THE UNITED REPUBLIC OF TANZANIA

DECENTRALISATION SECTOR WORK

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CURRENCY EQUIVALENTS

Currency Unit = Tanzania Shilling (TSh)
TSh 800 = US$ 1.00 (as of Sept. 2000)

LIST OF ABBREVIATIONS

ALAT Association of Local Authorities of Tanzania
CAS Country Assistance Strategy
CBFSC Common Basket Fund Steering Committee
CRT Council Reform Team
CSRP Civil Service Reform Programme
CAG Control and Auditor General
DC District Council
DCF Donor Consultative Forum
DSW Decentralisation Sector Work
GoT Government of Tanzania
ICC Interministerial Co-ordinating Committee
IMC Ilala Municipal Council
IFMS Integrated Financial Management System
IWG Interministerial Working Group
LGA Local Government Authority
LGDP Local Government Development Programme
LGLB Local Government Loans Board
LGPF Local Government Provident Fund
LGRP Local Government Reform Programme
LGRT Local Government Reform Team
LGSC Local Government Service Commission
MC Municipal Council
MCR Minimum Compulsory Reserve
MDC Morogoro District Council
MMC Morogoro Municipal Council
MRLAG Ministry Regional Administration and Local Government
NTSC National Teachers Service Commission
PE Personnel Emoluments
PER Public Expenditure Review
PERC Public Expenditure Reform Credit
OC Operating Costs
RAS Regional Administrative Secretariat
RRCC Regional Reform Co-ordinating Committee
RS Regional Secretaries
TRA Tanzania Revenue Authority
WO Ward Offices
ZRT Zonal Reform Team
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EXECUTIVE SUMMARY

INTRODUCTION

1. The primary objectives of the Tanzania Decentralisation Sector Work (DSW) are:

• To develop a strategic analysis of the decentralization process in Tanzania, commonly known as the Local Government Reform Programme (LGRP); and
• On this basis, to formulate proposals regarding (i) the orientation of the World Bank towards the LGRP and the modalities of the Bank’s potential involvement in the Programme, and (ii) appropriate responses by the Bank at the project level in those sectors affected by the LGRP.

EVOLUTION OF DECENTRALISATION IN TANZANIA

2. In 1972 the local government structure that had been inherited from the British Colonial system at independence was abolished. Although this process is often referred to as Tanzania’s first period of “decentralisation”, in reality it created a centralised governance and service delivery system with certain functions and administrative capacities being deconcentrated to regional and district levels. Approximately 10 years later, with the introduction of the Local Government Act (No.11) of 1982, central government decided to re-introduce a system of local government in Tanzania.

2. The Local Government Act created Local Government Authorities and provided for the devolution of political, financial and administrative powers to them. Elected councils were empowered to enact by-laws, collect revenues, determine local budgets and plans, and so on. These structures were given direct responsibility for service delivery in the areas of primary education, primary health, local water supply, local roads, and agriculture extension. In urban areas, they also became responsible for urban services, such as solid waste removal and street lighting.

3. The system of local government in Tanzania ushered in by this “first wave” of decentralisation is essentially the one that exists today. Although – in contradistinction to the 1972-1982 structure - it has elements of a genuinely decentralised system, the degree of actual power and autonomy held by local authorities is effectively and crucially limited. In this context, government began to move towards a “second wave” of decentralisation through an element of the Civil Service Reform Programme (CSRP) which began in 1994.

4. During 1997, after discussion with a number of donors, the Local Government Reform Programme was approved by the Government of Tanzania and initiated. As with the CSRP, the LGRP was initially located and managed within the Prime Minister’s office. In 1998, however, a full Ministry of Regional Administration and Local Government (MRALG) was established.

5. The LGRP was launched in January 1999 and is meant to end in December 2004. It is to be implemented in three consecutive but overlapping phases, each of which is scheduled to last for approximately two years.

• Phase 1, which is planned to end in December 2001, is meant to be the period in which the key systemic reforms (to the intergovernmental transfer system, staffing arrangements, and so on) will be formulated and introduced, and all new regulations and procedures relating to
LGA activity, training materials etc. will be developed; with these reforms being implemented in only 38 local authorities. During this period all these local authorities are expected to undergo internal restructuring.

- Phase 2 is planned to commence in January 2001, ending in December 2002. During this period the implementation of the reform programme will be expanded to take account of an additional 35 LG councils.
- Phase 3, the final phase, will cover the remaining councils. It is also intended as a major reform consolidation stage. It is scheduled to run from January 2002 to December 2004.

THE LOCAL GOVERNMENT REFORM PROGRAMME

Overview

6. From an operational perspective, the LGRP comprises 5 main components:

   i. **Governance.** The Governance Component of the LGRP has two distinct objectives. The first is to establish broad-based community awareness of and participation in the reform process. The second is to promote principles of democracy, transparency and accountability. Concretely, much of this work relates to increasing accountability within LGAs and improving and increasing the efficiency of the ways in which Councils go about their business.

   ii. **Restructuring.** The Restructuring Component is concerned primarily with enhancing the effectiveness, efficiency and sustainability of service-delivery. The core reform here is a concrete and thoroughgoing restructuring of each local authority in respect of service-delivery arrangements (e.g. through contracting out, PPPs and so on), the internal institutional structure and organisation of the LGA, redeployment and reorientation of staffing and the development of a new budget structure.

   iii. **Finance.** The main objectives of the Finance Component are to increase the overall resources available to local authorities and increase the efficiency of their usage through changing the incentive structure of the existing intergovernmental fiscal system. The chief activity here is the restructuring of the conditional grants which fund most local expenditures to reduce conditionality (i.e. the introduction of “block grants”). The other main reforms include increasing the proportions of shared revenues going to local government, introducing supplementary intergovernmental transfers, improving local revenue collections, improving local financial management through rolling out the Platinum accounting system and training local officials. The future of the LGLB is also to be considered.

   iv. **Human resources.** The main objective of this component is to improve accountability and efficiency of human resource use at the local level. The broad intention here is to give local authorities full control over their human resource inputs through allowing them authority over the size of their establishments, appointments and promotions, management issues, and – in the long term – conditions of service. Other key activities relate to improving the internal management capacity and procedures of local authorities (through the production of various guidelines and regulations) and capacitation and training of local staff.

   v. **Legal.** The objective of the legal component is to establish the enabling legislation for effective implementation of the local government reforms. The key activity here is the
codification – in law and regulation – of LGRP policy and institutional changes as these are introduced.

7. The LGRP is managed by a Local Government Restructuring Team (LGRT), placed within the MRLAG, which is structured in accordance with the components outlined above. The LGRT is the main implementing agency of the LGRP and is supported in this function by Zonal Reform Teams (ZRTs) and Council Reform Teams (CRTs). While ZRTs function as technical assistance extensions of the LGRT, CRTs are reform organs at council level established to take the necessary actions required to improve efficiency and effectiveness.

8. Several governing bodies have been created to oversee and guide the LGRP and LGRT. These bodies carry out various functions including policy formulation and guidance, interagency coordination, and fundraising. These include the Interministerial Coordination Committee (ICC) which provides overall policy guidance from Government to LGRP, the Interministerial Working Group (IWG) which coordinates reform activities across sectors; the Donor Consultative Forum, which consults with and informs donor agencies on LGRP progress; and the Common Basket Fund Steering Committee (CBFSC) which enables fundraising and provides financial management oversight.

**Framework for assessing LGRP**

9. Examined from an analytic rather than an operational perspective, the reforms that constitute the LGRP and form the focus of the work programme of the LGRT may be divided into three main categories: systemic reforms; local level restructuring; and capacity/systems building.

10. The systemic reforms comprise four core areas of change:

- Increased local government jurisdiction over the determination and financing of the services which form the core of their functional responsibilities;
- Increased local control over service-delivery arrangements and staffing;
- Enhanced accountability of local authorities;
- An alteration to the intergovernmental functional and institutional structure.

11. In the context of these systemic reforms, the LGRP envisages that concrete District and Municipal restructurings will take place, area by area, at two levels:

- A 17-step re-organisation of the service-delivery and administrative structure of each local authority;
- The introduction of new ways of doing council business.

12. The third and final element of the equation is the building of the capacity and systems at different levels of government required for the overall system to function effectively:

- Within local authorities
- At regional and national level in order that the shifts in role can be accommodated

**Progress of LGRP**

13. Progress on the systemic changes anticipated by the LGRP has been slow, in some cases even marginal. In detail, the position towards the end of 2000 was as follows.
Increased local jurisdiction of the determination and financing of core services

1. Although certain Financial Regulations which anticipate the new ‘block grant” system have been introduced, national minimum standards as a basis for determining grant allocations have neither been clearly agreed and promulgated nor used as a basis for determining budget allocations for FY 2001;
2. The existing PE/OC system of conditionalities – in which personnel and other operating expenditure are effectively fixed at the centre - has been used to determine these allocations, the only change from previous practice being that Phase 1 local authorities are now permitted to determine their own line-item expenditures within the OC component of their conditional grants. This is only a slight alteration from the existing system and is arguably widespread practice already;
3. No new resources – in the form of additional grants or greater proportions of shared revenues – will flow to local authorities;
4. With the exception of Dar es Salaam – which has had a very successful revenue enhancement programme, although predating the LGRP – own source revenue enhancement exercises are very much in their infancy.

Increased local control over service-delivery arrangements and staffing

1. The law now gives local authorities fairly wide powers to contract out certain services, and this practice appears to be spreading slowly (e.g. refuse removal is contracted out in Moshi, as are wastewater disposal and market revenue collection in Mwanza and Bukoba.)
2. Recent administrative instructions have given local authorities limited discretion to alter their internal committee structures, and some such re-organisation has taken place to date (Morogoro, for example, has reduced the number of its committees from seven to three.)
3. In respect of employment, perhaps the major reform that has been effected is the introduction of 2000 Regulations promulgated under the Local Government Service Act. The key material changes that have taken place here are that senior (Category A) local officials may no longer be transferred arbitrarily by central government, but need to go through a competitive process (though the LGSC and the Minister retain the power of approval.) In addition, local authorities have improved internal procedures for selecting Category B and C staff.
4. In general, however, local authorities still have very limited power over their staff establishments and employees: the LGSC remains in place and handles all senior recruitments and promotions, though now with greater consultation with the local authorities concerned; the addition of all new posts to local authority establishments is subject to central approval (currently there is a freeze on these), and all dismissals are subject to review either by the LGSC (category A staff) or central government, through the Regional Commissioner (junior staff.) Conditions of service (such as salary scales) are still set at the centre, although local authorities now appear to have the power to pay certain staff-members an “incremental scheme” – i.e. a marginal payment on top of their salary as determined by the centre – in order to attract or retain skilled employees. Although this is an important shift, the net position is that local authorities continue to have little effective control over the size and of their establishments and expenditures thereon. It should be mentioned, however, that some initial steps have been taken with a view to introducing the institutional changes that will be necessary to ensure that LGAs have the sort of control over staffing anticipated under the LGRP (e.g. a review of the role of the LGSC is being undertaken.)
Enhanced accountability.

The limitation of the right of central Ministries to transfer senior local staff is one important step in ensuring that such staff are responsive to local service delivery pressures rather than the dictates of central government, and should be regarded as significant progress towards enhancing internal accountability. However, more significant reform – extending, for example, to the clear right of local councils to hire and fire senior staff – will be needed before such accountability is effectively established in the sense envisaged by the LGRP;

Enhancing “downwards” accountability is being dealt with largely through the general public education and sensitisation campaigns in the ‘Governance’ component of the LGRP, and the participatory planning and budgeting programme. It is difficult to gauge the impact of these campaigns, although they presumably have had some effect. The participatory planning and budgeting programme, however, has yet really to begin;

Although the CAG has made real progress with the pace and timing of local audits, further reforms to produce improvements in “upwards” accountability, particularly in financial reporting and auditing, have yet to be defined. There is some discussion of the introduction of performance auditing, but this remains at very initial stages.

Reform of intergovernmental functional structure and roles

The process of shifting the roles of central government Ministries in the core service areas of local authorities (e.g. health) appears to have begun and is proceeding, although somewhat haltingly;

The redefinition of the roles of the Regional Administrations seems, however, to be far more problematic. One the one hand there appears to be considerable unclarity as to what, in respect of local authorities, these bodies should actually be doing. The thrust towards promoting downward accountability of local authorities would appear, for example, to place in real question the current oversight role that the Regional Secretaries are supposed to play in respect of local budgets. On the other, there would seem to a definite need for support for the LGRP, particularly at the local level, to be provided regionally. This important issue remains unresolved.

14. Similarly, progress on the local level restructurings has been slow.

Re-organisation of service delivery and administrative structures.

None of the 38 Phase 1 local authorities has progressed beyond Step 3 (data gathering) of the 17 Step programme that each such local authority is meant to undergo. The remaining steps – through which the restructurings will be actually formulated and implemented - are likely to be particularly time-consuming;

New ways of doing council business

Progress has been more positive with both the Model Standing Orders and the Code of Conduct having been promulgated and some restructuring of Standing Committees having occurred. It will, however, take considerable time before these reforms are fully implemented within the Phase I councils.
15. The situation in respect of capacity and systems building appears to be mixed.

Within local authorities

Some progress is definitely being made e.g. the roll-out of the Platinum financial management system, and some training for local authority staff and councilors, as conducted by the ZRTs. It is less clear that capacity in areas in which local authorities will gain increasing responsibility (human resource management, for example) is being built. And, as indicated in Chapter 2, a number of significant difficulties with the Platinum roll-out process and related back-up requirements have emerged.

Within central and regional government,

Capacity to implement the LGRP continues to be built around the LGRT and associated structures (the ZRTs and proposed RRCCs, for example.) Aside from this, in other areas where capacity will be needed to manage and monitoring the emerging intergovernmental system (in Treasury, for example, which will be responsible for the new grant system) capacity does not appear to be being built.

Assessment and prognosis

16. This synopsis suggests a number of core factors for the Bank to consider in formulating its strategic position regarding decentralisation and the LGRP. First, local government in Tanzania – and the decentralisation agenda as concretised in the LGRP – are firmly entrenched. In particular:

- The local government system introduced in 1984 is well-established; it has a clear legal and institutional existence and a set of accepted practices. It functions, however imperfectly;
- The “second wave” of decentralisation – i.e. the LGRP – is also well-established as a process. Although heavily donor-influenced, there is a base-line of political commitment to it at national level. A relatively well-resourced and well-functioning unit (the LGRT) within the MRALG is devoted entirely to managing and implementing the programme.
- The programme is conceptually coherent. Although certain gaps may be identified, the basic architecture of the LGRP and the way it has been translated into an operational programme exhibits both a sensitivity to the core changes which are needed for decentralisation is to proceed effectively and an appreciation of the universality of the changes that are required.
- It is arguable that if the key services which lie at the core of the local government mandate in Tanzania are to be delivered effectively at all, the LGRP – in some variation – has to succeed. The problems that have led to the introduction of the LGRP (in essence a dysfunctional service-delivery system) are both fundamental and real. “Re-centralisation” is neither technically nor politically a realistic option as a means to address these difficulties. And, even if it were, it would encounter the very same difficulties that decentralisation does – limited capacity, weak accountability, and so on. Given the existing conditions in Tanzania, then, effective steps towards improving service delivery and decentralisation appear, for the foreseeable future, to be inherently intertwined.

