late (3rd and 4th quarter)<sup>3</sup>, therefore expenditure is late and reporting is late. This leads to late consolidated reporting to the DPs, which then delays the release of the promised money to MoFEA;
- the financial management tool, Epicor, is not fully installed and not appropriate for LGAs to distil reports, therefore most accounting and reporting is still done manually, which slows down the process; and
- there is not enough competent financial staff at council level to deal with the work, especially to support LLGAs

## **2.2 Local government finances**

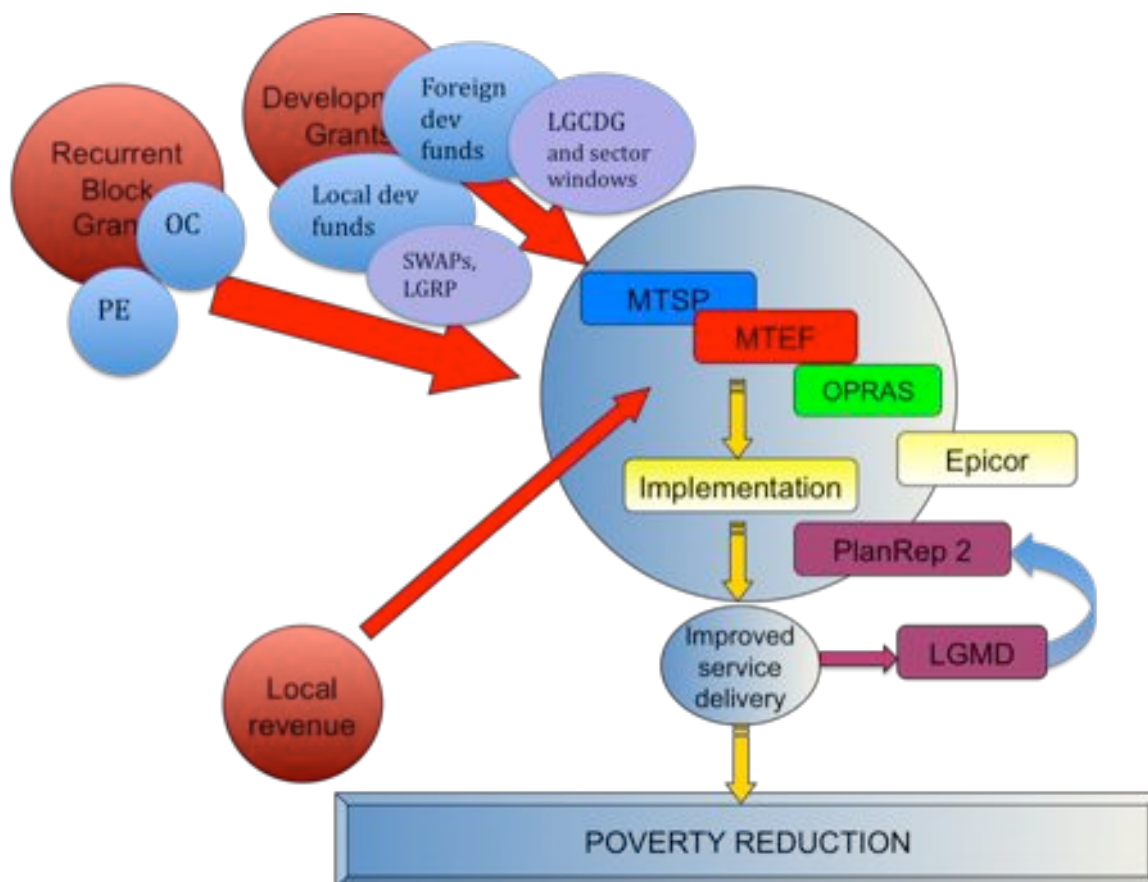
### **2.2.1 Funding flows to LGAs**

All the funds that are being transferred to the LGAs can be categorized into 3 categories (according to MoFEA): Personal Emoluments; Other Charges and Development funds. Personal Emoluments and Other Charges are the two main components of the Recurrent grants.

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<sup>3</sup> See tables on page 23/24 below

**Figure 2: funding flows to LGAs**



**Figure 3: Recurrent and Development transfers in FY 2008/2009<sup>4</sup>**



**Personal Emoluments (PE):**

PE is the funding mechanism for the salaries and wages of all government employees, which are transferred from Treasury directly to the LGAs on a monthly basis. On the 10<sup>th</sup> of the month the payrolls for each district are distributed to the LGAs with EMS so that they are in place the latest on the 15<sup>th</sup>. The funds are released on the 15<sup>th</sup> to LGAs (131) so that by the 25<sup>th</sup> all banks would have received the money. The LGAs confirmed that this system is working smoothly and timely unless there are sudden wage increases, like happened one time last year. The problem with the PE component is that the system is not formula based but based on actual staffing in LGAs. This means that the best-off LGA receive 5-6 times<sup>5</sup> more in PE than the worst off councils.

**Other Charges (OC):**

OC are funds that are to cover the operational needs of the LGAs. It is formula based and it includes transport, equipment and training costs amongst others. It is also disbursed on a monthly basis. This funding is less stable and clear cut than the PE, because the needs can fluctuate considerably for each month. In principle each LGA has an action plan and a cash flow plan that is provided to the MoFEA, but this system is not always adhered to. The fluctuations depend on seasonal events, for example the costs for examinations, which take place twice a year or the need for transport money for teachers around the holiday time, etc.

These funds are “cash based”, meaning they depend on the availability of cash money, coming from the collected revenues. At the 1<sup>st</sup> of each month the “ceiling committee” of MoFEA makes a projection of the needs and makes a resource frame to cover the needs. The OC is mostly formula based and is proportionally divided amongst councils. The funds mostly are disbursed on the 2<sup>nd</sup> or 3<sup>rd</sup> week of the month, depending on the availability of the funds. LGAs acknowledged that OC funds are disbursed timely and had been reliable but sometimes problems occur due to “system problems” according to MoFEA. The available funds are prioritized as follows: (i) PE, (ii) Public debt, (iii) LGAs, and (iv) MDAs.

The General Purpose Grant<sup>6</sup> is a fully recurrent grant, meant mainly for administrative purposes. In the year 2008/2009 it included additional funds for the planning, land community development, trade and cooperatives departments in the LGAs. This year (2009/2010) it also included additional funds for the internal auditors.

**Development funds:**

The development component is divided into Local Development Funds and Foreign Development Funds.

The *Local Development Funds* are nurtured/coming from own sources (TRA, VAT etc.) and include mainly the programs like PEDP, SEDP, MEMM, ASDP, etc. It also includes the government contribution of the LGDG system.

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<sup>5</sup> See intergovernmental transfers doc per

<sup>6</sup> Interview at MoFEA

These funds are disbursed quarterly. MoFEA claims that the trends indicate that the Local Development component has been reliable.

The *Foreign Development Funds* include the basket funds, projects and programs that are funded by donors of which the contribution to the LGDG is the most important.

The LGSP/LGDG makes distinction between Capital Development Grants (CDG, called Council Development Grants nowadays) and Capacity Building Grants (CBG). Linked to this national system, the DPs provide funding for agriculture, water, roads, health and UDEM in the form of “windows”<sup>7</sup>, which means that they are still discretionary but within a particular sector. On the other hand there are programs like: HIV/AIDS global funds, TACAID, wetland fund, the UNICEF and UNDP funds. Completely parallel still are programs operating like TASAF, and the TB/ Leprosy fund.

The Foreign Development Funds also are disbursed quarterly through the exchequer system. The Guideline Committee (from MoFEA and external DPs) defines the ceiling according to formula's. The committee is now finalizing for 2010/2011, while 2009/2010 is on the website. This system is less reliable, because the money is received late from the DPs. According to MoFEA this is due to the fact that DPs put in conditionalities (related to corruption issues and reporting) that were not included at the time of the pledge, so the MoFEA was not prepared for it. Another reason is that the DPs depend on their own governments financial systems, which are not necessarily following the same financial years. In case of the Health Basket Fund, however, the DPs have disbursed the money of the 1<sup>st</sup> and 2<sup>nd</sup> quarter at the beginning of the year. Depending on the quarterly reports, they disburse the money of the 3<sup>rd</sup> and 4<sup>th</sup> quarter.

### **Local revenues**

Local Government share of total public expenditure has remained relative stable, slightly below 20% during the period. The recent jump in LGAs' share of public expenditure is entirely explained by increases in staff salaries that account for the bulk of LGAs recurrent expenditures.

Locally generated revenue slumped in 2004 when a number of taxes were abolished, but has slowly recovered (although mainly in urban areas). Own revenue shares of total recurrent budgets in LGAs has decreased from 19% over the period, and in rural LGAs own source revenue often is often less than 5% of total revenue (see also tables 1 and 2 next page).

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<sup>7</sup> The education window is not paid by the DPs

**Table 1<sup>8</sup>: Local Governments Share of public expenditure 2001-2007**

Fiscal Year	Total Recurrent Expenditure (Tshs billion)	LG share
2001/02	1,253.1	18.7%
2002/03	1,527.8	19.0%
2003/04	1,834.1	17.7%
2004/05	2,252.3	17.0%
2005/06	2,875.6	18.6%
2006/07	3,142.3	24.3%

**Table 2: LG Recurrent revenue composition 2002 – 2007**

	2002/03	2003/04	2004/05	2005/06	2006/07
<b>Tshs. Million</b>					
Local Grants (incl. GPG)	247,027.3	313,872.7	386,767.8	452,831.2	600,270.6
Own Source Revenues	57,740.2	48,343.6	42,871.4	49,291.0	61,411.3
Local Borrowing	225.0	442.5	549.3	1495.9	100.0
<b>Total</b>	<b>304,992.5</b>	<b>362,658.8</b>	<b>430,188.5</b>	<b>503,618.1</b>	<b>661,781.8</b>
<b>Percent of local government resources</b>					
Local Grant (Inc. GPG)	81.0	86.5	89.9	90.4	90.7
Own Source Revenues	18.9	13.3	10.0	9.3	9.3
Local Borrowing	0.1	0.1	0.1	0.3	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Notes: Starting 2005/06, data reflect actual amounts as reported by LGAs. Source: PMO-RALG, LGA Finance Statistics, FY 2006/07 (LOGIN)					

<sup>8</sup> Sector Budget Support in practice: case study Local Government Sector I Tanzania, Per Tidemand, ODI and Mokoro, March 2009

### **2.2.2 Gap between financial resources received and absorptive capacity**

Without exception LGA officials acknowledge the increase of government and donor funds to local governments. This has made the government to be visible and its presence felt by the ordinary citizens as financial resources reach to lowest governance levels. As pointed out during the field interviews the percentage of external revenue in the LGAs range from 79% to 99%. With such significant sums allocated to LGAs the question of absorption capacity comes up. In that regard indicators of absorption capacity would include:

- Annual action plans implemented within the specified time and no roll over budgets made.
- Competent contractors selected, projects supervised and value for money ensured.
- Amount of own funds mobilized and community contributions to supplement external funds.
- Receipt of unqualified audit opinion (from CAG)
- Production of satisfactory progress reports and receipt of subsequent tranches of funds, for example, from DPs.
- Passing assessment criteria to obtain LGDG.

LGAs managers from Kinondoni and Moshi Municipalities, Iringa, Korogwe, Morogoro, and Rufiji District Councils expressed confidence with regard to their absorption capacity to use the finances allocated to them. They also stated that they would be able to use extra funds if they are made available. The managers admitted, however, that there may be some constraints they faced, which some authorities may construe to be indicators of lack of absorption capacity:

- regular annual rolled over funds in all councils visited.
- incomplete and delayed projects in all the councils.
- audit queries in all the councils visited.
- Members of the Parliamentary committee for local government have been critical about a number of projects not reflecting value for money.
- Shortages of professional staff in the establishment and some heads of departments are acting because they do not have the 7 years experience required to head a department.
- Procurement plans often not fully executed.

### **2.2.3. Intergovernmental transfer system: timeliness and adequacy**

The recurrent budget is mainly composed of fiscal transfers from central government, financed by Government's own revenue and GBS, whereas most recurrent subventions, basket funds and development grants are entirely or mainly funded by development partners. The figure below summarizes the main differences among these four funding flows.



**Table 3 <sup>9</sup>: Classification of LG Funding Flows**

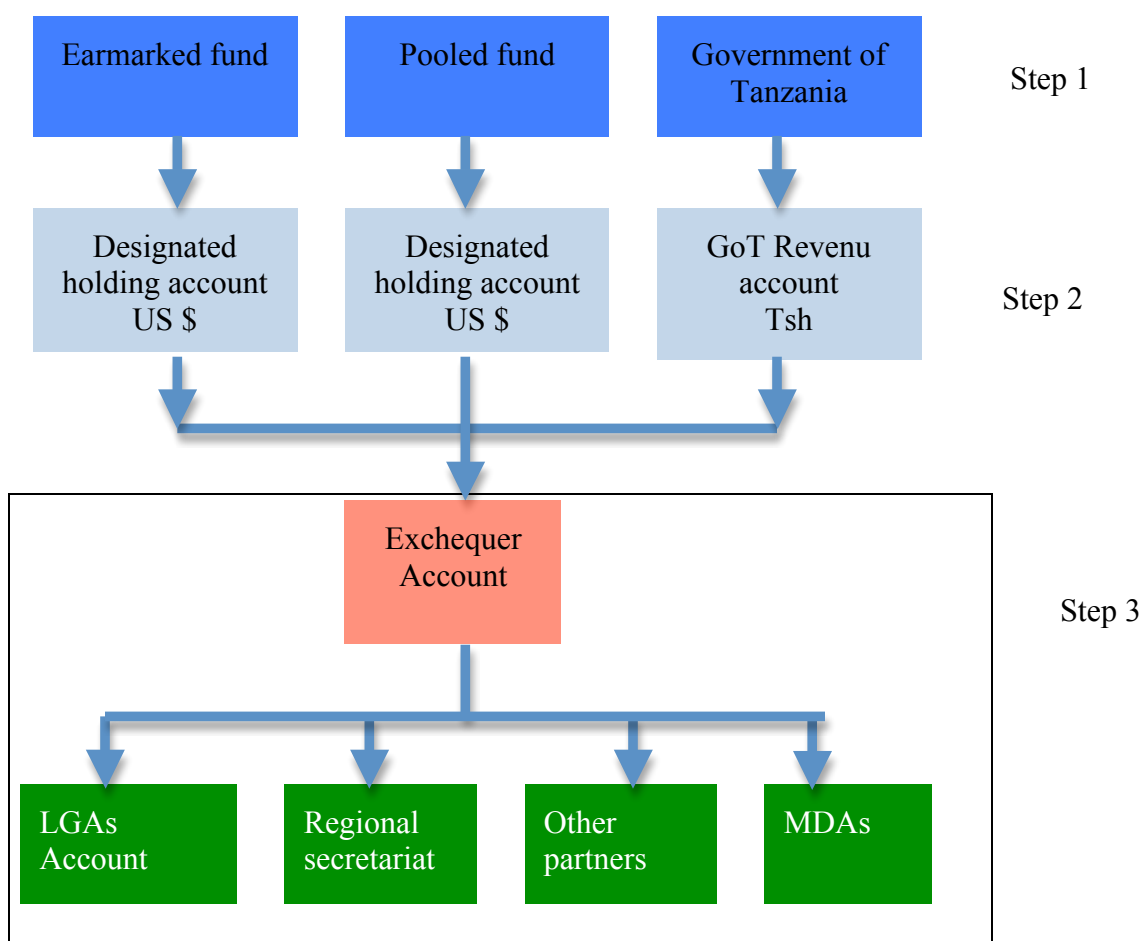
Grant Type	Examples/ description	Funding flow	Frequency	Main issues regarding compliance with fiscal decentralization strategy
Recurrent block grant PE	Salaries for teachers, health staff etc	Government Funds from treasury to LGAs	Monthly	Not allocated in accordance to transparent formula as otherwise agreed in fiscal decentralization strategy.
Recurrent block grant OC	Operating expenses for key sectors + general purpose grant	Government funds from treasury to LGAs	Monthly	Underfunding
Recurrent subventions and basket funds	Additional recurrent financing for key sectors e.g. Health, HIV etc	From DPs to basket fund through treasury to LGAs. In Budget these transfers are often registered as ministerial votes (Rather than regional/LG vote)	Quarterly	Locations not regular, DPs require often separate reporting, separate audits etc
Development Grant LGDG	Non sector specific development grant. Allocated based on formula, applied universally to all LGA that qualify by meeting access conditions,	From DPs to basket fund through treasury to LGAs. Using the general Development account of LGAs	Quarterly	Initial phases had some project features, but this is resolved now. LGDG is model for all development funding and encourages use of formula based allocations and use of common reporting and transfer systems
Sector Windows of LGDG	Sector specific development grants e.g. health, education, agriculture – grants are sector specific but funding modality should in principle follow same procedures as for	As above (except for education window which is paid by GoT)	Quarterly	Often with some deviation from intended model – e.g. with separate committees to trigger allocations, different disbursement schedules and some elements of separate

<sup>9</sup> Adapted from Sector Budget Support in practice: case study Local Government Sector I Tanzania, Per Tidemand, ODI and Mokoro, March 2009

	LGDG			reporting.
Other Development Funds	Project specific transfers. Examples: Participatory forestry Management, Global AIDs fund, TASAF. Often these transfers do not apply to all LGDs but only a subset.	To specific bank accounts at LGA level	Variable	Budget allocation, transfers and reporting in accordance with project specific institutions. Often very irregular transfers with significant delays

Most basket-fund mechanisms involve a three-step disbursement process. Firstly, funds are deposited by DPs into a holding account once a specific set of requirements has been fulfilled. Secondly, the funds are withdrawn by government into the exchequer spending account after the fulfillment of another set of requirements. Finally, the money is disbursed from the exchequer to the relevant spending units. Delays in the flow of funds can occur at any of these stages and the precise reporting requirements are diverse and specific to each basket funding mechanism.

**Figure 4: Steps<sup>10</sup> in disbursement process for basket funding**



<sup>10</sup> Adapted from Sector Budget Support study

All the large sector programs in Tanzania are mainly financed through a US dollar basket fund holding account maintained at the bank of Tanzania, funded by DPs and managed by their respective Basket Fund steering committees (BFSC). Once basket funds are released into the exchequer account, they are treated the same as government funds.

This FY (2009/10) all development funds are transferred directly from MoFEA to the LGAs (except for Roads -Tanroads, which still is transferred via PMO-RALG and MSD via MoH). The only delay occurs within the MoFEA between the Commissioner of Accounts and the Accounts General. One issue is that there are too many accounts under the DED. At first, the DPs insisted on separate accounts. Now, that all village accounts and two accounts per school are all under the DED, they want to reduce the number of accounts.

The funding flow from HLGAs to village level is direct. An issue is that at village level there are no tender boards (as at district council level), but there are the village committees that decide on the expenditure of the received money. This is not according to the Procurement Act, but it is impossible to apply the Act at village level. This results into problems with the auditor and CAG.

The management systems like PlanRep2, Epicor and LGMD are not yet fully installed, which makes transparency difficult. The councils often have problems in providing the relevant data when they are asked to do so, because the systems are not well functioning and/or applied.

Experience from the LGAs visited show that the transfer of the PE component of recurrent budget is generally timely and very efficient, hard copies and soft copies of the lists are sent to the Banks and Councils and hard copies are sent to the sub-treasuries. Generally, the amounts are adequate except concerning a few lines. For example, the money allocated for teachers annual leave costs was said to be inadequate in Kinondoni Municipality Tshs 200million was allocated. The amount allocated for the same function in Korogwe (Tshs. 85m) is on the contrary considered excessive as most teachers come from within the District and do not need travel afar for their annual leave.

Other minor problems with PE include the delay of inserting newly employed staff in the pay roll. Here is not very evident as to where the problem lies and whether the delay is with the Ministry of Manpower (PO-PSM) or with PMO-RALG. Another problem concerns salary adjustments for those entering new salary scales especially after getting promotion or when salary increases are effected to all public employees. These have delays of up to 6 months at times.

As indicated above, the payment of the OC component of recurrent budget is generally regular even though insufficient (eg. capitation grant). Experience from the field indicate however that there are some delays of a month or two mostly involving levy compensation funds, for the General Purpose Funds (GPF). In Kinondoni it can take two months, and the last tranche may come in June. In Iringa there are similar delays and the levy compensation fund is seen as inadequate. In 2008/9 it came to Tshs 590m. up from

around 300m the previous year. Nevertheless delays of OC are not a big problem because it is easy to make purchases of goods and services when the funds arrive because they often require only the quotation procurement procedure, which insist on a minimum 7 day period.

There is some delay in the transfer of development funds. In some cases 40-50% of the funds are received in the Months of April, May and June. Such a late receipt of development funds specifically affected the implementation of works projects because the sums involved are above the Tshs100m threshold, which calls for advertisement in newspapers, which demands a minimum of 30 days for national tenders and more days for International tenders. Information from the six LGAs visited indicates funds are usually transferred in the third and fourth quarters. LGAs have Action Plans which start in July but funds arrives starting November, December and January, first OC funds then Development funds.

**Table 4 : Financial Transfers in the Months of April, May and June (4<sup>th</sup> Quarter)  
LGDG and ROAD Funds**

**Iringa District Council**

Year	LGDG		ROAD fund	
	Amount and date	%	Amount and date	%
2006/07	187,476,729	38.5	155,021,537	40.2
2007/08	272,784,903	35.1	172,816,656	24.2
2008/09	260,639,340	33.8	266,314,331	32.1

**Moshi Municipal Council**

Year	LGDG		ROAD fund	
	Amount and date	%	Amount and date	%
2006/07	69,575,000	28.5	18,229,068	13.6
2007/08	100,366,728	47.4	62,912,443	30.7
2008/09	174,511,214	32.8	184,507,584	40.9

**Rufiji District Council**

Year	LGDG	%	ROAD fund	%
	Amount and date		Amount and date	
2006/07	N/A	N/A	128,096,028 (30/6)	47.8
2007/08	N/A	N/A	142,366,008 (21/6)	50.3
2008/09	159,409,049 (30/06)	21.1	40,294,208 (30/5)	11.9

**Korogwe District Council**

Year	LGDG	%	ROAD fund	%
	Amount and date		Amount and date	
2006/07	N/A	N/A	67,484,389 (19/06)	37.8
2007/08	123,596,850 (27/05)	25.5	84,317,278 (20/06)	42.2
2008/09	100,720,234 (02/06)	25.0	89,657,587 (30/06)	28.7

**Source:** Compiled from respective Council Files

The views of officials of the MoFEA are that grants from the Government of Tanzania are disbursed in full and that the funds, which are not disbursed in full are those given by donors. At the same time, they acknowledge that within the Ministry there are internal transfers that take extra time. Donors for their part argue that they withhold some of their funds because certain conditionality are not met, including timely production of progress reports. It also happens that Government does not timely make the request for the funds to the donors. Thus there are delays from the supply side. Some LGA officials have stated that they have the feeling that they are always supervising activities of the previous quarter. The timely utilization of development funds is also affected by seasons and weather. For example, construction of roads cannot be done during the rainy season. The same applies to irrigation works. There are however differences in the LGA as regards using effectively late transferred development funds which implies governance and administrative systems do make a difference. This mostly involves the timely use of procurement procedures as well informing and building a mutually beneficial relationship with contractors. Morogoro District Council, for example, in agreement with potential contractors starts the procurement process early and the process is completed but the contractors cannot start working until the funds have been disbursed. That way there cannot be disagreements over payments.

**Table 5: LG Finance composition and budget Reliability 2007 (in Tsh Million)**

	<b>Budget plan</b>	<b>Actual outcome</b>	<b>Actual (as % of total)</b>	<b>Perform. Ratio (%)</b>
Own Sources Revenue	63,385.2	61,411.3	6.7	96.9
Intergovernmental Transfers	1,100,870.8	859,467.9	93.3	78.1
<i>o/w Block Grants</i>	<i>695,191.8</i>	<i>600,270.6</i>	<i>65.2</i>	<i>86.3</i>
<i>o/w Subventions &amp; Funds</i>	<i>142,314.4</i>	<i>77,980.1</i>	<i>8.5</i>	<i>54.8</i>
<i>o/w Development Grants</i>	<i>263,364.4</i>	<i>181,217.2</i>	<i>19.7</i>	<i>68.8</i>
Local Borrowing	126.1	100.0	0.0	79.3
<b>Total Revenues</b>	<b>1,164,381.9</b>	<b>920,979.1</b>	<b>100.0</b>	<b>79.1</b>
Recurrent Expend.	765,067.8	673,726.2	78.5	88.1
<i>O/w Concurrent Function.</i>	<i>601,661.7</i>	<i>539,379.3</i>	<i>62.8</i>	<i>89.6</i>
<i>o/w Exclusive local fns</i>	<i>163,406.1</i>	<i>134,346.9</i>	<i>15.7</i>	<i>82.2</i>
Development Expenditures	353,940.9	184,574.3	21.5	52.1
<b>Total Expenditure</b>	<b>1,119,008.7</b>	<b>858,300.6</b>	<b>100.0</b>	<b>76.7</b>

Source: Local Government Fiscal Review 2007

#### **2.2.4 Rolled-over funds: utilization and reporting.**

Most respondents (central as well as LGA level) acknowledged that there are delays in disbursement of the development grants to the LGAs (3<sup>rd</sup> and 4<sup>th</sup> quarter). The LGAs, therefore, are not able to spend all the funds in the designated financial year.