17. Second, and on the other hand, the LGRP agenda is an extremely ambitious one. The fundamental systemic changes, the local-level restructuring and the capacity building which are all necessary for decentralisation to develop an incarnate existence are in their infancy. In most cases, the most difficult – and important – transitions have yet to really begin.
18. Third, over one year into its effective implementation the LGRP displays two interrelated characteristics: (i) a definite and increasing gap between the actual changes it intends and the pace at which these changes are being implemented has opened up, and (ii) in key areas, those changes that have been introduced are very much weaker than the changes as proposed (and as necessary if decentralisation is to have positive impact.)

19. Insofar as the LGRT and organisation of the programme itself are concerned:

- In general, the LGRT is a relatively well-capacitated unit within government. Located within the MRLAG it has a reasonably close relationship with the Ministry, it is focused specifically on the LGRP and has been able to attract local staff at relatively high skills levels;
- By account of both donor organisations and the LGRT, the Basket Fund arrangement is working well.
- The programme lags reported above are inevitably reflected in the LGRT’s activities. To take one indicator, the LGRT spent a little under 30% of its anticipated budget over the first four quarters of its existence, although the “spend rate” has reportedly picked up recently. The analysis developed above suggests that this is unlikely to be a passing phenomenon, and that such delays are likely to characterise the programme throughout.

**STRATEGIC IMPLICATIONS AND PROPOSALS**

**Bank support for/involvement in the LGRP**

20. In general, the Bank should support, and be seen clearly to support, the decentralisation effort. There is little sensible alternative; and there is little scope for hedging in this area. It is not possible both to support decentralisation and a second-best ‘recentralisation’ or ‘status quo’ option. Recentralisation is neither politically nor institutionally conceivable in the short or medium term; nor would it appear to be a technically sensible option to adopt. Moreover, much-diluted ‘decentralisation’ – as in the current system - carries major risks, as both accountability relationships and performance incentives become badly distorted and confused.

21. Having said this, the particular modalities of Bank support should be influenced by four basic realities:

- The limitations and features of the programme as it is actually being implemented, specifically a likely widening divergence between the stated goals of the LGRP and actual implementation with regard both to timelines and, more importantly, to the nature of the reforms that are actually introduced once policy is translated into practice.
- The current operation of the LGRT and associated structures. The important features here are the functionality of the Basket Fund, the lack of demand for additional budgetary resources for the Team and the absence of any real pressure on the Bank to join either the fund or the Donor Consultation Forum;
- The Bank’s comparative advantages. Although the Bank has not been involved in the LGRP since its inception – and has played no significant role in the design of the programme – it has at its direct or indirect disposal significant resources and experience in the area of the design and implementation of decentralisation programmes. Given this experience, and given the magnitude of the financial resources the Bank can mobilise, the Bank is also uniquely positioned to effect significant shifts in policy or practice through dialogue with government , or through the nature of its lending instruments, should this become necessary;
• The Bank has an extensive number of involvements in a wide range of areas in Tanzania which are likely to be differentially affected by decentralisation. In this context, it may be advisable for the Bank to preserve a little independence from a process whose actual future and effect is uncertain.

22. These factors suggest that an indirect, complementary strategic orientation for the Bank vis à vis the LGRP is appropriate. In particular, there seems to be little need for the Bank to join the LGRT-related structures or contribute to the Basket Fund at this time.

23. Within the parameters of this overall orientation, there are three potential areas in which the Bank could usefully support the decentralisation effort:

i. **Systemic reforms.** The Bank can assist with the systemic changes necessary to extend and implement the LGRP at two levels:

   2. First, there are a number of areas in which the Bank can contribute to the development of the decentralisation analytic and policy agenda. However, the Bank should avoid becoming involved in investigating or formulating systemic reforms unless the areas in which it does so can be isolated from, and are clearly not covered by, the LGRT agenda. In fact, one such area stands out: the current and projected financial position of key local authorities in Tanzania; the implications of this for the decentralisation process; and the development of remedial measures (a policy and institutional framework) to address situations where local authorities run into financial difficulties. Additional areas of systemic reform which are not presently covered by the LGRP may be identified – a restructuring of the local tax system is one example which has previously been mentioned. These areas are so intrinsically related to the rest of the systemic reform effort that there seems little justification for the Bank to take them on outside of the LGRT, but it probably be useful for the Bank to establish a systematic dialogue with the Team and discuss these projects as part of that process. This dialogue could be carried out in a focused manner through the Reference Group interactions proposed below, but the annual PER may also provide an additional channel for such discussion. In this regard the absence of any solid aggregate data on off-budget donor funded expenditure at the District and Municipal level has been mentioned, and it is proposed that a study on this be conducted at the earliest opportunity.

   2. Second, the Bank can assist at the level with dialogue at the appropriate level to bring about key changes, particularly where significant bottlenecks emerge (e.g. where policy is not being implemented, or is being diluted to the point of ineffectiveness.) This can occur through discussion with government on an ad hoc basis and/or it can be integrated, more systematically, with the Bank’s lending agenda. Budget support loan instruments, for example, provide a key opportunity for linking decentralisation reforms to funding flows in order to promote effective and efficient service delivery.

ii. **Local-level restructuring.** In most cases, these restructuring exercises will have a much better chance of delivering substantial results timely if they are better resourced than they are presently. Opportunities for the bank are evident at two levels here:

   2. The restructuring of Phase I local authorities in a select number of cases. One key deficiency these efforts face is the lack of additional staff at the local level (e.g. within CRTs) to drive these efforts; a second area is the limited funding available to local authorities to procure the additional technical expertise they require. The Bank could provide these;
Improving local revenue systems and collection efforts, similar to that which has happened in Dar es Salaam, and, to some extent, in certain of the USRP towns. Although the LGRP intends to introduce training for Phase I local authorities in revenue collection methods in 2001, and some work in this area (e.g. valuation rolls) has been conducted under the USRP, Bank experience in other East African countries suggests that more intensive approaches can bring about dramatic increases in local revenue receipts. The Bank could consider supporting such initiatives in a limited number of local authorities alongside the broader LGRP programmatic efforts.

iii. Capacity building and technical input. The need for assistance with capacity building is almost infinite, and it is recommended that the Bank conduct a more detailed study on how it might make a effective contribution here than has been possible as part of the DSW. For the moment, however, two obvious areas in which the Bank could provide assistance are:

- Technical support for LGRT (i.e. acting as a “Knowledge Bank”). The Team may benefit greatly from the input of a Reference Group comprising international experts in the field, particularly those with direct experience of such transitions. The Bank could consider convening a meeting of a group of such individuals with the LGRP once or twice a year over a two-three day period to discuss and evaluate the programme, generate responses to problems which have emerged, etc.;

- Financial management and IFMS. The Bank has already supported the introduction of IFMS to a number of localities as part of the USRP. It is well-placed to support the roll-out of this programme to other areas and to ensure that supplementary inputs to deal with the problems previously discussed are provided. The capacity required for financial management, however, extends beyond the implementation of IT systems. The bank could also support associated capacity building exercises at the local level and/or support national institutions and processes which expand local accountability (e.g. the CGA Office which is already one of the components of the ATIP.)

Bank programmes

24. The analysis presented above also has important implications for the way in which the Bank should design and implement its programmes in sectors where decentralisation is likely to have an impact (mainly local infrastructure, such as roads and water, and health, education and agricultural extension.) Below, a number of general principles or approaches which the Bank should consider applying to its programmes in these sectors are suggested.

25. In general, the Bank should structure its projects in a manner which supports rather than undermines the overall decentralisation effort. Thus, as a general rule, funds for expenditures (capital or recurrent) on service-delivery in these sectors should flow - in the first instance - to District or Municipal authorities, should be put on-budget, and should be integrated with the system of intergovernmental transfers as this evolves.

26. This simple recommendation raises a number of dilemmas, which will need to be carefully considered by Bank in the formulation of its programmes:

- What are the concrete implications of the fact that only 38 local authorities are targeted by Phase 1, for a project (say, to support primary education) where, if the above approach were adopted, funds for expenditure on classroom repair or on textbooks would flow to local
authorities? Perhaps the only general response that may be offered at this point is that Bank projects will need to be flexible enough to cater for a process which is going to be unpredictable over time. For example, the more significant conditional grant reforms planned for FY 2000/01 were not introduced as intended. For this year, and for as many years as implementation significantly undershoots policy intention, the situation will remain similar to the current one, and differences between Phase 1 local authorities and the remainder will be minor. Once the stated reforms are actually introduced, however, a significant difference between these types of local authority will arise, and Bank programmes will need to be flexible enough to cater for these differences. Under such circumstances asymmetry may become, if not a virtuous, at least a necessary property of project design.

- A second dilemma arises from the Bank’s need to ensure that funds which are earmarked for sector-specific expenditures are, in fact, spent on the intended investments in a context where local authorities - often characterised by weak financial management - may well divert such funds to other uses. The usual response to this is to design tightly managed conditional grant mechanisms in order to minimise this problem. For at least two reasons, however, caution should be exercised here. First, the insistence on tight conditionality “upwards” to the central government – or to the Bank – may well undermine the downwards accountability relationships that the LGRP is trying to strengthen and, by limiting local discretion over budget decisions, may constrain the emergence of the allocative efficiencies which are a core goal of the programme. Second, proliferating conditional grants inevitably loads thinly stretched local governments with monitoring and compliance tasks which they find difficult to perform successfully, and to which they have to divert resources which could otherwise be used more productively elsewhere.

- Given that Tanzania is in a transitional phase, control and incentive measures will inevitably need to involve a judicious mix of central and local accountabilities, but the potential tension between heavy conditionality/earmarking and the overall incentive structure which the LGRP is trying to create needs to be clearly recognised. So do the high opportunity costs intrinsic to conditional grant mechanisms. In this context the Bank may wish to consider approaching conditionality somewhat different than is often done i.e. by being concerned less with sector or expenditure earmarking and more with using grants to create incentives for building local capacity and strengthening local accountability (as the LGDP is attempting to do in Uganda, for example.) Moreover, while it may be too early to consider dropping sector earmarking altogether, opportunities should also be sought to integrate grant types within sectors. This would imply, for example, that the District Health Basket Fund grants (to which the Bank does not currently contribute) should be folded into the health sector grants at such time that the shift to a formula-based “block” grant system, in which the PE-OC distinction is collapsed, takes place. Finally, at a later time – once substantial experience with earmarked “block” grants has been gained – the possibility of dropping earmarking altogether and moving towards an undifferentiated intergovernmental transfer system could be explored.

27. The reach and capacity of the local state to allocate resources and ensure effective service-delivery needs to be extended and built, not undermined, by the types of funding mechanism which are designed and implemented. Simultaneously, system-management and monitoring capacity needs to be built at the centre. Concretely this implies that while “intra-local decentralisation” should be encouraged where appropriate (e.g. through establishing School Boards to oversee expenditures for particular schools, or to contracting out the delivery of certain services out to private contractors), this should be distinguished - and should not detract - from local authorities’ ability to exercise the allocation and other powers which are properly theirs. In addition, the relationships between District and Municipal governments and sub-District/Municipal spending agencies (such as School Boards) should be designed to build, and
not weaken, mutual accountability. This implies a general avoidance of parallel funding programmes where local public goods are concerned.

28. A similar set of principles should guide Bank thinking in respect of the possible creation of “supra-District” entities with sector-specific responsibilities (e.g. road transportation) across an aggregated number of local jurisdictions. From an efficiency perspective, these sorts of entity may have a number of advantages – and they have often worked well in other parts of the world – but it does need to be recognised that the issues they raise are not straightforward and will need to be carefully worked through. Movement in this direction should be careful to avoid disrupting or undermining the accountabilities, incentive structure, and capacity-building dynamic which the LGRP is attempting to create.

29. The Bank should avoid aggravating the problems created by the overambitious nature of the LGRP schedule. The enormity of the reforms intended by the LGRP – and the fact that, even if things proceed remarkably well, institutional change of this type is an inevitably time-consuming process – should be explicitly acknowledged. And, in this context, the Bank should structure the institutional scope (how many local authorities are involved) and pace (how quickly the changes are introduced) of its programmes accordingly. In general, approaches which focus on expending sufficient time and resources to implement changes over manageable batches of local governments should be preferred over those which become too thinly stretched.

30. In respect of local infrastructure, the design of a potential follow-on to the USRP provides a good example through which to demonstrate the concrete implications of some of the above principles. In this case, following the approaches suggested here would mean:

- The Bank should avoid, as far as possible, a straightforward replication of the USRP, which is directed at the investment of large sums in local assets (roads, drainage, water etc.), without local authority involvement in the physical and budgetary planning for these or their maintenance.
- Future programmes focused on investing in the same sorts of infrastructure as the USRP should be designed as local infrastructure grant facilities, made available to local authorities for expenditure on locally-determined priorities on the basis of certain conditions which create incentives for these authorities to maximise expenditure efficiency, make real budgetary commitments to the ongoing maintenance of assets, and build local financial management capacity.

31. Given that a project of this kind would provide perhaps the only significant source of investment funding over which local authorities have real control, it is likely – as the LGDP has done in Uganda - to provide both significant impetus to the decentralisation process, and a testing ground for the more ambitious forms of fiscal decentralisation (regarding the recurrent transfers) yet to come. This project could also lay the basis for the creation of a consistent, ongoing intergovernmental transfer programme to support local infrastructure development which would ultimately be funded directly from the budget of the GoT rather than by the Bank on a project basis. This would be conducive to sustainability; it would also be a natural fit with any move towards budget support instruments at the national level, should the Bank find this desirable.

32. At a more general level – and with specific reference to budget-support instruments – Bank programmes provide it with significant opportunities both to promote co-ordination between decentralisation and other reform efforts, and to enhance progress on decentralisation where this is necessary. Where appropriate, linking these programmes to particular decentralisation reforms may potentially have both positive impact on decentralisation (e.g. in ensuring
forward movement in critical change areas when this appears threatened) and may ensure that intergovernmental and other public sector reforms promote rather than undermine one another. Future credits of this type should be designed with these possibilities clearly in mind.
1. INTRODUCTION

A. Objectives

1. The primary objectives of the Tanzania Decentralisation Sector Work (DSW) are:

- To develop a strategic analysis of the decentralization process in Tanzania, commonly known as the Local Government Reform Programme (LGRP); and

- On this basis, to formulate proposals regarding (i) the orientation of the World Bank towards the LGRP and the modalities of the Bank’s potential involvement in the Programme, and (ii) appropriate responses by the Bank at the project level in those sectors affected by the LGRP.

2. The 2000 CAS for Tanzania outlines four chief objectives for the 2000-2003 period: higher economic growth; poverty reduction; improved governance; and service delivery. It also identifies a number of key themes, one of which is decentralization. The DSW is intended to enhance the Bank’s understanding of developments in the decentralisation theme area and to optimise Bank decision-making regarding its involvement here. It also aims to assist the Bank in structuring its projects such that the impact of the decentralisation process is taken into proper account.

3. At the outset it is important to stress that these objectives are essentially strategic, and that this document is driven by predominantly strategic concerns. It does not constitute a comprehensive technical assessment of the local and intergovernmental system in Tanzania, a number of which have been previously conducted and have provided much of the analytic basis for the LGRP. However, although the DSW does not attempt to duplicate these efforts, in pursuing its strategic objectives it has needed to cover a significant amount of technical ground, some of which is novel. This material is included here, particularly in Chapter 2. To provide an informational and analytic resource on decentralisation in Tanzania thus forms a secondary objective of the project.

4. It should also be pointed out that, while the focus of the DSW is on the LGRP, the document is not a thoroughgoing assessment of the programme from the point of view of its improvement. Rather, it assesses the programme from the perspective of the strategic interests of the Bank. The primary questions the DSW addresses are not, how is the LGRP faring and what should be done to improve it? They are rather, what are the main characteristics of the decentralisation process as it is actually unfolding, and what does this mean for the Bank?

B. Research process and methodology

5. The research process for the DSW has been governed both by the objectives of the exercise and by budget and time constraints. During the research a great number of documentary sources were consulted and numerous interviews and discussions were held with a broad range of stakeholders and technical experts: national government officials, local government councilors and staff, donor agency representatives, academics and consultants located in the private sector (see Annexes 4 and 5.) Discussions were also held with Bank staff working in related fields.

6. Most of the initial data-gathering was conducted during a three week mission in September 2000. Although comprehensive survey work was not possible, field trips were conducted to two local authorities in addition to visits paid to those in Dar es Salaam. The DSW also overlapped – both in time and to some extent in personnel – with the Tanzania FY01 Public Expenditure
Review (PER), and the 14 local authority survey conducted under that exercise fed into the DSW work.

7. One caveat is necessary here. The quality of the data at the disposal of the DSW team was often poor. It is not uncommon, for example, to discover that budget figures are inconsistent, even when these figures are contained in the same official sources. When different sources are used, these problems can escalate. In addition, different interviewees sometimes gave quite different accounts of matters – such as certain intra-governmental processes - and there was no simple way in which to reconcile these. Finally, data on a number of important intergovernmental issues (such as a national aggregate of local revenues by source) is sometimes not collected. Given these circumstances, and in order to generate a useful body of work, the DSW has sometimes had to make a number of simplifying assumptions, or to rely on data which is clearly not robust. At all times the team has attempted to ensure that any problems to which this may give rise are minimised, but some inaccuracy is probably inevitable.

C. Structure

8. The structure of the document is as follows. In Chapter 2, the local and intergovernmental system in Tanzania is discussed under three broad headings: its institutional structure; the fiscal and financial system; and capacity and accountability. This chapter provides a basic overview of the system as it actually exists in Tanzania, and analyses some of its key features in the context of the changes being introduced through the LGRP. Thereafter, in Chapter 3, the focus switches to the LGRP itself. The programme is first described in some detail, and a strategic assessment is then made in terms of a simple analytic or categoric framework developed for this purpose. The chief purpose of this section is to identify the main strategic imperatives for the Bank deriving from the LGRP as it is being implemented in actuality. Finally, in Chapter 4, a number of additional imperatives - related to the LGRP, but not internal to it - are identified for the Bank to consider, following which concrete proposals are made regarding the Bank’s overall orientation towards the LGRP, its involvement in the decentralisation process, and appropriate responses to the LGRP at the project level.
2. THE LOCAL AND INTERGOVERNMENTAL SYSTEMS IN TANZANIA

A. Evolution and history: summary overview

Pre-1982: Deconcentration

9. In 1972 the local government structure that had been inherited from the British Colonial system at independence was abolished. Although this process is often referred to as Tanzania’s first period of “decentralisation”, in reality it created a centralised governance and service delivery system with certain functions and administrative capacities being deconcentrated to regional and district levels. In effect, central government – albeit in an administratively deconcentrated form – assumed responsibility for the various services that had previously been delivered by municipalities, the employment and deployment of all public servants, the determination of all budgets and expenditures, the development of plans at all levels, and so on.

10. Approximately 10 years later, with the introduction of the Local Government Act (No.11) of 1982, central government decided to re-introduce a system of local government in Tanzania.

1982-1996: Decentralisation – the “first wave”

11. The Local Government Act, implementation of which began in 1984, created Local Government Authorities (LGAs, primarily District and Municipal Councils) and provided for the devolution of political, financial and administrative powers to them. Elected councils were empowered to enact by-laws, collect revenues, determine local budgets and plans, and so on. These structures were given direct responsibility for service delivery in the areas of primary education, primary health, local water supply, local roads, and agriculture extension. In urban areas, they also became responsible for urban services, such as solid waste removal and street lighting.

12. The system of local government in Tanzania ushered in by this “first wave” of decentralisation is essentially the one that exists today. Although – in contradistinction to the 1972-1982 structure - it has elements of a genuinely decentralised system, the degree of actual power and autonomy held by local authorities is effectively and crucially limited. In this context, for reasons which are beyond the scope of this paper (but which appear to relate to an increasing awareness of the dysfunctionality of a semi-decentralised system to achieve efficient service-delivery outputs) government began to move towards a “second wave” of decentralisation through an element of the Civil Service Reform Programme (CSRP) which began in 1994.¹

13. The decisive step towards further reform of the local government and intergovernmental systems was taken in June 1996, when the Prime Minister announced government’s decision to restructure and downsize regional administration with the objective of making local government more efficient and effective.² The vision for the future local government system had been recently formulated and endorsed at a national conference, “Towards a Shared Vision for Local Government in Tanzania”, held in May 1996.

¹ “The Local Government Reform Agenda, 1996-2000”, is a comprehensive policy document on local government reform and summarizes the vision for Local Government reform in Tanzania. It was presented in October 1996 as a Local Government Reform Component of the CSRP.


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During 1997, after discussion with a number of donors, the Local Government Reform Programme (LGRP) - the programme through which the second wave of decentralist-oriented reform has been formally structured - was approved by the Government of Tanzania and initiated. As with the CSRP, the LGRP was initially located and managed within the Prime Minister’s office. In 1998, however, a full ministry of Regional Administration and Local Government (MRALG) was established. Though the LGRP was launched in 1997, it did not actually begin to implement the reform process until 1999.

The LGRP was launched in January 1999 and is meant to end in December 2004. It is intended to be implemented in three consecutive but overlapping phases, each of which is scheduled to last for approximately two years.

- Phase 1, which is planned to end in December 2001, is meant to be the period in which the key systemic reforms (to the intergovernmental transfer system, staffing arrangements, and so on) will be formulated and introduced, and all new regulations and procedures relating to LGA activity, training materials etc. will be developed; with these reforms being implemented in only 38 local authorities. During this period all these local authorities are expected to undergo internal restructuring.

- Phase 2 is planned to commence in January 2001, ending in December 2002. During this period the implementation of the reform programme will be expanded to take account of an additional 35 LG councils.

- Phase 3, the final phase, will cover the remaining councils. It is also intended as a major reform consolidation stage. It is scheduled to run from January 2002 to December 2004.

The LGRP is the core focus of this report. It is discussed at various points in Chapter 2 and in systematic detail in Chapter 3 and Annex 3. In brief, however, its basic goal “is to improve the delivery of services to the public and the main strategy for achieving this is decentralisation”. Operationally, it is structured into five main components – governance, legal, finance, human resources and local authority restructuring. The full implementation of all its intended reforms will entail a profound restructuring of the local and intergovernmental systems in Tanzania. Cumulatively, these reforms address the many important areas in which the “first” (1994) wave of decentralisation left central government with effective control in the core functional areas of local government (e.g. primary education and health), particularly insofar as resource allocation is concerned, thus fatally undermining incentives for local authorities to enhance the efficiency and effectiveness of service delivery.

It is important to recognise that despite (indeed, because of) its comprehensive scope and coherent design, the LGRP is an intrinsically ambitious programme. Although not always obvious from the style and text of its documents, the LGRP envisages a fundamental set of changes in way in which decisions about local services are made, and in the roles and structure of the public sector institutions which are involved with their delivery. Given the increasingly dysfunctional character of local and intergovernmental system that was introduced in 1994 this is the LGRP’s main strength. It is also represents the programme’s biggest challenge.

B. The institutional and functional structure of the local and intergovernmental system

Introduction

18. The reform of the institutional and functional structure of the local and intergovernmental system in Tanzania is one of the central elements of the LGRP. In general, however, these reforms are less dramatic than those which took place during the “first wave” of decentralisation, when the basic system of local government was re-established. The “second” wave of decentralisation ushered in by the LGRP focuses largely on the fiscal and institutional changes which need to be made within the general parameters of the existing structure in order to promote the effective and efficient operation of the system through giving local authorities greater control over their inputs, incentivising efficient service-delivery, and building capacity and accountability. While some changes to the overall institutional structure are anticipated, most reforms focus on the powers of local authorities to determine the composition of their expenditures, their staffing arrangements and so on. In particular, no significant shifts in areas of functional responsibility or expenditure assignment are planned.

19. A brief note on the legal environment is warranted at this point. The basic structure of the local and intergovernmental systems is established in the various 1982 Local Government Acts (for District Authorities, Urban Authorities, Finances etc.) referred to earlier. While certain later laws have added elements to - or clarified aspects of - the system (e.g. the Rating Act of 1983), most legal changes have been handled as Regulations promulgated in terms of the founding legislation. Given that the LGRP does not envisage any fundamental changes to the institutional or functional structure of local government, this approach is likely to persist. The recent legal changes regarding intergovernmental fiscal transfers and staffing, for example, have been introduced as Regulations under the signature of the Minister of Regional and Local Government.

Intergovernmental structure and functional roles

20. The intergovernmental system is displayed in simple form in the following diagram:

Diagram 1: Intergovernmental Relations and LG System

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4 These Acts – and the others which create and define local government – are briefly described in Annex 1. It should be remembered that a number of additional Acts whose primary focus lies elsewhere nevertheless have some relevance to the functioning and operation of local authorities (e.g. the Control and Auditor General’s Act.)
21. Central Government Ministries of relevance to local government are of two types: sectoral (e.g. Health, Education) and intersectoral (e.g. Finance; Regional and Local Government.) Theoretically, the 1982 legislation made local authorities responsible for actual delivery in their areas of functional responsibility (primary education and health, local roads etc.) In reality, however, sector Ministries have remained heavily involved at all levels in these sectors while the intersectoral or co-ordinating Ministries have exercised tight control over the allocation and usage of local government inputs (fiscal and human resources in particular.)

22. The LGRP envisages that local authorities will both assume greater service delivery responsibility and have more extensive control over their inputs. In general, it is intended that the role of the sector Ministries will be limited to providing guidance on sectoral issues, setting relevant sector policies and guidelines for LGAs, determining sector specific service delivery standards, and monitoring performance. The intersectoral Ministries will reduce the extent to which they determine the composition and allocation of the resources available to local authorities, with the MRLAG playing an overall co-ordinating and support role throughout the reform process.

23. The 20 Regional Secretariats (RS) comprise deconcentrated arms of central government. They are headed by centrally appointed Regional Administrative Secretaries (RASs). The sector Ministries linked to local service delivery (Health, Education etc.) are all represented in the RSs, which are supposed to be the immediate point of referral for the LGAs in their dealings with central government. Although they do not operate as superior organs of state in all respects, they do have certain oversight (e.g. of local budgets) and monitoring responsibilities regarding local authorities.

**The internal structure of local government**

Institutional structure

24. There are 114 local government authorities in Tanzania, 12 of which are municipal councils (including the three that make up Dar es Salaam.) There are a total of two thousand and forty ward development councils. The lowest structures are Kitongoji (village neighborhood) and Mtaa (street/township neighborhood), though these operate more as fora for mobilising community participation and support than as organs of administration. The urban and rural systems may be portrayed diagrammatically as follows:

*Diagram 2: The Local Intragovernmental System*

(a) Urban local government
Political and administrative structure

25. Councils are elected and are headed by council chairpersons or mayors. The election laws provide for elections every 5 years for all electoral offices, including those of local government. Although the lowest level of councilor representation is the Ward, the electoral process begins at the level of the Mtaa or Kitongoji and proceeds thereafter through a system of electoral colleges. In addition to ward representatives (normally the Ward chairpersons), the law\(^5\) makes provision for additional members on district councils, including MPs from the area.

26. Until recently, Dares Salaam – which now has a unique two-tier system comprising one overall metropolitan authority with fairly limited powers and three municipal councils – was governed by a City Commission which was appointed to govern the city when it encountered severe financial and management difficulties a number of years ago.\(^6\)

27. The operations of the city administration are overseen by Standing Committees, which are working sub-committees of the district and municipal councils. Members of the standing committees are elected from among the council-members of the District, Municipal and Town Councils.

28. The Local Government Act requires that no less than three and no more than six standing committees should be created in each Local Authority. Since the inception of the LGRP, and in order to achieve greater administrative efficiency, the trend has been to reduce the number of standing committees – the Morogoro Municipal Council, for example, has recently reduced its number of SCs from seven to three. Although this appears to have led to cost savings, it has created certain problems related to the mismatch between the number of administrative departments and Standing Committees (previously each main department had its own Committee.)

29. The staff and institutional capacity to carry out local government functions – the local authority administration – is organised into a set of Departments which are theoretically

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\(^6\) Mwanza has recently been declared a City Council, but does not share the Dar-es-Salaam structure.
accountable, via the Standing Committees, to the elected District and Municipal councils. Typically, the council administrative and political structure is as follows (the example here is drawn from the Morogoro Municipal Council):

*Diagram 3: Morogoro Municipal Council*

30. Both the number and internal structure of Departments varies from area to area, with recent legislative changes allowing for greater flexibility on the part of local authorities to structure this as they see fit. In general, and as with the Standing Committees, the trend has been to streamline the number of departments within each local authority administration. It should also be noted that the broader decentralisation process has produced a number of anomalies in specific councils. For example, in Morogoro Municipal Council (MMC), a special department has had to be created to absorb 43 agricultural extension workers recently transferred from the region as part of the civil service reform program.

31. Within local authorities, Ward Offices (WOs) have been strengthened in a number of areas as a form of intra-local authority deconcentration. Stronger WOs are intended to improve accountability between councilors and village structures, and enable closer links between constituents and the local authority. These measures are also expected to improve information dissemination, enable participatory planning and increase the effectiveness of revenue collection. Efforts have been made to match staff profiles of WOs to departments at Council level - these

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7 Under the civil service reform program, agricultural extension workers are transferred from regional secretariats to the nearest local authority. In some cases this happened to be an urban area.
include education, agriculture, economic development, health, community development, finance, and works. However, due to resource constraints most Councils have not been able to create adequate offices at ward level. In the Ilala Municipal Council (IMC), although all 22 Ward Officers have been appointed to WOs, only 8 such offices have actually been established, while in MMC no WOs have been established to accommodate staff. In order to enable WO to function a number of Councils allow the retention of a portion of revenue generated at ward level to cover operational costs. In Ilala and Morogoro Municipality this amount is 3% (in line with government guidelines); however in Morogoro District, where intra-jurisdiction distances are greater, 10% retention is permitted.

Functional roles and responsibilities

32. The Local Government (District Authorities) Act, 1992 and the Local Government (Urban Authorities) Act 1982, both as amended in December 1999, specify the functions and responsibilities of the rural district and urban (city, municipal and town) councils respectively. There is no important functional distinction between these two types of structure, whose main responsibilities are those of the delivery of primary education and health care, water (where this is not done outside of local authorities, as is the case in most of the larger urban areas), local roads and agricultural extension services. Other functions and roles are environmental management, sanitary services (again, where this is not done separately), street lighting and cleaning, administration of markets, maintenance of peace and security, provision of public facilities (libraries, halls, museums etc), and general regulation and policy functions. A summary list of functions and responsibilities for both rural and urban authorities is contained in Annex 2.