The Appropriation Bill was signed in September 2009, which allows LGAs to carry over funds that were not spent to the next financial year. The delays of financial transfers has made rolled over funds a regular and generalized practice. The procedure for the utilization of the funds is not uniform.

The proper procedure is to declare this money to the full council and jointly define the “expansion budget<sup>11</sup>” in relation to the activities of the district plan, which still need to be implemented. Though MoFEA has provided instructions to some LGAs on this process, however, there are not rolled out, as a rule, to all LGAs and it is not yet included in the formal regulations and laws, including the Finance Act. Many LGAs are not clear on how to properly deal with this situation.

Moshi Municipality for example draws a “mini-budget” for the funds. The mini budget is presented to the Full Council for approval and is then included in the current year’s budget as an addendum. The funds are however used for the same activities as budgeted before. They are mostly used to pay contractors once they complete their work and get certification.

In Iringa the funds are “re-planned” without being part of the current annual plan. In the other LGAs visited, Korogwe, Kinondoni, Morogoro and Rufiji, rolled over funds are used for the same budgeted activities of the previous year. The supervisors have only to be aware that they are managing projects of two financial years. It would seem that in Moshi and Iringa the funds are highlighted and reported while in other areas the utilization takes the form of continuation of the previous year’s budget. The fact that such funds are properly accounted for seems to suggest that LGAs could manage additional funds if made available.

### **2.3. Recurrent and development budget performance at LGAs**

One should distinguish performance at council level, at ward level and at village level. The LGRP and government in general have directed all efforts towards the council level. The sub district levels have not been included in the planning and budgeting cycle, nor coaching and monitoring (reporting) in terms of mechanisms/tools, processes and regulations. Therefore, once the money has been transferred to sub district levels and the implementation process has started, there is hardly any follow up. Are the plans (O&OD) still followed? Are the priorities still the same? Nowadays, the LGAs transfer 50% of the development money directly to the villages for them to implement their own activities. It

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<sup>11</sup> The CAG calls this the “supplementary” budget, though the terminology seems not appropriate.

is not clear on the basis of what criteria allocation is being done and how the district is supporting the villages to manage the finances and ensure VFM implementation. Though quite some VEOs/WEOs have received training in financial management, it is not clear if they are able to deal with this new mechanism. The follow up and monitoring of the projects at council, ward and village level is not adequate and need to be addressed in LGRP II.

As mentioned above, the VEOs/WEOs (in all except 49 LGAs) have been trained in the last 2 years by PMO-RALG in financial management. A manual on the management of finances at LLGAs in simplified terms in Kiswahili has been distributed to the VEOs/WEOs. They are supposed to be supported by the auditors, treasurer and planner from the HLGA level. The challenge will be reporting and writing of books by them. Once the LGRP II will start, more effort will be directed towards the ward and village level. MoFEA is responsible for accounting, auditing economics and statistics at LGA level. It has recruited accountants and internal auditors to the LGAs and trained treasurers, as well as 2 staff per LGA in Epicor. 48 LGAs are still to be covered in this training however.

Table 6 below gives a fuller picture of current LG finances with inclusion of available data on development funding and the reliability of revenue sources. Development expenditures account for approximately 22% of LGAs total expenditures. As evident from the table it can be noted that development funds are the least reliable.

The patterns of local spending have been fairly consistent the last years as local spending priorities to a very large degree are determined by the earmarked sector funding. The table below indicates that approximately 66% of LG expenditures are spent on education and health sectors.

**Table 6<sup>12</sup>: Summery of LG Expenditure Patterns 2007**

	PE	OC	Recurrent	Development	Total
Education	329,276.4	72,952.5	402,228.9	51,966.4	454,195.2
Health	70,605.0	28,780.8	99,385.8	17,399.2	116,785.0
Agriculture	10,401.4	4,277.6	14,679.0	19,340.4	34,019.5
Roads	4,965.7	4,301.5	9,267.1	9,307.8	18,574.9
Water	4,095.4	9,723.1	13,818.5	15,206.7	29,025.2
Local Admin	46,870.9	47,869.3	94,740.2	14,335.9	109,076.1
Other Spend	19,962.9	19,643.8	39,606.7	57,017.9	96,624.6
<b>Total</b>	<b>486,177.7</b>	<b>187,548.5</b>	<b>673,726.2</b>	<b>184,574.3</b>	<b>858,300.6</b>
<b>Percent of local government expenditures</b>					
Education	38.36	8.50	46.86	6.05	52.92
Health	8.23	3.35	11.58	2.03	13.61
Agriculture	1.21	0.50	1.71	2.25	3.96

<sup>12</sup> From Sector Budget Support doc.

Roads	0.58	0.50	1.08	1.08	2.16
Water	0.48	1.13	1.61	1.77	3.38
Local Admin	5.46	5.58	11.04	1.67	12.71
Other Spend	2.33	2.29	4.61	6.64	11.26
<b>Total</b>	<b>56.64</b>	<b>21.85</b>	<b>78.50</b>	<b>21.50</b>	<b>100.00</b>

Source: PMO-RALG, LGA Finance Statistics, FY 2006/07 (LOGIN)

### 2.3.1 Trends in expenditures at sectoral and sub-sectoral level measured against policy objectives:

figure 5: Health transfers

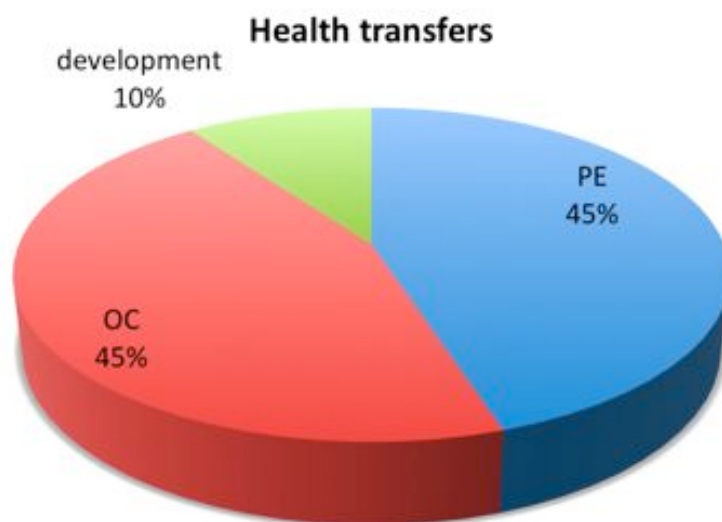
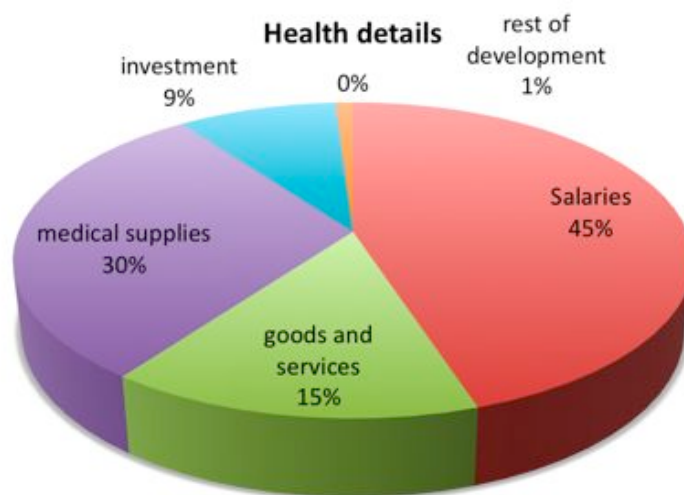


Figure 6; Health details





The Health Sector at LGA level is guided by the Basket fund. The Ministry and the DPs have signed a MoU for the basket agreement. Together with PMO-RALG they sit to approve the plans. The Ministry has formulated an action plan, cash flow plan and procurement plan, which are the three documents required before the DPs will release funds. The approval is for the whole year. The DPs disburse the money of the 1<sup>st</sup> and 2<sup>nd</sup> quarter at the beginning of the year. Depending on the quarterly reports, they disburse the money of the 3<sup>rd</sup> and 4<sup>th</sup> quarter. The MoFEA transfers the money directly to the LGAs under vote 52 (of PMO-RALG). MoFEA will ensure the technical part and PMO-RALG is responsible for the monitoring.

One obstacle is that the DPs do not always provide the amount that they promised, which hinders the implementation of the plans. The budget for medicines is still at central level (MoSHW) in order to ensure standards and quality, and the economy of scale. This includes medicines, vaccines, equipment and hospital materials. MoHSW requests for funding to MoFEA, which needs to give approval and releases money to MoHSW. This takes time. The MoHSW transfers the money to MSD, which distributes the materials and medicine to the LGAs. Because they receive late, the LGAs then report late, which delays the overall reporting to the DPs and therefore also the release of the 3<sup>rd</sup> and 4<sup>th</sup> quarters. These facts notwithstanding some notable achievements have been recorded.

The basket fund has helped to prepare guidelines for dispensaries and clinics. Since the introduction of the MTEF, the overall system is working smoothly. At the beginning (2001) the program started with 0,5 \$ per capita, now it is 1,25 \$ per capita. Health staff paid directly by MoFEA (PE), but there is still a very big gap to fill especially at village and ward level. The LGAs are the employers of the health staff. MoHSW is responsible to train the nurses and medical staff, though doctors fall under the Ministry of Higher Education. MoHSW has increased the budget for the training institutes and the enrolment has increased but the number of medical personnel in the market is still insufficient. There is also need to review the curriculum for ward and village level of staff. The Government will work towards public health care at the following levels as in MMAM:

**Table 7: Health facilities at each governance level**

Level	Facility
Village	Health dispensary
Ward	Health Centre
District council	District hospital
Region	Regional referral hospital
Zone	Super specialized hospitals

At a glance, this arrangement appears sound and impeccable but serious reservations have been noted. There are doubts whether at village level the health care system can be maintained at the minimum standard in terms of availability/presence and quality of staff. Opinion from the LGAs visited is that having a Dispensary for each village and a Health Centre for each ward seem to be overly ambitious goal for the moment when current

institutions do not have adequate qualified medical staff and such medical facilities as laboratories. In rural Dispensaries there are cases where there are no medical assistants but instead nurses make prescriptions. There are also cases where there are only nurses and living conditions in the villages are precarious. In one case some village nurses are staying in a store. In Morogoro it was pointed out that it is important to take into account the number of villages in a Ward because some have more villages than others. Therefore some of the health centres might not have enough patients coming from the village dispensaries just like a ward Secondary School might not have adequate students coming from the village primary schools.

### **The case of the Education sector:**

In the beginning of PEDP I, the World Bank provided the main funding to the GoT, so that the Centre (MoFEA) would transfer directly to the schools. Each school has 2 accounts: one for capitation grant and another for development grant. When most donors started to provide financial support mainly through General Budget Support (GBS), the basket funding for Education was abolished and the capitation grants came directly from Central government to the schools, while the development grants were transferred via the LGAs. Now, in PEDP II MoFEA transfers both the capitation and development grants via the LGAs to the schools.

Under Primary Education Development Program (PEDP II), the capitation grant is formula based (per pupil in school) and part of OC. The rest of the OC money is also formula based, however the formula is per child of school age in the council. The thinking is that in areas where children do not go to school like in Masai land, this money can be used to support children in boarding schools. Though the capitation grant is supposed to be Tshs 10,000 per pupil, the recent PETS<sup>13</sup> on education reveals that the average capitation grant per student varies from 4,485 in main urban areas to 4,574 in rural areas as sent by the council, while the schools received on average 3,806 and 4,251 respectively per student. On the other hand, there is also the Education sector “window” of discretionary funding for education under LGDG, which is paid for by the DPs. This money allows the council to address local priorities instead of political central priorities. It could be used for in service training (INSET) or for the Teachers Resource Centre (TRC’s) for which the councils are responsible and they do not receive any funds for them from the Ministry of Education and Vocational Training (MoEVT).