33. For the most part, local authorities are confined to ongoing operational responsibilities in these areas. Although the law provides – and the LGRP envisages – that they assume developmental responsibilities in the functional areas listed above, local authorities have historically had many limited financial resources and capacity insofar as capital projects are concerned. For example – even where budgeted – funds allocated by central government seldom actually arrive, and locally controlled or initiated development projects are usually limited to minor projects that are funded with locally generated and retained revenue. In Morogoro Municipal Council, for example, this includes small projects such as buildings, minor roads, and sanitation facilities. Donor funded projects which involve expenditures on infrastructure and services which fall within local government functional areas are sometimes executed from national level through sector ministries, but are as likely to be implemented off-budget directly at the local level with limited linkages to sector ministries.

34. Recently, as a consequence of the LGRP, this situation appears to have begun to change, and local authorities are increasingly either receiving greater amounts of on-budget funding directly from donors (e.g. from the health basket fund), or are being increasingly consulted on local projects which are funded outside of their budgets. However, this trend is in its early phases and remains rather fragile. In addition, and somewhat at odds with the LGRP’s overall logic, central government has begun to intervene in planning and budget decisions of councils in new ways. For example, local authorities report that central government now requires a degree of earmarking in local budgets (e.g. that 10% of the budget be dedicated to activities targeted at women and youth and 15% for development activities.)

35. Aside from allowing for the delegation of specific roles and responsibilities within the broad functional areas listed above, the roles and responsibilities of the sub-District and Municipal entities are not specifically defined. The formal employment structure of the local government public service stretches only to Ward Development Council level. Ward Development Councils do, however, play an important role in the local budgeting and planning process, feeding
proposals and recommendations up to Municipal and District level. Below this, the lower tiers of LG are supposed to play a role in revenue collection efforts, to participate in bottom-up planning, to provide input into local authority projects at grass root level, and facilitate local participation.

36. The involvement of the private sector in the delivery of municipal services is becoming increasingly common. As discussed elsewhere, local authorities have definite (but not unlimited) powers here, and it is anticipated that this trend is likely to continue. Current examples include the contracting out of garbage collection in Dar es Salaam and Moshi, and the involvement of the private sector in wastewater disposal, revenue collection and the management of markets in areas such as Mwanza and Bukoba. It is a specific goal of the LGRP that this type of experience increasingly be replicated.

**Staffing and human resources**

37. Since the initiation of the “first wave” of decentralisation in 1984, operational staff have gradually been transferred from central government (the sector Ministries) to local authorities. The process is now almost complete, with over 180,000 staff now formally employed by local authorities. Most staff are employed in the education and health sectors, the next largest category being in finance and administration. In the three local authorities surveyed for the DSW, between 60 and 70 per cent (mainly teachers) are employed in the education sector; 14-18% in health; and 5-10% in finance and administration. These ratios – which accord roughly with the budgetary data given in Section C - give a clear indication of the main functions of local authorities in Tanzania: aside from these functions, only between 10-15% of local authority staff are employed on other local authority activities, a large proportion of which work on agriculture extension.

38. Local authority staff are divided into three categories, A (senior staff such as directors and heads of departments); B (all staff other than those in category A and C; this includes most teachers, health workers etc.), and C (all staff whose salaries are in the Operational Service Scale i.e. casual workers, cleaners, and laborers.)

39. A basic principle underlying decentralisation in Tanzania is that local authorities should gain increasing control over their human resource inputs. This was not achieved under the first wave of decentralisation and it has thus become a particularly important aspect of the LGRP. However, although recent changes have extended this control to a minor extent, local authorities still have little effective authority over the most critical dimensions of their human resource inputs. This authority has been largely retained by central government, either directly or indirectly, in a number of key areas.

40. First, conditions of service are set centrally by the National Teacher Service Commission (NTSC) for teachers and by the Local Government Service Commission (LGSC) for all other staff. A scheme is being developed under which local authorities will be allowed to provide salary enhancements aimed at attracting and retaining some specific skill sets, but there is currently no concrete plan to decentralise the authority to determine basic conditions of service for any staff categories.

41. Second, local authorities have little discretion over the size of their establishments. If any given local government wishes to expand its staff complement, it needs to apply to central government for approval. In practice, this permission has invariably been denied in recent years. This is so even, as in the case of Morogoro Municipal Council, where the applicant local authority is capable of funding these positions from local revenues. And, while local authorities may theoretically cut down on their staff complements through natural attrition (not filling posts
as staff retire or resign), the nature of the intergovernmental grant system gives them no incentive to do so.

42. Third, local authorities have limited power to hire and fire staff. Although – within the constraints of the centrally-determined establishment sizes – they may hire category B and C staff, the LGSC retains responsibility over the hiring process for Category A officials and all Category A appointments have to be approved by the Minister of Regional Administration and Local Government. The only recent change here is that, in terms of the newly-introduced staff regulations, the Minister may no longer unilaterally transfer senior staff from one local authority to another. As regards dismissals, local authorities may not unilaterally retrench staff (and, in any event, have little incentive to do so), but may fire staff for disciplinary reasons. However, Category A staff have the right of appeal to the LGSC and Category B and C staff may appeal to the Regional Secretariat (the LGSC and RAS make final determinations in these cases.)

43. In sum, local authorities’ powers with respect to staffing are strictly curtailed by those of the Minister and the LGSC (which he appoints.) The LGSC is – and is apparently to remain – an institution of some power and importance. Although the 1991 and 1999 amendments to the LG Service Act No. 10 reduced its powers somewhat, the LGSC has retained its core functions in the (i) creation and abolition of posts, (ii) appointment, placement and transfers of staff, (iii) coordination of HR policy, (iv) handling of disciplinary matters and promotions of Category A staff, (v) preparation of LG Public Service regulations, schemes of service, staff circulars and other directives., (vi) organizing training and research, (vii) administration of Local Government staff examinations, and (viii) advising the minister responsible for Local Government on matters relating to the staff of the LG Authorities.

Reform of the institutional and functional structure of the local and intergovernmental system under the LGRP

44. As previously stated, the most important reforms of the institutional and functional aspects of the local and intergovernmental system under the LGRP relate to changes to the powers of local authorities (and by implication to those of other levels of government) rather than to the basic organisational structure of - or allocation of functional roles within - the existing system. A number of observations about these dimensions of the reform programme may be made.

45. First, it is not a “clean” process. While the overall trajectory of the changes that are being introduced shift powers downwards, this shift is not proceeding smoothly. According to reports from a number of local authorities, sector Ministries often remain engaged in day-to-day activities which should fall within the scope of the duties of local authorities. Problems such as these – which, for the most part, arise from institutional interactions – are intrinsic to any process of institutional change, and can be expected to continue throughout the reform process. Of greater concern are certain regulatory changes formally introduced by central government which seem to run contrary to the decentralist premises of the LGRP. For example, the recent insistence on the part of central government that certain local budget allocations be made in line with new, nationally determined priorities (e.g. expenditures on women and youth) stands in contradiction to the programmatic goal of shifting allocational control to the local level. Minor instances of this are unlikely to amount to a problem of any great importance, but a proliferation of such measures may begin to threaten the coherence of the LGRP.

46. Second, the shift of powers downwards inevitably raises important questions about the scope and extent of the residual powers of national Ministries and the Regional Secretariats. Two immediate issues are evident:
While the LGRP has outlined the new roles of the national Ministries in general terms, much detailed work regarding the specific definition of these roles and building the related capacity needs to be done. For example, a lot of stress is placed in LGRP documentation on the support roles of both sectoral and intersectoral Ministries for local government, but it is not clear that these Ministries are yet equipped to effectively do this, or that they have credible plans in place to begin to develop the necessary capacity to do so. Moreover, the existing intergovernmental framework provides central Ministries with few incentives to shift into the roles that the LGRP envisages;

There is a large and unanswered question surrounding the role of the Regional Secretariats in respect of local authorities. The example of budget oversight illustrates this well. Currently, the RASs oversee and effectively authorise local budgets (though ensuring compliance with “national plans and standards” and so on.) The intergovernmental system introduced by the LGRP places this role in question, for if local authorities are to gain increased budgeting autonomy within a hard budget constraint, and if the critical incentives to service delivery effectiveness and efficiency are supposed to arise from relationships of downwards accountability, why should the RASs have any concern with local budgets at all? Put differently, the extent to which the RASs retain oversight and authorisation powers is likely also to be the extent to which reliance on achieving output efficiency and effectiveness is placed on central regulation rather than local incentive, which in turn is likely to compromise the basic decentralisation objectives of the LGRP. This is an important policy matter which has yet to be effectively addressed. Similar issues surround the roles of a number of national Ministries and will also need some attention.

Thirdly, and most significantly, the very limited expansion of local authority powers over their human resources constitutes a major challenge for the LGRP. Aside from their financial powers these are the most important powers that local authorities potentially have, particularly given the character of their functional responsibilities and the very significant role that human resources play in these. Moreover, HR powers and financial powers are significantly related: wide discretion over the allocation of local budgets is of little use without the power to determine staff establishments, and hence the ratio of staff to other costs. The very modest changes introduced thus far do not constitute a significant devolution of such powers and until this occurs the desired incentive structure is unlikely to emerge. Moreover, the devolution of such powers will have important implications for other institutions within Tanzania. For if local authorities have the power to hire and fire any of their staff, and ultimately to determine the conditions of service of their employees, there would seem to be a much-reduced role for the LGSC. The basic reality here is that, with respect to the non-financial powers of local authorities, it is in the area of most importance to the LGRP that least actual change has taken place.

C. The intergovernmental fiscal system

Introduction

Decentralisation of fiscal expenditures in Tanzania is a key feature of the 1982 Act, made effective in 1984, which re-introduced local government in Tanzania. This Act made local

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8 There is some debate about what these budget oversight powers actually amount to in. Formally, and narrowly, they have only advisory powers and budget approval authority resides with the local Council. However, the Rasa’s have powers to ensure that the local budgets comply with national standards as they interpret them. This power conceivably gives the Rasa’s substantial approval authority of local budgets although, as mentioned, it is rarely applied in practice.

9 As the LGRP has accurately pointed out in a number of documents, the current fiscal system in Tanzania can be said to be “decentralised” only in a very limited sense. As things currently stand, local authorities do not have any great
authorities responsible for – and erected a conditional grant system to fund – the provision of services such as primary education and health, roads maintenance and so on. It also empowered municipalities to raise their own revenues directly from a number of sources.

49. Further fiscal decentralisation is a central component of the LGRP, and relates mainly to (i) the widening of the powers of local authorities over the fiscal transfers received from central government; (ii) increases in revenues flowing to local authorities from the centre (in the form of unconditional and equalisation grants); and (iii) acquiring greater proportions of the revenues which are shared between local and national government. The financial component of the LGRP also has a number of other elements – such as improvement of local revenue collections; the development of a participatory budgeting process – but they do not relate strictly to fiscal decentralisation per se. This section focuses specifically on the local and intergovernmental fiscal system in the context of the environment created by the LGRP. It has two main sub-sections: the first gives an overview of the system in the recent past and as it currently exists today (for FY 2000/01); the second provides some assessment of the existing system in the context of the changes anticipated as part of the LGRP.

**The existing local and intergovernmental fiscal and financial system**

**Expenditure**

50. Table 1 describes, as one available indicator of the relative importance of national and local government, the national and local shares of the total expenditures (i.e. the total funded from both national and local revenues) for FYs 99/00 and 00/01:\(^\text{10}\)

<table>
<thead>
<tr>
<th>Table 1 : Shares of total expenditure – national and local</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tot. national + local</td>
</tr>
<tr>
<td>Total 00/01 est.</td>
</tr>
<tr>
<td>Total 99/00 est./actual</td>
</tr>
<tr>
<td>National share</td>
</tr>
<tr>
<td>Total 00/01 est.</td>
</tr>
<tr>
<td>Total 99/00 est./actual</td>
</tr>
<tr>
<td>Local share</td>
</tr>
<tr>
<td>Total 00/01 est.</td>
</tr>
<tr>
<td>Total 99/00 est./actual</td>
</tr>
</tbody>
</table>

**Table notes:**

a. These figures exclude expenditures funded from revenues from the Road Fund/Fuel Levy, which is discussed later, and from funds flowing directly to local authorities from donors through the District Health Basket Funds ($0.50/capita/annum);

b. The figures are drawn from the 00/01 Budget Estimates, supplemented by fiscal data (on own local revenues) supplied by MRLAG (for 1999, the actual figure for own revenues has been used) and economic data from the World Bank. The lack of synchronicity in budget years has meant that certain extrapolations have had to be made. It has been assumed that any inaccuracies deriving therefrom are unlikely to eclipse those which, given the weaknesses of local financial accounting and recording systems, are likely to exist in the base data.

say over the composition and nature of local expenditures. Although funds flow through municipal and divisional budgets, the character of expenditure is still largely determined at national level. These characteristics of the local fiscal system are discussed at various points later in this chapter.
51. The variance between the 2000/01 estimate and the 99/00 estimate/actual figure for local expenditure is very substantial (about 45%). It is highly unlikely that the 00/01 estimate will be realised, and it may be assumed that the 99/00 figure provides a more reliable indicator of the actual situation. Among other things, this implies that local fiscal expenditure is a significantly lower proportion of national expenditure than the 2000/01 estimates indicate.

52. Although local government expenditure measured as a proportion of total expenditure in Tanzania is not insignificant, neither is it particularly large. This, of course, derives mainly from the allocation of functional and fiscal responsibilities between the national and local spheres of government. Given that the LGRP does not envisage any major reallocation in sectoral responsibilities, this situation is likely to remain for the foreseeable future.

53. Nationally aggregated figures for total local government expenditures (i.e. funded from both own and national revenues) across their main areas of functional responsibility are not available. However, a reasonable indication of the breakdown of these expenditures can be gained from the allocation of conditional grants – by far the largest component of local revenues (see Table 3) - across sectors. Using this measure, the provision of primary education is obviously the most important of the various local government functions, accounting for over 70% of expenditure. Health, the next most important, stands at less than a quarter of the education total. This picture alters a little, but not significantly, if one takes own/shared revenues diverted to these uses into account. The only data available for this derives from the USRP study of eight project towns,\(^\text{11}\) where a breakdown of expenditure patterns for the 1998/99 FY shows that funds from these sources diverted to education and health expenditures accounted for around 3% and 5.5% of total expenditure respectively.

54. The expenditure patterns evident here indicate that local government in Tanzania is focused largely on primary education and primary health care, with most other activities achieving a residual status.\(^\text{12}\) Certainly, the budgeted expenditures on other functions are not large enough to sustain significant activities in these areas, even though the formal legal and regulatory framework may require it.

55. This situation may arise partly from of the another feature of local expenditure obvious in Table 3 viz. the very high proportion of the budget expended on salaries and other personnel costs. To some extent this cost structure is intrinsic to the nature of the services that local authorities in Tanzania provide. But it is worth pointing out that the large personnel expenditures place a lot of pressure on those sectors where labour is a lower proportional input cost.\(^\text{13}\) Thus, regardless of whether or not it is desirable, in the near term a significant re-prioritisation of sectoral expenditures at the local level is unlikely given the basic structure of expenditure budgets. In fact, given the nature of grant conditionality, and their very limited powers over staff establishments, this is a matter over which local governments have little control. Moreover, as discussed later, incentives to maximise expenditures on labour are intrinsic to the current system.