The experience from the LGAs on primary school financing confirms the persistent underpayment of capitation grant through using of an unexplained and bizarre exchange rate. Apart from that however the financing of primary school education is considered stable compared to Secondary School education. Reporting on the establishment on education omits secondary schools, while Moshi Municipality includes secondary school teachers in its establishment including their promotions. The Municipality is also pursuing the teachers’ arrears in payments from their former employer, the Permanent Secretary, Ministry of Education. Kinondoni Municipality for its part reports secondary school administration in its establishment but not teachers. Korogwe District Council also

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<sup>13</sup> See PETS report

does not report on Secondary School teachers in its establishment. Employee gaps in this sub-sector are not indicated when it is common knowledge that there are schools with only one or two teachers.

## **2.4. Formula based approach:**

### **2.4.1. Rationale of resource allocation among LGAs for both development and recurrent expenditures: formula-based approach**

Ideally resources are allocated based on plans and budgets that reflect needs of spending entities such as LGAs. One such need is staffing levels especially professionals with requisite qualifications and experience. LGAs do not have the required personnel as provided for in their respective establishments. This problem is more pronounced in rural LGAs compared to their urban counterparts. The current inequality between urban and rural LGAs in terms of availability of qualified staff is not being addressed adequately. One reason is that the PE under the Recurrent Block grants is not formula based and not going hand in hand with the OC part, which is formula based. Most LGAs in remote areas have difficulties attracting and retaining the staff because of the local conditions and non-compensation for extra travel (eg. to collect salary). During the GBS review 2009<sup>14</sup>, the GoT with the DPs decided to address this major obstacle by creating Special Development Budget for needing councils. This would also involve the freezing of posts in urban and more privileged areas and transferring funding towards the underserved LGAs. Information on the ground seems to suggest that the situation is still unfavourable for rural LGAs.

### **2.4.2. Effectiveness of the current system for allocation of Personnel Emoluments (PE)**

The current system for allocation of PE is not effective, because there is no way that MoFEA can check on the payrolls. Only the LGA could check, but they do not do that seriously enough. It is not in the interest of the LGAs to have less staff, because they then get less money. By joining forces and comparing details, MoFEA and PMO-RALG could address the inequality of staff between the LGAs if they really want to. The rationale to make PE also formula based, would be to address the understaffing of the remote areas. The money that would not be spent on salaries (because the staff is not there) should not be used to increase the salaries for available staff, but should be used together with development funds to build staff houses, rehabilitate roads, etc. eventually to provide special incentives to attract more staff.

It has been sufficiently documented that the concept of “holding harmless” has not been implemented successfully. Four reasons have been given to explain the situation:

- Difficulties in attracting and retaining workers in under-served areas;
- Continued recruitment and transfers into better served areas;
- Lack of coordination and clarity around administrative procedures; and
- Lack of necessary management information.

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<sup>14</sup> Equitable service delivery: opportunities and challenges, GBS Annual Review 2009.

A Background Analytical Note for the Annual Review of General Budget Support 2008 aptly describes the situation on the ground as follows:

“When the government introduced the formula-based recurrent transfer system it was agreed that those areas that were comparatively better off would not lose staff as a result of this formula, but instead would be ‘held harmless’ and remain with the same staffing budget until the under-served areas ‘caught up’. However, the reality of this has been that better served areas have continued to recruit new staff and receive staff by transfer and thus have increased their staffing levels. The under-served areas have been facing immense difficulties in attracting human resources, and remain understaffed. Therefore, they have not been able to utilize the staffing budget, which would have been assigned to them under the formula based allocation. This situation is exacerbated by the overall lack of skilled workers in Tanzania and insufficient incentives to ‘pull’ workers to under-served areas” (p10).

#### **2.4.3. Effectiveness of formula based allocation of resources: Views from LGAs visited**

The question of equity in the allocation of funds to different LGAs is seen as important. Views from Morogoro were bitter that LGAs with endowment like the Dar Es Salaam LGAs were over privileged compared to others less endowed or those with activities, which are taxed directly by the central government, such as Plantations. The introduction of formula based is an attempt to avoid over-privileging some LGAs at the expense of others. The formula looks at population, remoteness and poverty. Geographical factors are not adequately taken into consideration.

Most respondents favor a formula based allocation of resources but some believe the formula need to be perfected.

Moshi Municipal Council has a peculiar situation regarding the Health grant (formula is based for 70% on population). It was observed that during the day its population almost doubles as people come to the town from all neighboring communities, which are not in its boundaries. People from neighboring LGAs use their facilities such as health centres and schools. These people get services in town but when funds are allocated only residents of Moshi Municipality are taken into account. The gap creates a big burden in terms of provision of services as the Municipality receives fewer funds per capita compared to what it actually spends daily. The municipality management felt that with additional funds allocated based on the “real population” served during the day the municipality could have afforded to use the funds on other services as road construction.

Similar sentiments were recorded in Kinondoni where management was satisfied that population is well taken into account when allocating funds but nevertheless complained that sanitation is grossly under- funded.

Morogoro District Council management reported that geographical considerations are not adequately taken into consideration. Morogoro is, for example, faced by the problem of poor infrastructure to its productive areas high in the mountains thus more funds could have been allocated to the council considering the difficult terrain it covers. Interviewees appeared convinced that there is need to revisit the formula especially since some funds provided by donors are loans which are later going to be paid back by the whole country. Moshi Municipality suggested therefore that in the allocation of roads there is need to make distinction between urban and rural roads. Urban roads are very expensive to construct. It costs Tshs 400 million to construct one kilometer of road in Moshi town.

#### 2.4.4. Variables used in allocating resources:

**Table 8: Formula<sup>15</sup> for allocating recurrent block grants:**

#	Sector	Formulae/variables applicable
1	Primary education	Number of school aged children 100%
2	Health services	Total population: 70% Number of poor residents: 10% District medical vehicle route: 10% Under-five mortality
3	Agriculture	Number of villages: 80% Rural population: 10% Rainfall index: 10%
4	Water Services	Number of un-served rural residents: 90% Equal shares: 10%
5	Local Roads	Road network length: 75% Land area (capped): 15% Number of poor residents: 10%
6	General purpose Grant	Total population: 50% Total number of rural residents: 30% Fixed lump sum: 10% Total number of villages: 10%

<sup>15</sup> Guidelines for the preparation of medium term plan and budget framework for 2009/2010-2011/12, part I Feb 2009

## **2.5. Human Resources**

### **2.5.1 Profile of staffing levels (trained staff) at LGAs**

The legal side of HR autonomy for LGAs is very explicit. According to the Public Service Act no. 8 (2008), LGAs have full mandate on recruitment, promotion, discipline and any other HR activity of /for their staff in the council. In reality, it is different as LGAs cannot recruit without the approval of PO-PSM. The approval process takes time and LGAs have to wait sometimes up to three months before recruits are on post.

In the context of D-by-D, 67% of the public servants positions have been transferred to the LGAs in the field of agriculture, education and health. Today, the Central Government is left with (only) 100,000 employees, which are mainly police and prison officers (50%). In total there are about 382,000 civil servants<sup>16</sup> employed by the central and local governments. Education and health at local government level cater for 200,000 civil servants. There has been a steady increase in LGA employment both in absolute terms and relative to total public sector employment in Tanzania. Currently approximately 68%<sup>17</sup> of all public servants at LGA level are teachers and 15% are health workers. There is a shortage of engineers, financial management staff, accountants, planners and auditors for the LGAs. On top of that more secondary teachers and village/ward health workers are needed. Because of the shortage of key technical staff at council level and below, PO-PSM has given the mandate to LGA to employ health workers without the need to advertise. They are allowed to employ all the health workers directly from the training institutes. The same applied for teachers and accountants.

In reality, however, the LGAs are still bound by strong regulations as imposed by PO-PSM. Transfers from one district to another and reprimanding of non-performing officials, is not under the control of the LGAs. According to PO-PSM the reason is that the Council is not able to judge whether personnel (like doctors or engineers) are qualified or living up to minimum standards. In the current set up elected councillors have much influence in the recruitment next to the DED. Many of them have had not more than standard 7 level of education. PO-PSM wants to avoid the dynamics of politics having its impact on the quality of staff and promotes the idea of giving more powers to the DED, while the councillors will hold him/her accountable.

The government has decided to start a new initiative soon, by centralizing the advertisement, interviewing and testing of staff through a Recruitment Secretariat under the PMO and by so doing create a pool of qualified staff from where the LGAs will be supplied. It is not clear whether the LGAs can select the staff from this pool themselves or that the staff will be assigned a location. The LGAs will however be the formal employers. It was mentioned that if the LGAs are not satisfied with the provided staff, then they could liaise with the Recruitment Secretariat. PO-PSM needs to approve the need or the retrenchment of a position and approve the funding for that position. PO-PSM approves the number of teachers/staff for the whole district based on formula like the

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<sup>16</sup> Interview PO-PSM

<sup>17</sup> Background analytical note Annual Review for GBS 2008: human resources

Teacher-Pupil Ratio (TPR): 1: 40. The council itself will distribute the staff/teachers over the schools.

The biggest problem is that training institutes are not able to cope with the sudden enormous demand for specialized staff like primary and secondary teachers. Many resources have been deployed to address this problem, but it will take some time to fill the gap of shortage and to provide quality staff (e.g. 3-4 yrs to train an individual in agriculture sector). The sector ministries are responsible for the training of specialized staff and for the training institutes. They should improve the mechanism of the market to respond to the demand.

The LGAs are responsible for the capacity building of their staff through the OC and the CBGs in the different grants. They should provide career development, skills development and on-the job training. One suggestion was to revive the “Community Building Brigades” that used to train villagers in construction and “fundi” type of skills to help build roads and health dispensaries. It allows the communities to be more involved and maintain the structures. Kigoma rural has successfully started this initiative, which is driven by the Council Community Development Department in the council. On the other hand LGAs are lax in managing their HR. They pay civil servants that are not present, and they do not promote staff according to entitlements. The committee that is in charge of hiring and firing of the staff does not follow up on complaints and signals of non-performance.

The CAG summary report 2009 said that significant payroll issues have been signaled. For example, the CAG documented an amount for Tsh. 881,966,747 in unclaimed salaries that had not been remitted to treasury (though the financial advisor of LGRP will argue that is exactly how it should go in order to get out of the hold harmless straight jacket.). The council management often lacks leadership, also due to regulations like minimum 7 years of experience before an acting DED get promoted or confirmed to DED. In the mean time, he/she does all the same work, though he/she has not the same decision making power nor the related salary.

It has been shown in several studies that the LGAs are less qualified in remote areas. Therefore, the issue remains: how to attract and motive council staff in remote areas? Some districts have been creative and innovative in their quest to find qualified staff: they offer mobile phones, solar panels and housing or cheap loans for motorbikes, reduced taxes and fuel for transport, etc. The Government also foresees to provide a Special Budget<sup>18</sup> to 36 LGAs that have been “underserved”, which will allow the Councils to provide incentives and create conditions that are more conducive to attract staff. The selection of those LGAs is an issue to be further addressed.

#### **2.5.2. Staff Capacities and Competencies to Monitor Resources Disbursed to LGAs**

Notwithstanding the problems mentioned above the human resource situation in LGAs has improved very significantly compared to the pre-reform period. LGAs are now able

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<sup>18</sup> Equitable service delivery: opportunities and challenges. General Budget Support annual review 2009

employ and retain professionals. In the LGAs we visited there are those with adequate professional staff. Kinondoni Municipality for example has adequate professional staff. They are able to retain them because of the attractive working and living environment in the city, plus Kinondoni's own ability to provide incentives like capacity building. Indeed professionals from other areas would like to move to Kinondoni. The Municipality has Agricultural officers in excess because the peri-urban areas where agriculture is practiced is quite limited. There are a number of positions to be filled, such as in Community Development and Social Welfare, Trade and Industry but the process of filling them are in motion and they had qualified candidates.

The same situation was found in Morogoro. The council had qualified trained staff at the higher levels. Some were acting in their positions, because they had not served for the minimum 7 years set by PM-RALG for staff member to be promoted to become a Head of Department. The 7 year requirement for one to be confirmed or appointed to head a department is problematic and for some professions, (engineers for example), it is a real disincentive. It is an issue at Korogwe where some professionals are in acting positions. Generally however both substantive and acting staff at the professional level are capable of supervising resources disbursed to LGA. In all six LGAs most Heads of Departments are qualified and are in place. In Moshi, only the head of Legal Department was not qualified due to insufficient experience. The Accounting Department had a gap of two accountants out of an establishment of 10. In Morogoro District Council all Heads of Departments are qualified and in place. Only the Water Engineer is acting but is qualified. In Iringa all the heads of Departments are qualified and in place.