\(^{12}\) This is substantiated by the few cases that the ESW team was able to study in any detail. In Morogoro Municipal Council, for example, the largest expenditure sector after Education, Health and Administration is “Works” a wide category that describes capital and recurrent expenditures in a wide range of areas, including all roads expenditure. For FY 1999, this amounted to less than 6% of the total budget.

\(^{13}\) It is interesting to note that recently government-commissioned studies have found that an increase of 314% would be required in the Roads Sector transfer if local roads were to be properly maintained. With currently available funds, local authorities are only in a position to maintain under 25% of the network for which they are responsible (“Interim National Minimum Standards and Phase I Block Grants”, December 1999; and “A System for the Financing of Local Government”, September 2000, both by PWC.)
Revenues

56. Aside from donor funds\(^{14}\), local authorities in Tanzania have four main sources of revenue:

- **Conditional grants** - comprising transfers from the central fiscus to fund recurrent local
expenditures in the areas of education, health, roads, water and administration (which
includes expenditure on agricultural extension services);

- **Capital grants** - also transferred from the centre, for expenditure on infrastructure investment
in these “priority” sectors;

- **Shared revenues** – some collected nationally by the Tanzania Revenue Authority (TRA);
some by local authorities then transferred upwards, distributed to local authorities on the
basis of varying criteria. These are both conditional and unconditional in variety;

- **Local revenues** – most of which are common internationally. In most cases, local authorities
have authority to determine taxation levels; in all cases they are responsible for collections.
They are unconditional in their usage.

57. The key feature of the existing revenue system, of course, is that it is currently in transition,
and the existing municipal system should therefore be clearly distinguished from the intended
one. So far as it may be determined the current revenue system appears to function on the basis of
the following principles: (i) conditional recurrent transfers should fund the full baseline operating
costs of locally provided services in education and health (though local authorities can and
sometimes do supplement their expenditures here from other sources), and partially fund such
expenditures for roads, water and administration; (ii) capital grants are given to local authorities
to assist them with capital investment in these areas, but not fully; and (iii) shared and local
revenues are meant to fund both recurrent and capital expenditures in these and other areas as
local authorities see fit.

58. The aggregate position as regards budgeted revenues and the proportional significance of the
various revenue sources are displayed in Table 2:

Table 2: Revenue sources for local government in Tanzania

<table>
<thead>
<tr>
<th>Source</th>
<th>TSh. m</th>
<th>% agg.i.a. income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conditional grants</td>
<td>118,359</td>
<td>69.9</td>
</tr>
<tr>
<td>Capital transfers</td>
<td>2,654</td>
<td>1.6</td>
</tr>
<tr>
<td>Shared revenues</td>
<td>9,258</td>
<td>5.6</td>
</tr>
<tr>
<td>Local revenues</td>
<td>3,8976</td>
<td>23.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>169,247</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Table notes:

a. Because they are likely to be more accurate all figures are for FY 99/00, with the exception of those for the
less significant forms of shared revenues (Land Rent and Hunting Levy), where data was drawn from the 2000/01
Budget Estimates.

b. The figures used for the Fuel Levy are drawn from the Roads Fund Tracking Study completed for the World
Bank in April 2000, which provides the most reliable data available. This inter-year discrepancy inevitably
distorts the proportionalities given in the table, but, given that there is only one year difference, this distortion is

\(^{14}\) Because many local donor funded projects are executed off-budget, there is no data on aggregate donor expenditures
on support for local authority functions and investments. Later, it is proposed that a study be undertaken to address this
gap.
not assumed to be any greater than that arising from other inaccuracies with the base data. In any event, the table is used here to indicate broad magnitudes only.

59. In general, revenues are skewed heavily towards funding social services. While evidence suggests that there may be scope for increasing local revenues substantially, data from the USRP study indicates that a significant proportion of any such receipts are usually diverted to the social sectors which the conditional grants are meant to fund. And it is sobering to note that, outside of direct donor funding, the total annual transfers made available for the construction of all new facilities – or rehabilitation of existing facilities – in the sectors of education, health, administration, and so on constitutes less than US$3.5m for the entire country.

60. **Conditional transfers.** Historically, conditional grants for expenditure on education, health, roads, water and administration (which now includes agricultural extension services) have had two basic components: one for expenditure on wages and salaries (personnel emoluments, or PE) and the other to cover other operating costs (OC.) The PE component is determined by the actual number of employees that the local authority has in that sector, while the OC component is a residual amount – limited by the overall budget available for expenditure in that sector, as determined through the national budget process - divided amongst local authorities roughly according to the number of health facilities they administer, pupil enrolment at schools, and so on. Because they are driven by payroll commitments, the PE calculations are straightforward and, in a sense, “objective”. The OC allocations have certain formulaic characteristics (e.g. factors such as pupil enrolments are referred to), but are ultimately decided on an ad hoc basis. Currently, the determination of these amounts – i.e. the division of budget resources *sectorally* (i.e. between health, education, water and so on), *vertically* (within sectors, the amounts going to national and local government), and *horizontally* (the amount going to each authority at the local level) – is handled largely by the Treasury at the national level.

61. From FY 2000/01 onwards, as Phase I of the fiscal decentralisation dimensions of the LGRP, these conditional grants have been divided into two categories: “block” and “earmarked”. Block grants will go to a pilot sample of 38 Phase I local authorities, predominantly in urban areas, while the traditional earmarked grants will continue to flow to the remaining 76. It is intended that Phase II will see this system extended to a further 35.

62. The detail of the reforms to the conditional grant system intended under the LGRP are discussed in some detail later. The expenditures funded from the conditional grants are given below:
Table 3:  **Budget estimates for conditional grants FY 2000/01**

<table>
<thead>
<tr>
<th></th>
<th>TSh. m</th>
<th>% CG revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PE</td>
<td>130 103</td>
<td>72.3</td>
</tr>
<tr>
<td>OC</td>
<td>112 365</td>
<td>62.5</td>
</tr>
<tr>
<td></td>
<td>17 738</td>
<td>9.9</td>
</tr>
<tr>
<td><strong>Health</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PE</td>
<td>29 112</td>
<td>16.2</td>
</tr>
<tr>
<td>OC</td>
<td>21 153</td>
<td>11.8</td>
</tr>
<tr>
<td></td>
<td>7 959</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>Roads</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PE</td>
<td>2 583</td>
<td>1.4</td>
</tr>
<tr>
<td>OC</td>
<td>1 406</td>
<td>0.8</td>
</tr>
<tr>
<td></td>
<td>7 959</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Water</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PE</td>
<td>3 718</td>
<td>2.1</td>
</tr>
<tr>
<td>OC</td>
<td>1 669</td>
<td>0.9</td>
</tr>
<tr>
<td></td>
<td>2 049</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>Administration</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PE</td>
<td>14 336</td>
<td>8.0</td>
</tr>
<tr>
<td>OC</td>
<td>13 286</td>
<td>7.4</td>
</tr>
<tr>
<td></td>
<td>1 050</td>
<td>0.6</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>179 853</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table notes:

a. These figures are all drawn from the 2000/01 Budget Estimates. Any variances between this data and some of the data in Table 2 are due to the differences in data years/sources;

b. The situation has a number of complexities of varying significance, not all of which need be described here. Perhaps the most important is that whereas the total salary bill for education, health, roads and water supply is funded from this grant, only a limited proportion of the Administration salary bill (to cover salaries for LGS2 and above employees but only 50% of three Department Heads within Administration for each local authority) is covered by the grant.

63. **Shared revenues.** There are three main types of shared revenue:

- The fuel levy, funded by a tax of TSh 80/litre (2000/01) on all petroleum sales in Tanzania, of which 70% is retained by central government (Department of Works) for expenditure on trunk and regional road maintenance and rehabilitation and 30% is transferred to local authorities for expenditure on district and local roads. The funds are divided horizontally between local authorities according to a formula which incorporates “equity” as its main term (in practice this means an equal division of 85% of the funds between district, town and municipal roads), with road network length and population also being taken into account;

- Rents paid to the state for leases on commercial, industrial and residential land in areas occupied under non-traditional forms of tenure. Currently this is set at around TSh600/acre. The revenues are collected by local authorities, deposited in the bank account of the national treasury and then passed back in the ratio recorded below to those areas from which they were collected.

- Hunting block fees levied on hunting within those areas (mainly District Councils) in which hunting occurs. The system for collection and distribution is essentially the same as that for land rents.
64. Specific data re these sources are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Total (TSh. m)</th>
<th>TSh. m to las</th>
<th>Local: national</th>
<th>% shared revs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel levy</td>
<td>38847</td>
<td>7556</td>
<td>19.81</td>
<td>81.6</td>
</tr>
<tr>
<td>Land rent</td>
<td>4219</td>
<td>881</td>
<td>20.80</td>
<td>9.5</td>
</tr>
<tr>
<td>Hunting levy</td>
<td>5558</td>
<td>821</td>
<td>15.85</td>
<td>8.9</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>48624</strong></td>
<td><strong>9258</strong></td>
<td><strong>19:81</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Table notes:

a. Data for fuel levy for FY 99/00, drawn from World Bank Tracking Study;
b. Data for other sources drawn for FY 00/01, drawn from Budget Estimates (disaggregated 99/00 data not available.)

65. Fuel levy revenues – which, in effect, function as conditional grants for use on road maintenance - are clearly the largest and most important. Of the land rent, about 70% is collected in Dar es Salaam, leaving only the rough equivalent of US$330 375 for distribution to all other local authorities in the country annually. Hunting levies, on the other hand, flow largely to District Councils. Again, however, the aggregate amount is relatively small.

66. Capital transfers. Local authorities also receive capital grants from central government for the development of capital works in their areas in the priority sectors of education, health and water supply. Allocations to local authorities are determined as part of the annual budget process on an ad hoc basis at national level taking into accounted aggregated representations made by the Regional Secretariats.

67. According to the 2000/01 Budget Estimates, the aggregate sum for expenditure on this transfer for FY 2000/01 is TSh. 2.454 bn, 80% for District Councils and 20% for Municipalities. These numbers should be treated with particular caution, however. Local authorities complain – and other studies note - that allocations are rarely received at the levels budgeted. It is noteworthy, too, that the 2000/01 estimate (excluding budgeted funds to be received from donor agencies) is some 87% higher than the 1999/00 allocation. Given government’s current general fiscal position currently, it is unlikely that this figure will be realised in practice. However, even if it were, it would make an average amount of only about US$ 27 000 available to each local authority.

68. Own revenues. The chief sources of own revenue income for local authorities are as follows:

- A development levy, a form of poll tax, the level of which is determined locally;
- A conventional property rates tax, also determined locally;
- A service levy (previously called an “industrial cess”), determined locally but capped nationally at 0.3% of turnover per annum;
- Licence fees for trade and liquor;
- Produce and livestock cesses (or levies), the former of which has now been capped at 5% of FOB price, and which may only be levied at the point of origin;
- Other fees and user charges (for abattoirs, markets etc.)

69. Own revenues amount to about 23% of aggregate local revenues, and about 5% of total domestic revenue raised by central and local government. National data on own revenues
disaggregated by source are not produced. As with expenditures, however, some information is available for the eight towns covered by the USRP. Figures for actual own revenues collected for FY 1998/99 are as follows:

**Table 5: Own revenues for USRP towns 1998/99**

<table>
<thead>
<tr>
<th>Source</th>
<th>TSh. m</th>
<th>% own revenues</th>
<th>% total revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development levy</td>
<td>476.7</td>
<td>10.5</td>
<td>3.9</td>
</tr>
<tr>
<td>Property tax</td>
<td>569.6</td>
<td>12.6</td>
<td>4.6</td>
</tr>
<tr>
<td>Cesses (service levy + produce cess)</td>
<td>728.4</td>
<td>16.1</td>
<td>5.9</td>
</tr>
<tr>
<td>Licence fees</td>
<td>668.2</td>
<td>14.7</td>
<td>5.3</td>
</tr>
<tr>
<td>Hotel levy</td>
<td>126.4</td>
<td>2.8</td>
<td>1.0</td>
</tr>
<tr>
<td>Abattoir fees</td>
<td>978.7</td>
<td>21.6</td>
<td>7.9</td>
</tr>
<tr>
<td>Other fees and charges</td>
<td>986.3</td>
<td>21.7</td>
<td>8.0</td>
</tr>
<tr>
<td><strong>OWN REVENUE - TOTAL</strong></td>
<td>4534.5</td>
<td>100.0</td>
<td>36.6</td>
</tr>
<tr>
<td><strong>IGTs – TOTAL</strong></td>
<td>7800.1</td>
<td>-</td>
<td>63.0</td>
</tr>
<tr>
<td>Shared revenues – fuel levy</td>
<td>42.6</td>
<td>-</td>
<td>0.4</td>
</tr>
<tr>
<td><strong>ALL REVENUES – TOTAL</strong></td>
<td>12377.2</td>
<td>-</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table notes:

a. These data, drawn from an update of the original USRP report, exclude shared revenues other than fuel levy income and will thus overstate the relative importance of own revenues as a proportion of total revenues. Even taking this into consideration, it is notable that this proportion is significantly higher than the national aggregate (23%) reported in earlier. This probably reflects the stronger local fiscal bases of urban local authorities (the USRP local authorities are all urban) relative to their rural counterparts.

70. It is widely accepted that the local revenue system in Tanzania suffers from a number of serious design and administrative weaknesses. These weaknesses, which are well documented elsewhere, require systemic reform, which is really only possible at the national level, although this is not something that is anticipated within the LGRP as it currently stands.

71. For as long as the structural weaknesses in the system remain, there will be limits to the extent to which local authorities will be able to increase their local revenues in real terms. However, even within the constraints of the current system, there appears to be significant scope to increase local revenues through improvements to the collections system. It is notable in Table 5 that property taxation, for example, accounts for significantly less revenue than abattoir fees, which is suggestive of significant underperformance in the former revenue source. It is noteworthy, too, that following the emergence of the financial crisis in Dar es Salaam in 1996 the City Commission was able to increase revenues from an annual total of approximately TSh 900m to TSh 2.5bn in one year; then to TSh8.3bn in 1999 from existing revenue sources alone. There may well be scope for extensive improvement, though perhaps not on this sort of scale, elsewhere.

**Local borrowing**

72. The Local Government Finance Act (1982) allows local authorities to borrow, subject to Ministerial approval. In effect, however, there is no real municipal credit market in Tanzania. The limited municipal borrowing which does occur is all essentially sourced from the Local Government Loans Board (LGLB), an institution established under the same Act and operated on a semi-autonomous basis within the MRLAG. The LGLB’s governing body comprises

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15 See, for example, Task Force Report on Rationalisation of Central and Local Government Taxes, 1999.
appointees of the Ministers of Local Government and Finance, the majority of whom are drawn
from local authorities.

73. The LGLB, in its current form, became properly active in 1985. Since inception it has
disbursed a total of about TSh 800m in loans to 35 local authorities. Mean loan size is about
TSh 30m, with a minimum of TSh 10m and a maximum of TSh 50m. The size of its current loan
book is approximately TSh 500m. Loans are extended mainly for capital projects or other non-
recurrent expenditures (e.g. the funding of retrenchment packages.) In at least one case, however,
the LGLB has funded loans to cover recurrent expenditures (to assist Arameru to deal with a
financial crisis precipitated by a local tax boycott.)