Weaknesses at the level of LGA headquarters concerned some gaps in some of the professional departments and limited funds for capacity building including retooling. However, while Korogwe complained that Tshs 9 million allocated for capacity building were inadequate, Kinondoni Municipality stated that they had enough for capacity building. Kinondoni Municipality have obtained Tshs 85 million from MoFEA and allocated a further Tshs 200 million from their own sources. On the whole however the LGA management have adequate capacity for absorption of financial resources. The professional staff is capable of planning and implementing projects financed by central government and DPs.

We confirmed in the field visits that the most serious human resources gaps in LGA are however in the two sectors: Health and Education. Health is the most affected sector because qualified personnel are few in the market. The serious shortages are therefore likely to increase with time if enrollment into training institutions remains at the current levels. Other factors also play a role in compounding this problem. For example, the overall incentive structure in the health profession seems to be relatively lower than other professions to the extent students with appropriate grades train for other profession. The same applies to science subject teachers who are very scarce. The problems in these sectors is even more compounded by the fact such staff prefer to work in urban councils and avoid going to remote schools and dispensaries.



The problem is evident in all LGAs visited. In Moshi Municipality the establishment for health staff is 411 and 345 are in place leaving a gap of 66. In Morogoro the gap is 63 health personnel. In Iringa the gap is 57. Even Kinondoni Municipality has a gap of 53. The cadres who are in greatest demand are Medical Assistants, Clinical Officer II, Nurse Officers II and Medical attendants. It would seem the incentive structure for these cadres is not very competitive. The situation for education is also problematic. In Moshi the establishment for secondary school teachers is 561 and those in place are 495 and therefore there is a gap of 66. Other LGAs did not give the establishment of secondary teachers. Qualitative information however points to very serious shortages of secondary school teachers in the Ward secondary schools.

## **2.6. Local Government Audit Reports**

### **2.6.1 CAG Reports**

The CAG is currently working on the general report of FY 2008/2009. The latest available information is on FY 07/08. In that year, though there were no adverse reports, the number of qualified reports had increased (61) compared to the previous year (24). Also in that year, out of the Tsh 270 billion of development funding received in 112 districts, 99 Billion was not spent.

Reasons mentioned are:

- MoFEA did release the money very late, sometimes only in May or June
- The procurement act obstructs smooth expenditure for investment (60% of received development funds), infrastructure, construction etc.
- Bureaucratic tape hampers the process, which is imposed by the councilors, and it delays the implementation of projects
- There is not enough qualified staff like engineers to implement and follow up on the projects in the wards and villages

Other issues:

- Funds that are transferred from the HLGA to the LLGA are not followed up. The expenditure nor the balance of the transferred money to the villages is not reported on.
- In FY 2007/08 there were no guidelines for the LLGAs. Since the FY 08/09, there is a manual to help the LLGAs.
- However, audits do not take place at LLGA level. HLGA are supposed to do that but they hardly have the required staff for their own internal auditing.
- Because of the “accrual system” which the GoT applies, unspent money should stay in the system. Carry over money is supposed to be re-budgeted otherwise the council would have to run two parallel implementation plans, which is not acceptable for CAG.
- On suggestion to plan one and half year ahead, the CAG officials said this could only work if the funds would be regular, and reliable.

Weaknesses of LGAs according to CAG:

- The HR in numbers and quality: auditing, accounting project management issues.
- The IFMS Epicor system is not used properly. They now use 2 systems: manual and Epicor. MoFEA does not supervise Epicor sufficiently.

- Irregular flows of funds and the small capacity of the LGA to collect revenues.
- Political influence by the low educated elected councilors
- Too many accounts (on average there are 40 accounts per district)
- M&E is an issue: there is no supervision or respect for minimum standards. The LGAs do not provide the relevant feedback
- The message to LGA is not always clear: eg. donors also send separate auditors to assess the programs, but these reports are not translated into Kiswahili and therefore are not well understood.
- Instructions come from different ministries, which makes it difficult for the LGAs to adhere. Need for harmonization
- It takes too long to discipline the DED (via PMO-RALG or relevant Sector Ministry), if he/she is not performing well or showing bad behavior.
- Most of the Acts and regulations are outdated.

In the light of the above it was revealed that in a new Bill the CAG has proposed to create a position of Assistant Accountant General for LGAs, focusing on financial management and accountability. It was further noted that most management instruments are too complicated and depend increasingly on computer literate staff, which is not available currently. All LGAs use a double system to handle their accounting: manually and Epicor. Epicor is still an obstacle. It is not rolled out to all LGAs yet and also not fully installed. Some LGAs are able to distil the required reports, but most are not. There are many problems with the Epicor system, of which the most important are:

- It is too complicated for the available staff at council level in terms of system but also in terms of IT.
- Staff that has been trained in Epicor often can not be maintained at the council level.
- There is no compatibility with PlanRep 2, which forces the LGAs to do everything double
- There are currently 2 versions, which makes it difficult for the RSs to aggregate the information at regional level.

This situation hampers the process considerably and is not conducive for the LGAs to be accountable. A possible solution lies in the fact that the CAG has been given mandate to review the Epicor system and to propose whether to completely change the system or only change the Local Government part of the system. The results of the consultancy are expected to be available in April 2010. The CAG summary report 2009 identified keys issues in Internal Control Systems, Contract management and Performance of donor-funded projects.

#### **Internal Control systems:**

The legal framework of reporting financial statements is outdated, especially after adopting IFRS and IPSA. The LGA prepare books neither in line with one nor the other despite that Tanzania has migrated to these standards since 2004.

**Review of Contract management:**

Some LGAs had inadequate documentation relating to contracts and project records, which was quantified as amounting to Tsh. 3 billion. These records include: contract agreements, bills of quantities, engineer's certificates and authorization of investments.

**Performance Review of donor-funded project;**

There are different donor projects taking place at LGA level, eg. ASDP, WSDP, TASAF, the Road fund etc. All these projects share similar weaknesses, these include: lack of supporting documents of some of the expenses; delays in implementations of action plans and non utilization of funds and unsatisfactory record keeping at LGAs.

The study team agrees with the CAG that the following key areas need to be improved:

- Follow up on previous years' audit
- The accounting system to be computerized at LGA level
- The LGAs should comply with the financial reporting framework
- The LGAs to strengthen Internal Audit Unit
- The LGAs to strengthen their own resource of revenue collection
- The LGAs to strengthen project management at their level to avoid misappropriation of assets.

**2.6.2. Action taken by PMO-RALG, Regional Secretariats and LGAs to address the main issues raised by CAG.**

According to the CAG summary report 2009, there are still a large number of matters left outstanding from previous audits. In 2007/08 112 councils had outstanding audit issues amounting to Tsh. 32 billion in terms of questioned costs. The procedure of follow up is as follows (see also the Public Audit Act, section 40):

The CAG provides a report for each district. The DED officially reacts to the report and sends it to PMO-RALG. PMO-RALG consolidates the reports and sends it to PMG (Pay Master General within MoFEA), which provides a structured response to CAG. CAG assesses the actions and reports to the LAAC, since the CAG is auditing on behalf of the parliament (section 10 in the Public Audit Act). The LAAC deliberates the CAG report and reports to the parliament. The review is done several times. If the LGAs do not take action, it will affect the opinion of the CAG for the audit report.

CAG reports are given along three categories: clean, qualified and adverse. There has been an improvement in the performance of LGAs and those visited received qualified or unqualified reports. The Moshi example can illustrate the CAG process. The audit report for the 2007/08 financial year gave Moshi Municipality an unqualified opinion. There were a number of queries mostly incomplete projects. The Management team consulted the Finance committee of the Council and rectified the situation. The action was later reported to full council which agreed with the actions taken by the management in collaboration with the Finance Committee. In Korogwe, Morogoro and Iringa the RAS office assisted in dealing with CAG queries.

### 2.6.3 Assessment for LGDG<sup>19</sup>

The LGDG is a discretionary development grant provided to LGAs according to a formula and annual assessments of their institutional performance. The assessment reviews LGAs capacities in key functional areas such as planning, budgeting, procurement, financial management, revenue generation as well as transparency and accountability. The LGAs that fulfill the basic minimum conditions are eligible to access the development grant, whereas those LGAs that fail have to wait another year to fulfill the conditions. All LGAs are given a discretionary capacity building grant that enables them to build basic capacity for future access to the development fund.

The Annual Assessment of local governments is a key instrument of the LGDG system and it serves several purposes. Firstly, it provides assurance to development partners and Governments that funds are safeguarded by assessment of whether LGAs fulfill a set of minimum conditions (see table below). Secondly, the system of assessments provide strong incentives for LGAs to adhere to the required benchmarks of governance as the level of funding to LGAs is determined by their scoring (and in this way also provides an incentive for LGAs to use their more easily available capacity building funds wisely), and finally, it provides a fairly objective and comprehensive assessment of trends in overall management performance of LGAs. The assessments are overall managed by PMO-RALG but outsourced to independent consultancy companies, which adds to the objectivity and technical quality – although the annual costs (almost 1 million USD) have been questioned occasionally.

Currently, the annual assessment for LGDG is also conditional for the qualification for 5 other sector development grants, which are discretionary funds within the respective sectors: agriculture, water, roads, education and health, so called sector windows. The sheer volume of all these grants together makes the Assessment the key to decentralized funding for the LGAs.

**Table 9: LGDG Minimum Conditions (2005 – 2008)**

Functional Area	Indicators of Minimum Conditions
A) Financial Management	1) Positions of Council Director, Treasurer substantively filled
	2) Final Accounts for the previous FY, produced as per section 45 (4) LGA 1982, submitted for audit on time
	3) The Council did not receive an adverse audit report for their last audited accounts
	4) No confirmed financial management irregularities have been reported either by the internal or external Auditors in the past 12 months.
	5) Bank reconciliation statements for all accounts prepared within 15 days of the previous month end

<sup>19</sup> LGDG formerly known as Local Government Capital Development Grant (LGCDG)

	6) Internal audit in place and functional as provided under section 45(1) of the LG Act 1982 and the LAFM 1997 orders 12-16. (At least 4 internal audit reports prepared during the previous 12 months.)
	7) Regular production of financial reports. All quarterly reports during the previous 12 months presented to council and copies to PMO-RALG through RS
B) Fiscal Capacity	1) Sufficient funds available to meet the co-funding obligation. (Minimum 5% of the amount of the Capital Development Grant.)
C) Planning and Budgeting	1) Development plan approved by the Council, on time
	2) Budget process adhered to the provisions of the LG Act and Planning and budgeting guidelines
D) Procurement	1) Legally constituted Tender Board
	2) National Procurement guidelines and manuals available
E) Council's Functional Processes	1) Regular meetings of the council – at least one meeting held every 3 months
	2) Minutes of the council meetings recorded on a permanent record
F) Project Implementation, Monitoring and Evaluation Capacity	1) Annual and quarterly work plans available
	2) Progress reports on project implementation available

Assessment of LGDG is done by an appointed Auditor by MoFEA like Coopers and Lybrand. It is a demanding process and so much is at stake because the LGDG are considerable. For any LGA missing out on this funds it is a big disadvantage. The LGAs visited have qualified in the assessment. Iringa for example has always qualified in different assessments since the time when only 23 LGAs qualified.

It is clear that the independent assessment system as applied for LGDG has contributed considerably in improving the performance of the LGAs.<sup>20</sup>:

- It has led to strong incentives for LGAs to improve planning and budgeting in the areas assessed.
- The rapid mainstreaming of area based programmes led to significant harmonization and greater transparency in resource allocation to LGAs
- Capacity building: both supply and demand driven- helped build capacity in planning and budgeting. The assessment process has helped LGAs to identify areas where capacity needs upgrading. The results were however not always used

<sup>20</sup> Sector Budget Support study

as the basis for the CBGs as the overall planning and management of the CBG was much weaker than the corresponding process for the CDG

- The discretionary funding has enabled LGAs to provide services in line with local needs.
- The use of indicative figures at sub-district level has strengthened the lower level local government units.
- The later inclusion of the sector windows has now made the LGDG system the dominant modality for local investment funding to LGAs and to a large extent created a more harmonized system for local level planning, budgeting and reporting for development funds- though some challenges still remain for a fully harmonized system.
- Donors and government jointly worked for mainstreaming sector funding through the LGDG system.

The above achievements notwithstanding there are still two areas where the LGDG and LGRP did not have positive effects:

- Inappropriate technical solutions in M&E, eg. PlanRep and LGMD, which failed to address immediate LG reporting and monitoring requirements and were not utilized.
- Some of the LGDG sector windows continued to operate with some aspects of sector specific institutions and reporting requirements contrary to the LGDG objectives of harmonization.

The system could also be used more seriously and should yearly increase the level of performance standards, in order to “tighten the bolts” as was mentioned by one of the respondents. Amongst others, the way the LGA is supporting and monitoring the LLGA level implementation should be included in the criteria. Another point is that some of the measurements were not well defined, e.g. “planning” only included very crude measurements that did not capture the real problems in LGAs regarding integration of capital and Operations and Management (O&M) costs, just as some sector specific performance indicators were introduced late in the process and not supported by relevant capacity building measures. Regarding the performance of the LGDG the CAG points out that most of the weaknesses relate to delays in the implementation due to delays in releasing of funds.

## **2.7 Procurement in LGAs**

### **2.7.1 Procurement regulations and processes**

The procurement process in LGAs starts with the procurement plan, which follows the approved budget and takes into stock quarterly allocations. The implementation of the procurement plan starts with the user Department, which writes to the Director of the Council and makes a request. The Director then sends the request to The Procurement Management Unit which is permanent which makes technical recommendations to a Tender Board appointed by the Director which meets at least once a Month but sit more frequently when needs arises. It is guided by the two procurement methods, quotation and advertisement in newspapers and elsewhere. For Goods quotation is allowed for goods

worth up to Tzs. 80,000,000. Above that amount the invitation for tendering is announced in common newspapers. For works the ceiling of quotation is Tzs.100,000,000. Works, which cost more than that have to be announced in newspapers.

Procurement by quotation takes a minimum of seven days. When using newspapers for advertisement a lapse of minimum of 30 days has to take place. It can take more days if it involves international tenders. The tender board decides on the procurement method to be used and manages the process until the tender is opened in public and the bids are announced. The Director then appoints an evaluation team, which would recommend the winner. The name is forwarded to the Tender Board, if satisfied then passes the recommendations of the team. The PMU can make some comments at this stage on the lowest evaluated bidder as opposed to the lowest bidder. If there is no technical hitch, then the Tender Board awards the tender but the contract is signed by the accounting officer, the Director. This process takes around 1.5 months while quotation takes around 2.5 weeks.

The procurement procedure is an obstacle for the timely expenditure of especially development funds by the LGAs. The process requires expertise, which is often not available. Also the fact that, according to the Act, the LGAs can't sign contracts with service providers as long as they have not received the money, hampers the process considerably. Though the Act was developed with many stakeholders, it turns out to take too long, despite the provision of several ways to obtain works, services and goods.

The thinking on procurement at village level needs to be further developed. Currently there is no procurement board at that level as required by the Procurement Act for LGAs. A committee composed of the village government, the VEO and local technical staff like primary school head teacher, the health worker of the village dispensary, etc. could fulfill that task.

Some LGAs are now overly rigid with the procurement system due to making losses after awarding contracts before the funds were available. In an attempt to jumpstart the utilization some LGAs awarded tenders to contractors who would use their funds to start the work. It was particularly the case with the Local government transport project, in Korogwe contracts worth 300m were signed but funds were never disbursed and contractors are threatening court action. In Morogoro in the 2008/9 financial year Tshs 721m of the LGTP funds were promised but never disbursed but there are no problems with contractors.

The differences between the two scenarios are that in the first the contractors were allowed to work without the funds have been received. Now the procurement procedures are clear that no contract work can start before funds are received in the Council. Apart from the threat of litigation when contractors are not paid, there are problems of supervision when there are long delays in the payment of contractors. Contractors cannot be sanctioned for delays and shoddy work when they have not been paid. When funds are available, payment is done only after certification of work. It is done in such LGA as Kinondoni and Moshi even if it means rolling over the funds involved.

The example of Morogoro regarding the procurement process is instructive. The process starts once the budget and the Plan of Action has been passed by Treasury. The tenders are announced and awarded according to procedure and the contract is signed. Implementation of the contract starts only when the funds are received. This is important and practical because at time it provides space for minor adjustments of the contract when and if it is established that prices of some items have changed. There is therefore room for improvement in the demand side in the governance and administrative system. This has to involve both the Management and the Councilors. When the latter are against the management and look for easy solution, then the threshold of achievement becomes low. Improvement in the transfer system is called for including more reliability of donor disbursement. Yet it is likely there will still be delays in transfers due to such factors as revenue collections at the national level and donor conditionality. LGA governance system needs to devise ways of planning for such delays without going against the procurement law and regulations.

The CAG summary report of 2009 mentions the following regarding the procurement procedures:

- Procurement Management Units were not established or not functioning properly in 39 councils.
- Most LGAs did not prepare annual procurement plans.
- Tender Board results were not communicated.
- Procurement was made without competitive bidding.
- Goods were paid for but were partly or not delivered to a total a value of Tsh. 697,077,950

### **2.7.2. LGAs procurement plans.**

As indicated above the procurement plan is drawn in line with Action plan of the Council after budget approval. If there are no serious alterations in the Action plan then the plans are followed. Experience has shown that procurement plans are affected by a number of factors. They are affected by political decisions from higher levels. The directive to build new secondary schools and the purchase of power tillers are cases in point. The building of classes in Kinondoni greatly affected the Procurement plans as a number of projects were abandoned.

Another procurement plan challenge concerns the flaunting of procurement regulations especially allowing sub-district or group levels to make a purchase which by law is the prerogative of the local government authority, which is based at the District level. In Korogwe this applied to village level and PADEP groups level. In Kinondoni there was a time when there was decentralization of funds to schools, which were constructing classes. The process was centralized again on the orders of a Regional Commissioner because of the problem of poor quality of classes. Procurement plans are also affected by late transfer of funds as well as weather when the funds are delayed.

Overall observation made during the field interviews is that even if the LGAs have prepared procurement plans, it is rare that they stick to them, due to late disbursements.



## **2.8 Public-private partnership model (outsourcing services)**

### **2.8.1 Public-Private Partnership approach in service delivery in LGAs**

It was mentioned several times that the Councils could not find the qualified technicians necessary to outsource construction works like roads, rehabilitation of health facilities, building of classrooms, etc. There is a big shortage of engineers and technicians like electricians, plumbers and masons also in the private market. This is an obstacle to provide the required services. As a possible approach to address this major obstacle it was suggested that like in Kigoma, the LGAs should revive the Community Building Brigades that used to train communities in construction works.

The problems are however not uniform in all LGAs. In some places the problem lies with the issue of profitability when working with the Councils. In Moshi for example it is difficult to get contractors of class 1-5 because they consider profits obtained working for the Municipality as not being attractive. Late payment of contractors contributes to that opinion. When using contractors of class 6 and above the possibilities of low quality work are high. There is a general opinion among LGAs that the private sector is still small with limited capital and therefore need capital.

The other actors capable of making contribution from the public sector are state owned semi-autonomous agencies like Tanroads. These are however responsibilities for bigger projects. LGAs as a matter of common practice use contractors from the private sector for implementing their plans. The relations are good when contractors deliver quality services and when are paid appropriately.

The Management at the Morogoro District stated that they had good relations with contractors who have adequate and appropriate machinery for doing the various projects.

In Iringa District Council, which is more remote contractors are few and poorly equipped. The situation is strained when some contractors produce shoddy work and when on their part they are not paid in time.

It was the situation in Korogwe. Contractors started working with their own funds expecting to be compensated when the Local Government Transport Project would have been disbursed which was never done. The work done was below standard but since the Council had not paid the contractors cannot be sanctioned.

The Procurement law allows private but also autonomous government agencies to tender for council work but which does not allow departments to do work worth more than the minimum non tenderable sum. The amount is Tzs. 3 million. This is the case even when the Department has sophisticated machinery. It was the case in Moshi Municipality where the Engineering Department built bridges at lower the budgeted costs and of a higher quality but were taken to task for breaching the procurement law.

### **2.8.2. PPP contribution in terms of financial resources as percentage of total expenditure.**

In all LGAs there are some contributions of NGOs and other private and civil society partners. It is however difficult to quantify the contribution in the Councils because very few such donors make direct financial contributions to the Councils. Some make pledges but do not pay up. Iringa District Council for example gives two models of PPP. The first is that the stake holders pool up resources which transferred to the Council and then they implement the plans together. This has proved to be problematic in terms of transfers to the extent the Council has decided not to indicate such pledges in their planned budget because the previous experience of non-disbursement. The second model is when the private sector actors identify activities they wish to contribute. In Iringa the stakeholders include CONCERN, AMREF, TANAPA, Tunajali and the Anglican Church. In Morogoro they include World Vision, TCRS and others in the health and water sectors. World Vision is also present in Korogwe. In Rufiji an NGO called Empowerment has built two standard Hospital Wards, one in Utete and another at Kibiti.

## **2.9 Intervening factors that impact on the efficient functioning of LGAs**

LGAs do not operate in a vacuum. They carry out their assigned roles and functions in specific areas of their jurisdiction within the context of the United Republic of Tanzania. They operate under the specific direction and guidance of the policies and laws of Tanzania. In that sense they are influenced by the political, legal and social context of the bigger environment, i.e. the Central Government. Efficient functioning of LGAs therefore depends, to a large extent, on two major factors that can conveniently be divided into internal and external. Below we list and briefly discuss the issues because some of them have been touched upon already in the preceding sections.

### **2.9.1 Internal factors**

There are at least three major issues with regard to internal factors: resources – both (financial and human), legal and administrative framework and organizational set-up of the LGAs. The main problem with financial resources (as noted above) is that LGAs depend less on their own sources and therefore rely on external sources for both their recurrent and development activities/projects. LGAs are therefore at the mercy of external financiers for their wellbeing. Implementation of development projects depends therefore on timely and reliable arrival of funds from outside and this does not always happen.

Secondly, with regard to human resources LGAs do not have the required numbers of staff who have the required qualifications as well as experience. This is partly due to their inability to recruit the best staff for a number of reasons including, but not limited to, the following: (i) not all LGAs are equally competitive in attracting qualified staff; (ii) LGAs are among several institutions looking for staff from a limited market, others include the Central Government, foreign institutions, the private sector etc.; and (iii) there are no special incentives to motivate new recruits to select LGAs as their first destination in employment and those on post are poorly motivated to perform.

Thirdly, with regard to organizational set-up there is in almost all LGAs a problem with the relationship between Councillors and professional staff. There is mistrust and acrimony between the two to the extent that the latter tend to shy away from taking decisions as professionals for fear of being reprimanded by the Councillors. The problem may now be easing down but it is still affecting the manner in which professional staff go about their business in LGAs. This problem is complicated by the fact that the Councillors' level of understanding is generally low: many do not read and comprehend technical documents as they are (the Councillors) academically less qualified (majority ex-std. vii or at best with secondary education). Elected councilors have been mentioned several times as obstructive elements for the smooth implementation of development activities. The local politics can really touch the level and pace of development of a community. Leadership is crucial but mostly depend still on the "one party" culture. Leadership should be non-partisan, but it is not the case currently yet. This is particularly true in LGAs where there are Councillors from parties other than the ruling party and vice versa.

With respect to the legal and administrative framework the main problem is that the executives below the Council that is VEOs are not employees of the Council, they have contracts with the Central Government. The LGAs (especially the Directors) can hardly take these officials to task (in practice) although in theory they could. For administrative purposes this arrangement constrains flow of authority, supervision, monitoring and accountability. It has also been noted that trust at lower levels is low, and officials tend to collude with service providers with intent to deceive for personal gain. LGAs (especially Directors) have a hard time demanding accountability from people it does not have control on. This should be seen in the context where 50% of the LGA development funds are sent directly to the said levels. As mentioned above, these funds are not managed under the same arrangements as at the Council level as, for example, there are no tender boards at the LLGAs.

Other constraining factors were mentioned as follows:

- Poor data collection system to meet LGA requirements
- Poor management information system (including record keeping, statistics and poor utilization of IT systems)
- Shortage of working tools (including office space, vehicles, computers etc)
- Poor data management (including failure to utilize Epicor in accounting and financial management)
- Laxity over contracts management and supervision resulting into incomplete works

### **2.9.2. External factors**

There are a host of external factors that impact on the efficient functioning of LGAs. We have mentioned already in the preceding sections above that the main problems include: (i) political interventions from the central government; (ii) decisions to transfer LGA staff made with little or no consultation with LGAs; (iii) DPs not fulfilling their promises (pledges to fund development projects) and when they do they disburse less than the

pledged amounts; (iv) development funds from central government coming in late (3<sup>rd</sup> and 4<sup>th</sup> quarters); and (v) adverse weather conditions.