74. The LALB lends at concessional rates. Loan maturities are usually set at five years with
interest rates significantly below market rates, determined annually on a floating basis. The
current rate is around 15% (against a “market equivalent” of about 21% though, strictly speaking,
there is no such thing as there is no bank demand for municipal debt and such debt is not actually
priced by private institutions.)

75. Historically, repayment performance has been poor. At the moment most borrowers (about
65%) are in default, some having not made a payment for over three years.

76. Aside from investment income (primarily loan repayments), the LGLB is funded from two
sources:

- Local authority contributions, known as the Minimum Compulsory Reserve (MCR.) The
reserves is a statutory contribution, set by the Minister, which each local authority is
required to maintain with the Board. In 1986 the Minister directed all local authorities
that this would be equal to 10% of revenues. In subsequent years, the amount paid would
be 10% of incremental (marginal increases) in revenue. Currently, however, around 60% of
local authorities are in arrears of these obligations. The MCR accounted for about
52% of LGLB revenues as of the end of FY 1999;

- Transfers from central government. To date there have only been two such contributions
– an initial capitalisation amount of TSh 100m in 1994/95 and a further grant of TSh 14m
in 1995/96.

77. Two points of importance emerge from the brief synopsis provided above. First, it is
important to keep municipal borrowing in Tanzania in perspective. As a source of capital finance,
the LGLB – hence municipal debt finance in general – is not particularly significant in aggregate.
In the six years since its inception, total disbursements thus far are equivalent to just 4.5% of total
local government revenues and 30% of the annual capital grants. Second, given the default
situation, the arrears on statutory contributions, and the low levels of transfer from central
government, the LGLB faces a major funding squeeze and its continued existence – at least in its
current form – is in question. In this context, central government has indicated a desire for
reform of the LGLB - a study on future options is currently underway and is due to report in
March 2001. This situation presents an opportunity of some significance. As decentralisation
progresses, access to debt finance could become increasingly important, both as a source of

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16 Unless otherwise stated, the information for this section was taken from an interview with the LGLB Secretary,
legislation and various other documents, and the LGLB 1999 Financial Statement. The latter should be treated with
some caution, however; it is unaudited; at certain points it appears to mix cash and accrual accounting principles;
important provisions (e.g. for bad debt) are not made; and various operational costs (e.g. the salaries of its officers,
which are paid directly by the Ministry) are not reflected. The Financial Statement is best treated as a rough guide to
some of the financial characteristics of the organisation.
development finance and – more importantly – as a mechanism for instilling discipline into the local fiscal system. Whether or not it achieves these objectives will depend on the nature of the debt market that finally emerges. The current study and any related policy developments are likely to be crucial in this regard.

The financial position of local authorities in Tanzania

78. One of the more important factors which will affect the outcome of the LGRP as it is implemented is the financial position of the local authorities which are the subjects of decentralisation. Clearly, if those local authorities which receive increased control over their fiscal resources also have insufficient systems of financial management, or experience weakening financial positions, intergovernmental fiscal reform is unlikely to improve service delivery. Moreover, if such reform occurs alongside increasingly visible indications of local fiscal crisis, and if fiscal reform and local fiscal deterioration thus become associated, the LGRP as a whole may well suffer a diminution of credibility and consequential setback.

79. There is reason to be concerned about this in Tanzania. While available information does not allow for a thoroughgoing assessment of the aggregate position of local authorities, there are a number of indications that problems may be mounting.

80. First, the Control and Auditor General’s report for FY 1998 estimated total local government debt – outside of borrowings from the LGLB – at TShs. 8.6bn (US$ 10.8m.). This “debt” does not result from any formal borrowing contract, and is thus illegitimate: it represents the primary way in which local authorities are funding de facto (but not budgeted) deficits, and is their only real means of avoiding the hard budget constraint which they are otherwise under. As Table 6 shows, it is owed mainly to Council creditors and to the Local Authority Provident Fund (hence to local government employees.) Given that intergovernmental transfers are expended largely on fixed cost items, in the short term the only resource realistically available for reducing this debt burden is own revenues. MRLAG estimates that total own revenues for 1998 were TShs. 36.2bn; at almost 24% of this amount, the aggregate debt is significant.

<table>
<thead>
<tr>
<th>Table 6: Local authority debt 1998</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>T SH. M</strong></td>
</tr>
<tr>
<td>Council creditors</td>
</tr>
<tr>
<td>Statutory deductions not paid</td>
</tr>
<tr>
<td>Outstanding advances</td>
</tr>
<tr>
<td>Outstanding imprests</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
</tr>
</tbody>
</table>

Table note:


81. Second, the USRP Project Towns Study contains some important information. The cumulative surplus/deficit position for the eight local authorities studied for the period 1995-1998 was as follows:

\[ \text{According to the CAG, given accounting and data difficulties this figure is probably an understatement of the actual position.} \]
Table 7: Actual budget surpluses/(deficits) for USRP Local Authorities 1995-98

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Surplus/(Deficit) TSh. m</th>
<th>Surplus/(Deficit) % own revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arusha</td>
<td>(93.7)</td>
<td>(4.1)</td>
</tr>
<tr>
<td>Iringa</td>
<td>(64.4)</td>
<td>(9.0)</td>
</tr>
<tr>
<td>Mbeya</td>
<td>(81.51)</td>
<td>(6.5)</td>
</tr>
<tr>
<td>Morogoro</td>
<td>(116.8)</td>
<td>(13.5)</td>
</tr>
<tr>
<td>Moshi</td>
<td>(112.7)</td>
<td>(7.6)</td>
</tr>
<tr>
<td>Mwanza</td>
<td>333.4</td>
<td>11.5</td>
</tr>
<tr>
<td>Tabora</td>
<td>(56.9)</td>
<td>(6.8)</td>
</tr>
<tr>
<td>Tanga</td>
<td>14.6</td>
<td>0.1</td>
</tr>
</tbody>
</table>

82. These figures do not take into account the debts discussed in the paragraphs above, and thus underrepresent the size of the accumulated deficit, or overrepresent the surplus. (Arusha’s outstanding debt, for example, totaled almost TShs 50m for 1998.)

83. Perhaps more worrying is the position over time. The trend in the actual – not estimated - budget position of the councils (again, ignoring unpaid debts) for the years under consideration is shown in the graph below.\(^{18}\) It is clear from this that, for most USRP councils, the situation is worsening - deficits as of 1998 were significantly larger that the average over the four year period. Using MRLAG data for local revenue collections, the budget deficit for Arusha in 1998 (before outstanding debt is taken into account) was about 28% of local revenues; for Moshi it was over two thirds. If the debt position is also taken into account the situation naturally worsens.

Graph: Actual Surplus/Deficit in USRP towns 1995-98

84. Finally, as section D indicates, financial management and reporting weaknesses are widespread throughout the local government system in Tanzania. For FY 1998, the AG issued

\(^{18}\) The graph excludes Mwanza, which is unique in that it appears to have a healthy budget surplus.
only 23 “clean” audit certificates (20 were qualified; 68 were adverse and some local authorities did not report at all.) It is not really possible, on basis of the audit reports alone, to ascertain whether the qualified/adverse opinions from the AG derive mainly from the quality of the financial reporting and local accounting systems, or whether they indicate underlying financial difficulties or corruption. According to the CAG, in most cases both factors are often present. Thus, aside from the sorts of difficulty discussed above, accounting and reporting problems clearly are responsible for items such as unaccounted for revenue (total of TSh 532m) and improperly vouched expenditure (TSh 5,8 bn.) These difficulties may disguise the magnitude of the underlying financial problem that actually exists.

**Reform of the local and intergovernmental fiscal systems under the LGRP**

85. In the fiscal and financial areas, the LGRP contemplates reforms in three main spheres: resource mobilisation, financial management, and planning and budgeting. The changes falling into the latter two categories receive attention later. The resource mobilisation reforms are divided, in turn, into six main areas: the conditional grant system; central-local revenue sharing; own source revenue collection; supplementary unconditional grants; equalisation grants; and the LGLB.

**Conditional grants**

86. The reform of the conditional grants which fund recurrent expenditures on education, health, road and administration (including agricultural support) is one of the centrepieces of the decentralisation process. Given the combination of their relative importance and their highly conditional nature (determined, in part, by the powers of the centre to fix the local staff establishments on which most of these grants are spent), only a very limited form of fiscal “decentralisation” can be said to have existed until now.

87. The LGRP recognises that it will not be possible to introduce real decentralisation in Tanzania if the fiscal transfers which stand at the core of the current system are not fundamentally changed and contemplates a series of interlinked reforms to the existing conditional grant system. First, the determination of grant amounts – which is currently linked to recurrent payroll commitments and an ad hoc division of the residual (OC) amounts by the centre – is to be replaced by a formula-driven approach based on a set of “minimum affordable” standards of service which local authorities will then be mandated to deliver. Second, local authorities are to be given greatly increased control over the use of these funds. In particular, while sector-conditionality (earmarking) will be retained, the distinction between OC/PE is to be dropped in favour of a set of sectoral “block grants” over which local authorities will have wide-ranging expenditure authority. These changes lie at the core of the effort to realise increased efficiency through decentralised control over local budgets. For example, it will only be when block grants are no longer determined by actual payroll commitments and local authorities themselves face zero-sum choices in the allocation of funds between personnel and other uses that local

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19 These reforms are detailed in a number of documents, most particularly the *Local Government Reform Programme Action Plan and Budget* (MRLAG, October 1999) and two reports commissioned by the Ministry from Price Waterhouse Coopers (i) *Local Government Finance Reform Project Interim National Minimum Standards and Phase I Block Grants* (December 1999); and (ii) *A System for the Financing of Local Government*, September 2000. The latter document actually outlines a “final” system in which even sector conditionality (the requirement that transfers are calculated or spent in respect of certain sectors) is dropped, and a purely formula based system is introduced regarding both the vertical and horizontal divisions of revenue, but his appears to be a much longer term goal. The *Local Government Financial (Block Grants) Regulations*, 2000, promulgated in terms of the 1982 Act, address the Block Grants in some detail, but the critical implementation tasks envisaged in the regulations – e.g. the prescription of minimum standards and the allocation of conditional grants in accordance with these – have yet to be undertaken.
88. The LGRP anticipated that these changes would be introduced for the 38 Phase 1 local authorities for FY 00/01. In reality a much more modest alteration has occurred. Budgeted grant amounts have been published as follows:

<table>
<thead>
<tr>
<th>Sector</th>
<th>PE</th>
<th>OC</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>40 160 535 000</td>
<td>6 381 737 200</td>
<td>46 542 272 200</td>
</tr>
<tr>
<td>Health</td>
<td>7 972 492 300</td>
<td>2 741 314 700</td>
<td>10 713 807 000</td>
</tr>
<tr>
<td>Roads</td>
<td>479 387 000</td>
<td>420 850 800</td>
<td>900 237 800</td>
</tr>
<tr>
<td>Water</td>
<td>476 854 700</td>
<td>662 441 400</td>
<td>1 139 296 100</td>
</tr>
<tr>
<td>Administration(^{20})</td>
<td>-</td>
<td>332 876 100</td>
<td>332 876 100</td>
</tr>
<tr>
<td>TOTAL</td>
<td>49 089 269 000</td>
<td>10 539 220 200</td>
<td>59 628 489 200</td>
</tr>
</tbody>
</table>

89. However, the calculation and effective conditionality of these grants is very much as it has been in previous years. Allocations have not been determined in accordance with any agreed minimum standards. The PE/OC distinction remains, with the PE component of the grant still determined in accordance with actual payrolls and the OC component being determined residually. Given that payroll commitments are largely fixed, the effective power of local authorities over the largest expenditure and revenue elements of their budgets remains very limited.

90. Insofar as there has been a change, it lies in the freedom of the Phase I councils – the recipients of “block grants” as these are currently defined – to determine the nature and mix of the various expenditures which comprise the OC component, while “earmarked” grant recipients (the other local authorities) must continue to expend the OCs on line items as stipulated by national government. In addition, while the division of OC grants will continue to be handled on an ad hoc basis, it appears that greater involvement may be expected on the part of the Regional Secretariats in advising on the division between local authorities in their regions than has previously been the case.

91. It is worth noting here that the former shift may well be largely a matter of giving official and legal recognition to a situation which is already common on the ground. Because PEs fund payroll commitments, the degree to which this component of the conditional grants may leak to other uses is minimal. However, whether or not it is desirable, to effectively control line-item expenditures within the OC component is extremely difficult and such control may not actually exist. Officials within the Ministry of Finance – which is the body responsible for ensuring compliance - have indicated that their Ministry has little capacity to monitor these expenditures or enforce such control, which is largely handled on a limited and ad hoc basis. Moreover, the latest Control and Auditor General’s report indicates that many – probably most – municipalities do not have the sorts of accounting and systems which would allow for effective monitoring even were there sufficient capacity at national level to do so.

\(^{20}\) Salaries for staff of Agriculture and Livestock Development have not been disaggregated, and funds for salaries are voted under the Ministry of Agriculture and Cooperatives.
92. In sum, although the conditional grant reforms envisaged by the LGRP are both conceptually well grounded and critical to the success of the overall decentralisation process, they are far from being realised. The possible reasons for this are discussed later; for the moment it is important only to note that progress in this area has been – and is likely to continue to be – slow. Although these changes may well be rolled out to a number of additional local authorities as Phase II of the LGRP is being introduced, the changes themselves are very much weaker than those originally anticipated, and will have little impact on the existing incentive structure, hence on practice at the local level.

Other resource mobilisation reforms

93. The other resource mobilisation elements of the fiscal reform process are at various different stages of development and implementation. Proposals regarding the vertical division of shared revenues and supplementary unconditional and equalisation grants have been submitted, but have not yet found any real acceptance. Certainly, they have not yet been agreed to by Treasury and do not feature in the FY 00/01 budget. It seems unlikely that significant reform of these revenue sources is likely prior to the intended reform of the conditional grants. And, given their relative scale, even if such reforms were to proceed more rapidly the overall impact on the local and intergovernmental fiscal system would be marginal while the conditional grants system remain essentially unchanged.

94. The LGLB report is due in early 2001, and proposals will be forwarded to government for consideration at that time. Insofar as local revenue collection enhancement is concerned, the pilot projects will be implemented in 2001, though it may be noted that certain efforts which are not strictly part of the LGRP – most noticeably in Dar es Salaam, but also in some of the USRP towns – have achieved some significant success. As pointed out earlier, however, the LGRP does not anticipate any reform of the basic structure of the local revenue system itself. Reforms are to be focused on collection systems and capacity at the local level.

D. Local accountability and capacity

Introduction

95. Two factors which currently determine the nature of local government in Tanzania and which will inevitably affect the decentralisation process are accountability and capacity. These factors are intimately related – and are hence discussed together – in that constraints in one area generally affect the other. It is not really possible to build accountability (e.g. around the budget) without also building capacity (to produce the data needed for the budget), although it should also be recognised that establishing capacity does not in and of itself deepen accountability. For this, a separate and specific effort is required.