It can be argued that political interventions from above in their own right are a lesser problem as LGAs are part and parcel of the national system (policies, laws, regulations etc.). It is expected therefore that the central government would come in with directives and orders. What is most problematic is that these political interventions which translate into orders with serious implications if not obeyed are irrespective of the real needs of the locality and that they are not accompanied by the necessary resources. The directive for LGAs to construct secondary schools in each ward, for example, was not supported by release of funds to the LGAs. LGAs had to skip some planned projects to divert funds to fulfill the central government directive thereby denying people of some services that would have been provided by the diverted funds. LGAs plans were therefore not only implemented but their priorities also disregarded. There are many such interventions from the central government the latest involving the purchase of power tillers. This decision has not considered the fact that there are LGAs (e.g. Moshi Municipal Council) which are completely urban and have nothing to do with agriculture and therefore purchasing power tillers has nothing to do with the priority of the LGA.

The same applies to staff transfers: the problem lies not in the fact that LGAs are not consulted, and on top of that getting replacement is not easy. This is even more damaging when the numbers involved are big (it is said that over 80,000 LGA staff get transferred annually, majority of them being teachers). And even when the transfer involves a single individual it can have serious consequences. The case of Moshi Municipal Council (MMC) is instructive. A well qualified and experienced legal officer has been transferred from Moshi to PMO- RALG. The replacement is a graduate fresh from school and has been assigned to act as head of department. This person does not have experience and in fact is learning from on the job. Without doubting his capacity to learn and perform the fact of the matter is MCC has lost experience and competency that will take time to replace.

The consequences of development funds being released late and in lesser amounts than pledged or budgeted cannot be overemphasized. Suffice it to say LGAs have difficulties adjusting their plans and what they can eventually deliver with less resources. It is also equally difficult for LGAs to implement projects, such as construction of roads during the rain season due to delayed disbursement of funds.

## **PART THREE: CONCLUSIONS AND RECOMMENDATIONS.**

### **3.0 Introduction.**

The study gives indications that LGAs have capacity to receive the amount of funding that is required to manage the Councils effectively and efficiently if a number of constraints that affect absorption capacity from both the supply and demand sides are addressed.

There have been very significant increases in the amount of financial resources transferred to LGAs. It is logical that issues from the supply side regarding absorption capacity need to be addressed. At the same time the increased amounts transferred to LGAs have been accompanied with increased responsibilities given to them by the central government. Those from the demand side consequently wish that the constraints linked to the implementation of the added responsibilities be recognized.

In response to Terms of Reference the study team can provide the following conclusions and recommendations on each subject.

### **3.1. Business/operational practices (governance and administrative Systems) of existing LGAs in relation to increased resource at that level**

Administrative systems are in place and have improved significantly since the introduction of the annual Assessment of LGDG grants system. Equally, the governance aspects have improved because the Full Councils are increasingly under pressure to play their role.

However, some of the management tools are not fully operational yet (eg. PlanRep, Epicor, LGMD,). PlanRep is the most advanced in terms of utilization and LGMD is hardly known. The view from MoFEA is that Epicor as a system is not the appropriate tool for LGA level. All of these tools seem to be too complicated for the time being, for the available staff and competencies in the councils.

The planning and budgeting cycle requires LGAs to go through several stages. It is, however, not possible for the LGAs to follow the steps according to the cycle's timing due to late publication of the MTEF guidelines by MoFEA. As a result, they do not know what budget will be allocated to them by the time the financial year begins.

At the same time, there are too many and frequent report requirements as a condition for release of funds from both the central government and basket and other donors who demand separate reports.

### **Recommendations:**

- Review the planning and budgeting cycle at LGA level in line with the reality of cash availability and unpredictability of funds in terms of timeliness and amounts.

- Develop or identify less complicated management tools and make them compatible with each other, especially regarding Epicor.
- Central government officials and DPs need to establish the type of information, which is needed in a year so that LGAs can produce more standardized reports.

### **3.2. The existing gap (upward or downward) between financial resources received and absorption capacity at LGAs (the level of resources that is actually spent / could be spent if made available);**

Without exception LGA officials acknowledge the increase of government and donor funds to local governments. This has made the government to be visible and its presence felt by the ordinary citizens as financial resources reach to lowest governance levels.

There is however a worsening trend in both the overall execution rate and the timeliness of development funds. These are interlinked due to the regulation of the procurement procedure, which become problematic as a consequence of late disbursements of development funds.

Despite the delays in execution, the implementation of projects is however satisfactory. A recent Value for Money Audit (PMO-RALG, 2009) confirmed findings from 24 LGAs, where it was found that only 2% out of the reviewed projects implemented 2005-2007 were of “poor quality” and the remaining of “fair (14%), good (50%) and best (34%) quality.

#### **Recommendations:**

- There is need to increase further the management capacity of LGAs so as to ensure better accountability to allow management of increased finances.
- Upgrade the assessment criteria for LGDG as way of improving the quality of management in LGAs.

### **3.3. The flow of information (information systems) at all levels; Centre, Regional Secretariats, LGAs and Lower level LGAs and how this affects absorption capacity;**

The flow of information from the national level to LGAs (council level and from that level to lower levels – wards and villages) and vice versa is important for good governance. There is also the Regional level which now plays a supporting but important role.

There are some limitations in the flow of information, which affects the absorption capacity of LGAs. One trend of flow of information, which has consequences, is that of top – down directives, which come from the Central Government to LGAs (Councils) without consultations. Another limitation is the transfer of funds without accompanying documentation indicating the details of the budgetary activity they are intended for.

The MoFEA is aware of this issue and has now instituted measures to systematically inform the LGAs and copy the respective information to the Regional Secretariats (RSs) so that they can also communicate with the LGAs and make follow ups. .

**Recommendations:**

- Improve the information flows between MDAs and Regional Secretariat, so that they can play their role of supervisor and facilitator.
- Use appropriate channels and systemize the mechanisms to inform the LGAs on intergovernmental transfers
- All financial transfers need to be accompanied by paper work, which can be faxed to LGAs. Newspapers can be used as a transparency strategy to inform the public in the LGAs.

**3.4. Existing intergovernmental transfer systems, the way funds are disbursed from the Treasury to LGAs, in terms of timeliness and adequacy;**

There are late transfers of financial resources to LGAs. While the transfer of PE is consistent and timely and the transfer of OC is mostly regular (except for capitation and general purpose grants), the transfer of Development Grants generally starts in towards the third quarter.

Serious delays in the disbursement of development funds affect the implementation of projects and programmes in LGAs resulting in roll over funds: MoFEA and DPs have responsibility to fulfill their pledges and timely expedite development funds.

There are also cases where some central government ministries fail to make remittances to LGAs taxes collected which have shares intended for Councils. An example is the 25% of hunting fees which is due to the areas of hunting. The Ministry of Natural resources is not transferring the remittances.

**Recommendations.**

- MoFEA might have statutory reasons, which prevent disbursement of development in the first quarter. However, it does not provide a firm date when the funds are to be disbursed. MoFEA needs to institute reliability in the exact month of transfer of development funds so that LGAs can make preliminary preparations for plan implementation.
- MoFEA needs to address these issues with the DPs and foresee/prepare for the different scenarios

**3.5. The effectiveness of formula-based allocation of resources and the relevance of the variables used in determining allocation of resources on the basis of formula in various sectors.**

The introduction of formula based allocation of resources is an attempt to avoid over-privileging some LGAs at the expense of others. The principle supports the better distribution of resources to especially remote councils. Though, the LGAs acknowledge

that it has brought some improvements, the formula based allocation does not work as intended, because there are other factors<sup>21</sup>, which need to be appreciated.

**Recommendation.**

- There is need to review the formula based allocation to ensure equity for remote and less endowed LGAs.

**3.6. The recurrent and development budget performance at LGA level for the past three years**

Resource allocation among LGAs based on formula have increased the reliability of funds both for OC and development and therefore created conditions to improve the planning process for the LGAs. For the OC component this has worked and most LGAs claim to have no problems regarding OC funds in terms of expenditure and implementation. It is different for development grants, which are less predictable and disbursed late, which undermines the potential strength of formula based approach.

The allocation of many LGA staff and provision of PE has greatly increased their HR capacity. However, the current system for allocation of PE is not effective, because MoFEA cannot check the payrolls. Only the LGA could check, but they do not do that seriously enough. It is not in the interest of the LGAs to have less staff, because they then get less money. Deployment decisions at Ministerial level have disadvantaged LGAs especially those in remote areas.

LGAs still lack sufficient qualified and experienced staff especially in remote/rural LGA. They still face difficulties in attracting staff over the last 3 to 4 years.

Rolled over funds have become a regular and generalized practice since the Bill of September 2009. At present LGAs have different methods for using and reporting rolled over funds. Some prepare mini-budgets, some prepares “another plan” for the funds while others just continue to implement the previous year plan

**Recommendations**

- There is need to put into place special incentives to draw staff voluntarily to these LGAs.
- By joining forces and comparing details, MoFEA and PMO-RALG could address the inequality of staff between the LGAs if they really want to.
- LGAs need to put more efforts to mobilize own funds by facilitating commercial activities, which would be sources of local tax
- MoFEA needs to integrate the carry over system into the mainstream and clearly inform the LGAs on the procedures and reporting.

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<sup>21</sup> see also page 27



### **3.7. The latest report of the Controller and Auditor General and actions taken by PMO-RALG, Regional Secretariats and Local Government Authorities to address the main issues raised.**

There has been improvement in LGAs finance management as exemplified by the number of qualified opinions of the CAG. It implies there is absorption capacity in LGAs to manage increased finances. Nonetheless, there still is need to increase further LGAs management capacity so as to ensure better accountability to allow management of increased finances. Despite improvement in audit certification there are many queries in councils and there seems to be an increasing laxity as the number of LGAs being awarded unqualified certification is increasing.

#### **Recommendations:**

- CAG should have more power to enforce that LGA take the appropriate action in follow up of the audit reports.
- Or other mechanisms should be established eg. insert it in the criteria for the LGDG Assessment or for example, the next audit report will be qualified/adverse, etc.

### **3.8. The Implementation role of the Public – Private - Partnership approach in service delivery at the all levels of LGAs. Articulate their contributions in terms of financial resources and apportions as a percentage of total expenditures within the past three years**

In remote areas the LGAs cannot find the required expertise to outsource the works. Therefore LGAs are often forced to implement by themselves or to take below standard technicians.

Some of the contractors used in the LGAs are sub-standard and produce shoddy work, because of, among other things, delays in payments.

#### **Recommendations:**

- LGAs need to avoid compromising their supervisory tasks through giving contractors work when there are no funds to pay them.

### **3.9. Procurement regulations and processes and the existence of procurement plans**

The regulation of the procurement act that is prohibiting signing contracts before funding is available delays the works but at the same time protects the LGAs against substandard work and it protects the contractors for not being paid. The delays in the funds arrival however result in frequent deviations of the procurement plans.

At village level, the village committee now takes up the role of tender board, which is surprisingly doing a relatively good job, probably because it is close to the community.

#### **Recommendations:**

- Joint revision of the regulations should smoothen the expenditure of funds.

- Guidelines on how to deal with procurement at village level need to be developed based on simple and uncomplicated rules

### **3.10. Procedures around the production and submission of progress reports in facilitating the release of financial tranches;**

There are too many and frequent report requirements as a condition for release of funds from both the central government and basket and other donors who demand separate reports.

#### **Recommendations:**

- Central government officials and DPs need to establish the type of information, which is needed in a year so that LGAs can produce more standardized reports.

### **3.11. Any other issue found to be relevant to the study that impact on the efficient functioning of LGAs.**

Instructions on the use of financial resources at times go against the spirit of devolution. The priorities set by LGAs are sometimes ignored. Political directives from higher levels greatly impact on the performance of LGAs.

#### **Recommendations:**

- LGAs to inform the public on the consequences of such interference
- Lobby at parliament and involve parliamentary committees in reacting to such interferences

### **3.12. Specific Recommendations for the different institutions:**

#### **MoFEA**

- Review the planning and budgeting cycle: make it shorter for the HLGA-LLGA level
- Renegotiate conditionalities with DPs on the timing of progress reports
- Review the regulations for procurement at village level
- Refine formula's and apply formula to PE
- Create special funds for attracting staff to remote areas

#### **LGAs:**

- Improve on internal auditing and follow up of CAG reports
- Improve on own revenue collection
- Follow up on ward and village expenditure and implementation
- Include ward and village levels in monitoring and reporting

#### **PMO-RALG:**

- Review PE payrolls together with MoFEA and insist on improving distribution of staff
- Strengthen RS and systematically involve them.

## **ANNEXES**

## **Annex 1: ToR**

### **1. Background**

Local Government Authorities (LGAs) are now the main providers of basic services to the people and are therefore major implementers of Government policies at the local level. Specifically, LGAs undertake the following functions:-

- (i) to oversee and execute the policies, laws, regulations, procedures and guidelines from the Central Government;
- (ii) To carry out community development in economic terms, for the people within the areas of their jurisdiction;
- (iii) To plan and execute development programmes and projects through participatory approaches;
- (iv) To mobilize communities in the fight against poverty, ignorance, diseases and especially in the fight against poverty under the National programme on poverty alleviation.

In order to ensure effective public service delivery, the government is implementing various strategies to institutionalize Decentralization by devolution (D by D) process. Currently, as a result of LGDG and the sector windows, coupled with the D by D assessment on the 14 Ministries, increased resources are channeled directly to LGAs. However, despite the increase in resource allocated to LGAs, allocative efficiency still remains low. It has been noted that progress in rural areas especially when reconciling with the funds allocated remains below expectations. Thus there is need to strengthen further the transmission mechanism of resources from Central Government to the Lower level Local Government so as to realize the target of MKUKUTA.

### **2. General objective**

Most interventions under MKUKUTA are implemented at LGA level. This has led the Government to gradually increase financial resources to LGAs. Also, other sectors are devolving financial resources to the LGA level. Thus the general objective of this study is

to analyze the effectiveness of decentralization by Devolution in terms of matching deployed financial resources with the absorption capacity at LGAs. This study should focus on two main service sectors: health and education. The study should critically examine the factors that enhance and diminish absorption capacity on both the supply (e.g. functioning of transfer systems) and the demand sides (e.g. governance and administrative systems at local level).

### **3. Specific objectives**

In support of the general objective of the assignment, the specific objectives of this study are to:

- (i) Assess existing LGA business/operational practices (governance and administrative systems) in relation to increased resource at that level;
- (ii) Assess the existing gap (upward or downward) between financial resources received and absorption capacity at LGAs (the level of resources that is actually spent/could be spent if made available);
- (iii) Assess the flow of information (information systems) at all levels; Centre, Regional Secretariats, LGAs and lower level LGAs and how this affects absorption capacity;
- (iv) Assess existing intergovernmental transfer systems, the way funds are disbursed from the Treasury to LGAs, in terms of timeliness and adequacy;
- (v) Provide an assessment of the effectiveness of formula-based allocation of resources. Assess the relevance of the variables used in determining allocation of resources on the basis of formula in various sectors;
- (vi) Analyze the recurrent and development budget performance at LGA level for the past three years
  - Show clearly the trends in expenditure at sectoral and sub-sectoral level. Assess whether and how far these trends reflect policy objectives;
  - Assess the rationale of resource allocation among LGAs for both development and recurrent expenditures with reference to formula-based approach;

- Assess the effectiveness of the current system for allocation of Personnel Emoluments (PE);
  - Examine how rolled-over funds have been utilized and reported;
  - Analyze the profile of staffing levels (trained staff) at Local Government Authorities and assess their capacities and competencies to monitor the resources disbursed to LGAs;
  - Review the latest report of the Controller and Auditor General and actions taken by PMO-RALG, Regional Secretariats and Local Government Authorities
- (vii) Assess the implementation role of the Public-Private-Partnership approach in service delivery at all the levels of LGAs. Articulate their contributions in terms of financial resources and apportions as a percentage of total expenditures within the past three years;
- (viii) Assess procurement regulations and processes and the existence of procurement plans;
- (ix) Assess procedures around the production and submission of progress reports in facilitating the release of financial tranches;
- (x) Any other issue found to be relevant to the study that impact on the efficient functioning of LGAs.

#### **4. Methodology**

The consultants will review relevant Government documents including the past three year's budgets and outturns (including the current budget). They will also draw on the wide body of information sources already available (see Annex 2). Field work should be conducted in a sample of 6 Local Government Authorities (4 Rural LGAs and 2 Urban LGAs randomly selected). The consultants should consult broadly with senior personnel at the LGA level (DED, Treasurer and finance staff, HODs in Education and health, Council Chairperson and relevant Council committees, and senior personnel at the point of delivery).

## 5. Expected output

An inception report should be presented within 7 days of the inception of this assignment. The assignment is expected to come with a report reflecting the effectiveness of D by D in enhancing public service delivery. It will show existing gaps and links between financial resources and absorption capacity at LGAs and suggest policy intervention to rectify the situation.

## 6. Consultant requirements

The team of consultants is required to have the following:

- (i) A team comprising three experts, including a team leader, a financial specialist and sector specialist (health or education).
- (ii) Relevant Postgraduate Degrees, preferably at PH D level;
- (iii) A track record of achievement in research on D by D, local government and fiscal systems, and policy analysis;
- (iv) Proficient analysts, with sound understanding of the D by D agenda, governance, and the political culture of Tanzania;
- (v) A thorough understanding of the political and social systems and institutions, relevant to D by D, fiscal devolution and operations at LGA level;
- (vi) Availability within the timeframe

It is expected that lead actors (GoT and DP) will provide some assistance to the team during the assignment (e.g. approval of inception report; comments on draft report, facilitation of field visits).

## 7. Timeframe and budget

The assignment is 35 consultancy days. The consultants are expected to carry out this study and submit the final report to PMO-RALG/MKUKUTA Secretariat **by November, 2009 after signing of the contract**. The detailed timetable of activities is attached (Annex I).

**(NB: note this deadline is dependant on the timeliness of the procurement process).**

## Annex I – Work schedule

Day no.	Activity	Date	Responsibility
	Submission of approved TORs to MKUKUTA Secretariat	18 <sup>th</sup> August 2009	Lead Actor (PMO_RALG)
0	Procure and assign consultant		MKUKUTA Secretariat/Ministerial Tender Board
1	Consultant starts assignment		Consultant
1-6	Desk Research		Consultant
7	Presentation of Inception report		Consultant
8-21	Field work		Consultant
25	Presentation of draft report to CWG		Consultant, CWG3
26-34	Amend draft report		Consultant
35	Submission of final report to PMO-RALG/MKUKUTA Secretariat		Consultant

## Annex II: Essential reference Documents

1. Intergovernmental Funding Flows & Local Budget Execution in Tanzania – Jamie Boeix
2. PER Rapid Budget Analysis, October 2008
3. PER Study on Effectiveness of Baskets, 2009
4. LGRP Evaluation, 2007. Issue paper on Fiscal Decentralization

**Sector studies - TBC**



## Annex 2: List of people consulted

1. **PMO-RALG Dodoma.**  
P.P. Mkongwa                      Director, Policy and Planning- PMO-RALG
  
2. **Moshi Municipality.**  
Ms. Bernadette Kinabo              Municipal Director.  
R.N Mfune                      Administration and Personnel.  
T.E Mrango                      Municipal Treasurer  
J. Salehe                      Works  
Ms. E.S. Lyimo                      Ag. Head, Planning  
Alphonse Temba                      Supplies Officer  
Ritte W. Raphael                      Accountant.
  
3. **Korogwe District Council.**  
Mjema Mweta                      HD Agriculture Ag. Director  
Ibrahim Janja                      Internal Audit.  
Geofrey Kiwelu                      District Treasurer-  
Aron Mbapa                      CRC  
Ms. Samina Gullam                      Ag. DHRO  
Magati A. Mdugi                      DESaliye M. Supplies Officer
  
4. **Kinondoni Municipality.**  
Venance Rugaitika                      Procurement officer.  
Ando Mwankuga                      Economist  
Chialo Lambert                      Head, Human Resources  
J.P. Mwaikatale  
Alice Eriyo                      HR officer.
  
5. **Iringa District Council.**  
Joseph Mbiaji                      DT and Ag. Director  
Abel Mgimwa                      Planning  
Stephen A. Ulaya                      HR  
Nassoro Ramadhani                      Accountant  
P.J. Assenga                      Procurement Officer
  
6. **Morogoro District Council.**  
E.A Munisi                      DED  
N.A Mwingira                      DPLO  
C.M Ninalwo                      DT  
A.T. Swilla                      HRD

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| <p><b>7. Rufiji Council.</b><br/> Shabani K. Mssako<br/> Joseph Kibao.<br/> Albert Dede</p>                      | <p>Trade Officer Ag. Director<br/> Ag. DT<br/> Deputy Planning Officer.</p>  |
| <p><b>8. MoEVT</b><br/> Mrs. E.G. Ntukamazina<br/> Mr. Rozangi<br/> Mr. Mwankuzi</p>                             | <p>Director of Primary Education<br/> Chief Accountant<br/> Director Planning and policy</p>   |
| <p><b>9. MoFEA</b><br/> Mr. Mwilima<br/><br/> Emmanuel Tutuba<br/> Charles Mwamwaja</p>                          | <p>Ass Commissioner of Account for Regions<br/> and LGAs<br/> Principal Economist<br/> Economist</p>   |
| <p><b>10. PMO-RALG</b><br/> Mr. Sagini<br/> Mr. Liboy<br/> Mrs. Mchome<br/> Mrs. Venus Kimei<br/> Mr. Mallya</p> | <p>Deputy PS Education<br/> Coordinator of education<br/> Director of Finances<br/> Ass Dir Sector Coordination<br/> TA finances of LGRP</p> |
| <p><b>11. PO-PSM</b><br/> Mr. Mlay</p>   | <p>Ass Director Establishment Division</p>   |
| <p><b>12. MoH</b><br/> Mrs. R. Kikuli</p>  | <p>Director of Policy and Planning</p>   |
| <p><b>13. CAG</b><br/> Mr. Pius<br/> Francis Mwakapalila</p>   | <p>Assistant director local government</p>   |

### **Annex 3: List of documents consulted**

- Sector Budget Support in practice: case study Local Government Sector I Tanzania, Per Tidemand, ODI and Mokoro, March 2009
- A summary of the Controller and auditor general audit reports: salient features of the Central & Local Government and the public authorities & other bodies, 30 June 2009
- Guidelines for the preparation of Medium Term Plan and Budget Framework for 2009/2010-2011/12, part I Feb 2009
- Independent Procurement Review and Value For Money audit of contracts Implemented by Local Government Authorities under the Local Government Capital Development Grants System (FY 05/06& FY 06/07) Final draft, Jan. 2009
- Mid Term Review of LGSP for PMO-RALG 2007, final report, Component 1&3, DEGE Consult.
- Intergovernmental Funding Flows and Local Budget Execution in Tanzania, final draft, October 16, 2008
- Annual general report of the controller and auditor general, FY 2007/2008
- General Budget Support Annual Review 2008, Final report, MoFEA
- Background analytical note for annual review of general budget Support 2008: equity and efficiency in service delivery: Human Resources, 2007
- Public Expenditure Tracking Survey for primary and secondary education in Tanzania, Jens Claussen and Mussa J. Assad, MoEVT , Feb 2010
- United Republic of Tanzania (URT) - PMO-RALG- Local Government Programme- Joint Government-development Partner Programme Evaluation Feb-March 2007, Working papers, final April 2007
- URT- Public Expenditure Review, Rapid Budget Analysis (Policy note 3) October 2008, PER Macro group
- The local Government Authorities Tender Boards [Establishment and Proceedings] Regulations, 2007.
- Report of the Controller and Auditor General on financial statements of Moshi Municipal Council for the year ended 30<sup>th</sup> June 2008.

- Report of the Controller and Auditor General on financial statements of Korogwe District Council for the year ended 30<sup>th</sup> June 2008.
- Report of the Controller and Auditor General on financial statements of Morogoro District Council for the year ended 30<sup>th</sup> June 2005.
- Report of the Controller and Auditor General on financial statements of Morogoro District Council for the year ended 30<sup>th</sup> June 2007
- Report of the Controller and Auditor General on financial statements of Morogoro District Council for the year ended 30<sup>th</sup> June 2008.
- Moshi Municipality- Marekebisho katika bajeti ya Halmashauri Mwaka 2009/10
- Halmashauri ya Manispaa ya Kinondoni: Taarifa ya Mapato kwa kipindi cha miaka mine. Kuanzia 2004/2005 hadi 2009/2010.
- Halmashauri ya Manispaa ya Kinondoni. Taarifa ya utekelezaji ya Miradi ya Maendeleo. 2007,2008 na 2009.
- Halmashauri ya Iringa- Taarifa ya mapokezi ya Fedha 2006/2007-2008-09.
- Morogoro District Council. BUDGET Framework for 2008/09.
- Halmashauri ya Wilaya ya Korogwe. Ikama Watumishi 2009-2009.
- Halmashauri ya Manispaa ya Kinondoni- Ikama Mwaka wa Fedha 2008/09 and 2009/10.