96. It is also important to recognise that the capacity and accountability weaknesses characteristic of local government in Tanzania – and targeted by the LGRP – are not unique to that level of government. They exist at national level, too. Capacity and accountability constraints at the local level thus do not provide arguments against decentralisation; they characterise all forms of service delivery (national or local) in Tanzania and will need to be tackled if service-delivery is to be improved, regardless of the specific route that is chosen.

97. The issues of capacity and accountability are broad ones, and deserve greater study in their own right. In order to make a discussion of these matters practicable within the constraints of this

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project, the DSW has limited its focus predominantly to accountability in the financial sphere. The discussion of capacity focuses on human resource constraints as a proxy – albeit an inadequate one – for a more comprehensive assessment of what is an intrinsically complex question.

**Accountability**

98. Financial management and accountability at the local level need to be examined across three distinct points in the management-accountability process: budgeting, financial control/accounting, and financial reporting/external auditing. These are discussed in turn.

**The budget process**

99. **Revenue budgets.** In establishing the resource envelope for their budgets, local authorities rely on three key (non-donor) sources of revenue: intergovernmental grants, shared revenues and own revenue. As discussed earlier, grants and shared revenues are currently determined by central government. The starting point for budgeting for own revenues are the revenue sources and the tax/fee rates specified in by-laws subject, in some cases, to guidelines issued by the MoRALG. The estimate of a local authority’s own revenue is based on information on the various tax bases such as number of businesses, population, number of livestock etc. In reality, the quality of this information differs significantly across tax bases, and projections with respect to the tax base are usually undertaken in an incremental manner.

100. Donor funding presents a specific difficulty for the local budget process in that much of it by-passes the local budget as donors often maintain separate mechanisms for providing funds and for implementing projects. However, there is a wide variety of practices among donors and some provide budget support to local authorities in the form of matching grants. For example, several districts benefit from a matching grants scheme by the Dutch SNV. These funds are included in the local budget and pass through the local accounting system.

101. **Expenditure budgets.** Local authorities prepare separate recurrent and development budgets. While the preparation of the development budget is the responsibility of the Treasurer, the Development Budget is often prepared by the Planning Officer. Formally, the budget process for local authorities follows guidelines issued by the MoRALG and is uniform for all local authorities. Practically, the most significant differences between local authorities arise from the efforts of the LGRP to reform what has traditionally been a top-down process into one which is more bottom-up, with greater involvement of the villages and wards. As yet, the extent to which the budget process has become more participatory differs widely across local authorities.

102. The local government financial year is congruent with the calendar year. Budget preparations start in September each year, with the deadline for the finalisation of budget proposals set for the end of October. The preparation of the budget begins with the MoRLAG issuing a circular in September containing budget guidelines for all councils covering matters such as an interpretation and promulgation of national policies and priorities, budget ceilings for various departments, and standards of services to be delivered. Other institutions involved in the budget process are the Ministry of Finance (issues overall budget parameters), RAS (acts as a conduit and advisor for compliance with the budget guidelines), the local Council (prepares and approves the budget), Ward Committees (compile Village Development Plans) and Village Committees (which prepare local development plans.)

103. For the most part, there is little local discretion over the recurrent budget as a result of the high proportion of fixed costs (mainly salaries) and the strong role of central government in
determining both the quantum and structure of most revenues received by local authorities. With regard to the development (capital) budget, under the revised bottom-up process envisaged by the LGRP, budget preparation starts at the village level, where the village executive officer prepares, with the participation of stakeholders, a list of projects at the village level for which funding is sought. This list is then transmitted to the ward level, where the ward development officer compiles them into the ward development plan which is then submitted to the District Executive Director. These ward development plans are then scrutinized and prioritized by the heads of departments, who have been issued budget ceilings for their respective sectors. These sector plans are then compiled by the planning department into a comprehensive district development plan. Typically a large share of submitted projects needs to be dropped because of lack of funding. In selecting projects for inclusion in the budget, priority is usually given to the completion of ongoing projects, which reinforces the incremental nature of the budget.

104. The development plans are then sent to various Standing Committees of the local authority and to the finance and administrative committee. Before the budget is submitted to the full council for approval, it is sent to the RAS who checks for compliance with national standards, ceilings, realism and prioritization. Councils may or may not accept any of the proposed changes from the Regional Secretariat. The full Council approves its budget with recommendations from its Finance Committee. The approved budget is copied to the RAS and MoRALG. The council is supposed to finalize the budget by 15th October and have it approved by the 31st October of each year. In practice these deadlines are rarely met, although the budgets are normally approved before the beginning of the new fiscal year.

105. LA directors are authorized to vire budget allocations from own sources within sub-votes up to a specified limit to accommodate unexpected events, provided that, for the year as a whole, the approved allocations are adhered to. Beyond this limit it is only the Finance Committee of the council which can approve virements with the same proviso. In practice, accumulations in arrear payments on statutory obligations have turned to be the main accommodating instrument for unforeseen budgetary pressures. For grants, reallocations between sub-votes can only be done by Treasury.

106. **The budget process, local accountability and financial control.** As in many countries, common practice in the budget process often varies widely from what law and policy may prescribe. While it is not possible to measure these all practices – and hence to provide a comprehensive analysis of the process - without conducting an extensive survey, certain broad points may be made about various factors affecting budget accountability in Tanzania.

107. It is important to distinguish three different accountability dimensions i.e. “upwards” (between local authority and central government), “downwards” (between elected representatives and their constituents), and “internal” (between local representatives and elected officials.) The distinctive relationship of each different dimension to the decentralisation process also needs to be noted. Not all these forms of accountability are consistent with decentralisation objectives or with the full realisation of decentralisation benefits. In respect of the budget process, for example, increased upwards accountability relating to the substance of expenditures can weaken downwards accountability and undermine prospects for enhanced local allocative efficiency.

108. First, internal and downwards accountability is limited by certain basic features of wider Tanzanian society - low levels of education, for example. It is common to find councils where only a minority of councilors have the education or training necessary to deal with sometimes complex budget questions or to hold their own in budget and planning discussions with officials who have may specific expertise in these areas. More widely, low levels of education, high poverty rates, and the capacity constraints of organisations within civil society all inhibit the
extent to which individuals and groups are able to participate in local budget processes, or planning decisions which have important budgetary implications.

109. Second, practices and procedures at the local level vary widely. In some areas high levels of distrust appear to characterise the relationship between officials and politicians, while in others the opposite appears to be the case. Similarly, processes for feeding input from lower-level structures (such as Mtaas) into the budgetary processes of municipalities and district councils vary widely in their robustness from locality to locality.

110. Third, there is a limited history of local government in Tanzania, and traditions of local involvement in budgetary and planning decisions appear to be weak. Partly as a result of this, the institutional and procedural infrastructure required to stimulate and organise such involvement is lacking, except perhaps in a limited number of areas.

111. Insofar as upwards accountability is concerned, the chief mechanism is the legal provision for Regional Commissioners (who are ultimately part of national government), to check all local budgets and ensure consistency with certain national policies and standards before they are finally adopted by local authorities themselves. In effect, however - for reasons which relate partly to capacity constraints, partly to a lack of clarity as to what this oversight power is meant to achieve, and partly to the absence of a system for systematically articulating national policies and standards - the Regional Commissioner rarely disapproves a local budget.

112. The peculiarities of the national budget and grant disbursement processes in Tanzania also have implications for financial accountability and management. It is important, first, to note that the national and local fiscal years do not co-incide. The former runs July-June; the latter January-December. Although local authorities can thus only be certain of their grant allocations for the first six months of the fiscal year, current practice is that local budgets are formulated on the basis of the assumption that the second half-year allocations will equal the first.

113. This situation gives rise to two initial problems. Firstly, the uncertainty regarding transfer receipts over a full half of the fiscal year is obviously not conducive to accurate budgeting. Secondly, if the grant amounts for the second six months of the year as published in the National Budget Estimates diverge from the amounts previously assumed by local authorities in their budgets, the local budgets are often not adjusted to take the change in numbers (usually a decrease) into account.

114. Other problems are also evident. The fact is that the amounts stipulated in the National Budget Estimates for transfers to local authorities, particularly the OC component of the conditional grants, are rarely transferred in totality. A 1999 study of seven local authorities found that, over a measured period of time, in six cases OC transfers totalled between 45 and 95 per cent of budgeted amounts, while the remaining local authority received over double what it was due. The Ministry of Finance claims that in FY 1999-00 the total grant amounts transferred equaled the amounts budgeted for the first time, but this remains in dispute. For capital transfers – where anticipated expenditures are far easier to cut than the fixed costs funded from the conditional grants – the amounts have never tallied. The divergence appears to be narrowing as the national budget process improves as a whole, but a widely expressed view is that, even for FY 2000/01, actual receipts for capital expenditure are likely to amount to no more than 70% of budgeted transfers.

115. A further difficulty relates to the intra-local authority usages of conditional grant transfers. At least two studies have indicated that, although the conditional grants are supposedly sector specific, the OC component is often diverted (over 40% in the case of education; nearly
90% in the case of health) to other uses. This seems to reflect the weaknesses of the internal budgeting process within the councils and the fact that, outside of the Treasurer, senior management within the local government administrations usually have little knowledge of either the overall structure of the local budget or of the funds which are due to them from national government.

116. Finally, local budgeting in Tanzania appears to be suffering increasingly from a problem common to municipal budgets in a number of countries in SSA, viz. the systematic and extensive overprojection of local revenue budgets as a result of factors such as political pressure and the need to comply with legal stipulations that budgets are balanced. According to figures provided by the MRLAG, the difference between actual and budgeted local source revenues for FY 1998 was 26%; in 1999 it grew to 34%.

117. In sum, then, local budgets in Tanzania are often little more than a rough guide to what may happen over the budget period. They are neither accurate, nor enforced, though they have the status of law. Paradoxically, given the existing system (in particular, the largely fixed nature of the recurrent budget) this may not present a critical risk insofar as continued financial stability at the local level is concerned. However, insofar as the goals of the LGRP go, the situation is obviously problematic in that the weaknesses of the local budget process undermine both local accountability (hence the extent to which local decentralisation will be able to deliver its potential benefits) and the ability of local authorities to manage their financial affairs effectively. Moreover, assuming that the fiscal component of the LGRP proceeds as planned, and that grants become steadily less conditional, meaningful local budgets as instruments for ensuring both accountability and financial control will become increasingly important. It should also be noted that the current situation may well disguise a substantial and growing problem as regards the financial position – and in some cases the solvency – of local authorities throughout the country.

Expenditure control, revenue management and the accounting framework

118. Expenditure control. At the aggregate level, expenditure control (and, for the most part, a hard budget constraint) is secured mainly in that few councils have access to formal or informal credit. This implies that most local authorities operate essentially on a cash budget and the possibilities for expenditures exceeding cash inflows from the various revenue sources are limited. However, as indicated earlier, arrears – and hence budget deficits - may arise from the non-payment of statutory deductions such as contributions to the Local Government Provident Fund (LGPF), delayed payment of utilities, and supplier credit.

119. Expenditure control in terms of assuring that funds are used in line with the budget and with the guidelines for the use of central government grants is not particularly stringent. Grants for the payment of salaries are generally used for their intended purpose, although in the past it has been a common practice to divert the share of salary payments that was meant to cover contributions to the LGPF to other purposes. Recently, local authorities have been instructed by the MoRLG to clear their arrears with the LGPF and a number of local authorities have reported progress with this. Mechanisms to ensure that funds provided to the districts for OC expenditures in education, health, water, and roads are also weak, leaving significant scope for local authorities to use these funds according to their own priorities.

120. Once funds have been received by the local authority, the district management committee decides the allocation of these funds to the spending units. Since overall revenue receipts, both with respect to own revenue and to OC transfers from the central government, are generally less than what was budgeted, the district management committee has significant scope to decide on the distribution of funds across spending units without violating expenditure limits set by budget
allocations. Once the district management committee has decided about the use of funds, these are transferred into a sub-account of the benefiting spending unit. In individual spending units, expenditures have to be approved by the head of the department. Following his approval, the treasurer issues a voucher to the supply officer to incur the expenditure. The store clerk is then responsible for keeping the inventory of supplies.

121. Internal systems for ensuring in-year expenditure control and the prevention of misuse of Council funds include a newly introduced internal auditing system and the compiling of monthly reports for the Finance Committee by Treasury staff. It is not clear at this time how effective these systems are in practice.

122. **Revenue management.** There appears to be a wide variation in arrangements for tax collection across revenue sources and across districts. Responsibility for revenue collection is typically spread across several departments in each district. The mode of revenue collection includes both collection by employees of the district/municipal council and contracting of private agents. In those cases where revenue collection is delegated to the ward or village level or to private collection agents, the collecting entity typically retains a certain percentage of revenue collected. Many urban councils contract out revenue collection to private agents particularly for property taxes, market dues and bus stand fees. By contrast, rural councils rely mostly on direct revenue collection by council employees. The collection of development levy was contracted to villages or wards at a commission/retention rate of 10 - 20 percent.

123. **Accounting framework.** Accounting systems are currently undergoing significant change in the districts which are part of the Phase I of LGRP or the USRP. While traditionally districts have used a paper based system, as part of the LGRP the computer based IFMS/Platinum system is being introduced at district level. In addition, the USRP has introduced its own financial management system, which leads to a situation where some districts are operating three parallel accounting systems.

124. The Government has introduced the Integrated Financial Management System (IFMS), which when fully operational, will permit improved transparency of public financial operations through real time information, and better controls through centralized payments and procurement processing systems. The Platinum system is the software used to operate this system. The Exchequer Ordinance is being revised to provide a legal basis for operating this new system effectively. Most ministries in Dar-es Salaam are now fully on line and the IFMS has also been introduced in 10 sub-treasuries.

125. IFMS and the Platinum software is being rolled out to 28 local authorities on a pilot basis under phase I of the initiative with 42 more targeted for phase II. The operationalization of the IFMS is at varying stages of implementation. In a few of the LAs visited which have technical support system readily available (such as Monduli) the IFMS was found to be operational and financial reports produced via the Platinum system. However, in some cases the LAs were found to operate both the manual and computer accounting systems simultaneously (e.g. Dodoma Municipal Council) or stopped using the Platinum system (e.g. Arusha Municipal Council).

126. A number of problems seem to be affecting the introduction of the IFMS/Platinum system in local authorities. Firstly, the access to technical support and servicing of the equipment is often not available when needed. Technical support is provided by personnel from Soft Tech/Micronix Systems Ltd. who visit districts on a predetermined schedule with apparently insufficient flexibility to accommodate requests for non-scheduled assistance. Secondly, there appear to be problems with the new chart of accounts that was introduced together with the IFMS/Platinum system which allows only partial use of the system by Local authorities. Thirdly,
since Local Authorities are usually only equipped with rudimentary computer equipment and facilities for running the Platinum system, access to computers for key approval offices (Accounting Officer, Treasurer and Heads of departments) has become a growing problem. Fourth, accounting and authorizing officers have not undergone training on IFMS and the Platinum software application.

**Financial reporting and external auditing**

127. The overall system of financial reporting in Tanzania is similar to that in many Anglophone countries in sub-Saharan Africa: local authorities are required to produce financial statements; these are audited by the Auditor General; the audit reports are publicly debated in the legislature; any problems identified through this process are thus both brought to the public’s attention (“downwards accountability”) and referred to central government for action (“upwards accountability.”)

128. In Tanzania, current law requires local authorities to submit a set of financial statements to the CAG within three months of the end of the financial year (which runs January-December), and the CAG to submit an audit report on all local authorities within nine months of this (effectively by the end of the calendar year.) The reports are tabled before the Public Accounts and Local Government Standing Committees in Parliament, each of which adopts its own report on the Audit report within about 2-3 months of submission.

129. In practice, the law is not really complied with. According to the CAG, for FY 1999 none of the 111 local authorities produced their statements by end March 2000 and as of September 2000, 27 local authorities had yet to report. For FY 1998, the audit report was eventually submitted to parliament in February 2000 – 5 months after it was due.

130. The Standing Committees can recommend various forms of action. Most commonly, where problems are egregious, a probe team is formed, and further action is taken by the Ministry of Local Government where this is indicated. There have been a limited number of such cases in recent years.

131. So far as downwards accountability at the local level is concerned, the only action required by law is that a copy of the audited financial statements of each local authority is pinned to the doors of the administration’s offices in each ward. This is sometimes done; but is seldom monitored.

132. Efforts to increase financial accountability through the improving the financial reporting system in Tanzania are likely to be affected by the same sorts of difficulty that confront efforts to improve the budgeting system. The education levels that preclude councilors and citizens from interacting properly with budget data are also likely to prevent them from dealing with a financial statement. And, as with measures which are unable to prevent local authorities from running de facto budget deficits, it is one thing for the law to require local authorities to report in a certain manner; it is quite another to ensure that this happens in practice. Often the sanctions seemingly available to central government to ensure compliance – even where the law or policy envisages these – create as many difficulties as they resolve (withholding funds, for example, may aggravate the final difficulties of weak and badly reporting local authorities.)

133. It appears, too, that the magnitude of the local financial reporting problem in Tanzania makes effective remedial action difficult. The extent of the problem as reflected in the CAGs 1998 report is described in earlier. In this context it is difficult to see how an underresourced
central Ministry and the CAG’s office will be able to respond effectively to problems which appear to be system-wide rather than confined to few localities.

**Capacity**

**General human resource capacity**

134. Perhaps the key capacity constraint that local authorities in Tanzania face lies in the area of human resources. The survey of the Morogoro and Ilala local authorities indicated that their human resource capacity has improved over the past few years. During this period civil service reforms (transfer of staff from central or regional level to local level) have resulted in greater numbers of qualified personnel within local government. However, many local positions remain unfilled and some Councils have received staff that they do not need.

135. Department heads in Councils tend to be diploma holders with fairly extensive experience. These staff are often the only qualified staff in the department. The level of skills in municipal Councils appears to be higher than that of other Councils. More university graduates are employed in municipal Councils and a large number of the senior management staff have recently undergone several training courses. In MMC senior management included 6 university degree holders, while MDC staff included 1 university degree, 8 diploma and 2 certificate holders. Key skills gaps exist in accounting, legal, planning and engineering functions and, despite the recently completed civil service reform process, it does not appear likely that additional skills can be attracted to the Council in the foreseeable future.

136. Capacity in the infrastructure sectors is low, although some capacity exists in special agencies established to manage the infrastructure sector. In the water sector capacity within some districts is limited because responsibility for water supply management is carried out by an Urban Water and Sewerage Authority. An assessment carried out by the roads sector indicates that 43% of districts have no road engineers, although some functions that could be carried out by Councils are implemented through the Roads Board. In IMC there are currently no qualified civil, mechanical, structural or electrical engineers, and due to limited finances outsourcing of these activities has proved difficult. In MMC, the newly established works department is currently understaffed. There are currently 41 staff against a required manning level of 124. Besides the Municipal Engineer and Road Engineer, most other positions in these sections are vacant and some sections remain completely unstaffed (e.g. road safety and traffic management, storm water drainage, mechanical engineering, fire and emergency services and ambulance services).

137. As regards the governing bodies (the Councils) the average Councilor in these areas has a primary level education, although in some Councils, there are a number of Councilors with secondary education. In MMC, 5 of 19 Councilors have secondary education; these Councilors have also benefited from training conducted by ESAMI and this has improved their understanding of their functions and relations with Departments. The LGRP is developing a code of conduct for Councilors that will enable them to gain a better understanding of their roles and responsibilities. It was intended that the code of conduct be disseminated during the recently conducted general elections to ensure that persons seeking to be elected are aware of their roles and expected functions. Radio programmes informing voters about the role of Councilors were also conducted to increase awareness of the competencies required of elected officials among voters. As some Councilors trained over the past few years may not regain their seats after the

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22 *Public Expenditure Review, 2000*
election (in fact, anecdotal evidence suggests that councilor turnover in Tanzania is fairly high), it is essential that regular training programs be carried out, and repeated on a regular basis.

Financial management capacity

138. The picture of seriously undercapacitated local authorities, as revealed in the Morogoro and Ilala cases, is confirmed by other evidence. A recent review \(^{23}\) of the financial management capacity in Phase I councils rated only three councils (8.6% of councils) as high in terms of their financial management capability, all of which were municipal councils. Most rural councils (66%) received a low rating.

139. The survey of 14 local authorities conducted by the PER team found that while most LAs have fairly well qualified budgeting and accounting personnel at the higher levels, the quality of accounts clerks is generally poor both in terms of basic education and specific expertise in LA accounting and finance. This partly accounts for the variations in the quality of record keeping and financial reports across LAs.

140. The four key financial positions – Treasurer, Expenditure Accountant, Revenue Accountant and District Planning Officer - are usually filled by staff with the requisite professional qualifications. However, the Internal Audit departments are weak in capacity, because most of the auditors are new (72 were recruited in 2000) and lack experience, while others are not really qualified for the job but have been seconded to these positions by Treasury. Positions below the accountants are also manned by accounts assistants, many of whom have not undergone formal accountancy training. At the ward level, where most revenue collection takes place, financial management capacity and skills are extremely scarce.

141. One important source of capacity outside of the local authorities themselves is the Association of Local Authorities of Tanzania (ALAT) which appears to have played an important role in involving Councils in decisions regarding the local government reform programme, including participation in legislative reforms. In Councils visited, including the Morogoro District Council which is not one of the LGRP Phase 1 Councils, a high level of awareness of the LGRP exists. To some extent this is to be expected as all Councils are impacted by legislative reforms, but ALAT has played an important role in disseminating information and preparing local authorities for the reform process.

Accountability, capacity and the LGRP

142. In general, then, financial accountability and management and human resource capacity at the local level in Tanzania is not particularly strong. The LGRP has identified a number of the existing weaknesses and is in the process of formulating and implementing various initiatives to deal with them. In particular:

- An “elaborate, bottom up planning and budgeting system”\(^{24}\) will be designed and implemented. As an overall system – and aside from progress that has already been made in some areas under bilateral donor programmes - this is currently in its very early stages;

- Direct efforts to enhance financial accountability are also anticipated. These generally fall into two categories: (i) improving the capacity at central and regional level to monitor and


\(^{24}\) LGRP Action Plan and Budget, October 1999, p. 48
enforce local compliance with financial reporting requirements; and (ii) to provide financial management training directly to local councilors and staff. In addition, the possibility of introducing incentives and compliance enforcement measures in law is currently being investigated;

- The IFMS system is being rolled out;

- A range of education and capacity-building initiatives aimed at both Councilors and local authority staff is underway.

143. Progress, however, has been and is likely to continue to be slow; and the most accurate prognosis would appear to be that it will take considerable time before improvements in the situation are tangible.

144. The reasons for this are threefold. First, as indicated above, a number of the factors which directly impact the quality of accountability and depth of capacity are beyond the control of the LGRP itself e.g. low education levels, the scarcity of training institutions in the country, and so on. Second, in a number of the areas that the LGRP has targeted – local and national capacity-building, for example – improvement is intrinsically difficult and time-consuming. Training and capacity building inevitably take considerable time to deliver tangible changes. Third, certain changes in the intergovernmental system which do not appear to form a central part of the LGRP agenda – some of which are arguably beyond its scope - may also be required. Examples here include the difficulties introduced by the national-local budgeting and grant transfer systems; clarity in respect of the role of Regional Commissioners and the MRLAG Regional Secretariats in respect of budgetary and financial management oversight; and the pay-scales within the public sector which inhibit the ability of local governments to effectively compete for properly trained and skilled staff.

145. Moreover, the LGRP is likely to face a number of important limits and choices regarding its initiatives in the areas of building capacity and promoting accountability. Given that reforms in these areas are inevitably difficult and time-consuming, and that the programme has limited resources, it will need to decide where best to focus its efforts. In the context of existing conditions in Tanzania, for example, the LGRP is likely to find it rather difficult to successfully implement a new and elaborate participatory budgeting system at the same time as it wishes to train councilors and staff in basic budgeting and financial management skills.
A. The LGRP: An overview

From an operational perspective, the LGRP – as presented in its main working documents comprises 5 main components, or areas of reform.\(^{25}\)

i. Governance.

The Governance Component of the LGRP has two distinct objectives. The first is to establish broad-based community awareness of and participation in the reform process. This is largely a publicisation and popularisation function, the main tasks and activities of which relate to awareness raising amongst the general public.

The second is to promote principles of democracy, transparency and accountability. Concretely, much of this work relates to increasing accountability within LGAs through the introduction of new rules such as the Code of Conduct and anti-corruption guidelines. This component also focuses on improving and increasing the efficiency of the ways in which Councils go about their business, where major activities have been the preparation of Model Standing Orders and Councilor-Staff relations guidelines. The development of a participatory budgeting process has recently been shifted from the Finance component to this one.

ii. Restructuring

The Restructuring Component is concerned primarily with enhancing the effectiveness, efficiency and sustainability of service-delivery. The core reform here is a concrete and thoroughgoing restructuring of each local authority in respect of service-delivery arrangements (e.g. through contracting out, PPPs and so on), the internal institutional structure and organisation of the LGA, redeployment and reorientation of staffing and the development of new budget structure. Overall, all LGAs are expected to undergo a 17-step restructuring process, which covers both the design and the implementation of all these reforms.

iii. Finance

The main objectives of the Finance Component are to increase the overall resources available to local authorities and increase the efficiency of their usage through changing the incentive structure of the existing intergovernmental fiscal system. The chief activity here is the restructuring of the conditional grants which fund most local expenditures to reduce conditionality (i.e. the introduction of what are being termed “block grants”). The other main reforms include increasing the proportions of shared revenues going to local government, introducing supplementary intergovernmental transfers, improving local revenue collections, improving local financial management through rolling out the Platinum accounting system and training local officials. The future of the LGLB is also to be considered.

\(^{25}\) In fact there are six. However, the sixth – Programme Management – relates to the ongoing management of the LGRP itself and does not deal with an area of systemic or structural reform per se. Programme management is discussed in some detail later.
iv. Human resources

The main objective of this component is to improve accountability and efficiency of Human Resource use at the local level. The broad intention here is to give local authorities full control over their human resource inputs through allowing them full authority over the size of their establishments, all appointments and promotions, all management issues, and – in the long term – conditions of service. To achieve this, a number of important institutional, functional and legal changes will need to be made e.g. the Ministerial approval of senior appointments will need to cease, the role of LGSC will need to be diminished greatly, and local authorities would need to be able to create new posts without authorisation from the centre. Other key activities relate to improving the internal management capacity and procedures of local authorities (through the production of various guidelines and regulations) and capacitation and training of local staff.

v. Legal

The objective of the legal component is to establish the enabling legislation for effective implementation of the local government reforms. The key activity here is the codification – in law and regulation – of LGRP policy and institutional changes as these are introduced.

147. The specific activities and progress made in each of these reform areas are discussed at various points in the main document and detailed in Annex 3. The rest of this section evaluates the character and progress of the overall reform effort. First, however, it is necessary to provide some detail regarding the institutional structure and resources of the Programme.

148. The LGRP is managed by a Local Government Restructuring Team (LGRT), placed within the MRLAG, which is structured in accordance with the components outlined above. The LGRT is the main implementing agency of the LGRP and is supported in this function by Zonal Reform Teams (ZRTs) and Council Reform Teams (CRTs). While ZRTs function as technical assistance extensions of the LGRT, CRTs are reform organs at council level established to take the necessary actions required to improve efficiency and effectiveness.

149. Several governing bodies have been created to oversee and guide the LGRP and LGRT. These bodies carry out various functions including policy formulation and guidance, interagency coordination, and fundraising. These include the Interministerial Coordination Committee (ICC) which provides overall policy guidance from Government to LGRP, the Interministerial Working Group (IWG) which coordinates reform activities across sectors; the Donor Consultative Forum, which consults with and informs donor agencies on LGRP progress; and the Common Basket Fund Steering Committee (CBFSC) which enables fundraising and provides financial management oversight.

150. The following diagram provides an overview of the implementing and coordinating structures of LGRP.
151. The role and functions of each of the entities in the above diagram are discussed in detail in Annex 3. The main functions of the core implementing agencies may be summarised as follows:

- **Local Government Reform Team.** The LGRT is comprised of six component heads: a Program Manager, a Program Accountant, Monitoring and Evaluation Expert, Chief Technical Advisor and support staff. The role of the LGRT is to provide: i) specific policy recommendations to MRALG; ii) planning and technical support to program implementers (ZRTs and CRTs); iii) support for capacity building initiatives in LAs; and iv) management capacity for funding, communication, and coordination. Although it is considered a technical arm of the MRALG, it is financially and managerially autonomous and retains direct responsibility for activities outlined in the Annual Budgets and Work Plans.

- **Zonal Reform Teams.** Five ZRTs have been established in key regional centres (Dar es Salaam, Arusha, Mwanza and Mbeya) to support the implementation of LGRP. The primary responsibility of ZRTs is to assist local authorities to restructure themselves and carry out the necessary reforms required to ensure efficient and effective service delivery. Each ZRT is comprised of a financial, HRD, and local government specialist.

- The functions of ZRTs are expected to be handed over to **Regional Reform Coordination Committees** (RRCCs) once capacity is built and the ongoing restructuring of Regional Government is complete. MRALG is currently carrying out studies to determine how best to establish RRCCs as part of the RASs.

- **Council Reform Teams.** At council level, CRTs comprised of Councilors, Heads of Departments and other key stakeholders in the council, have been formed to set out local strategies and carry out reforms. CRTs are comprised of existing council staff/councilors who are expected to carry out the restructuring exercise as part of their normal duties. Key members of the CRT are expected to include the Council Director, Heads of Departments - Finance, Personnel, Planning, Education and Health - and two councilors.
152. The annual budget for LGRP is about $10 million. This budget provides for establishment costs, salaries and running costs of the LGRT and ZRTs. It also includes itemized funding for implementation of the 6 components including consultancies, publication, dissemination, training and capacity building activities at all levels, including Government.

153. The total budget for all three phases of LGRP is US$ 48,806,090, which is to be funded from a variety of sources including donors and Government. The first LGRP planning period (October–December 1998) was funded through a combination of common basket and ear-marked funds. This arrangement was complex to manage, mainly due to varying procedures and parallel reporting arrangements of the various donors, and it was later decided to establish a common Basket Fund to fund the LGRP, to which all donors could contribute.

154. During the LGRP’s start up year of operation, four donors contributed to the Basket Fund. The number of contributors rose to 8 in 2000 and efforts are underway to increase this further. In FY01 out of a total of Tsh 7 billion ($8.9m) in pledges to the Common Basket, Tsh 60 million ($0.07m) was pledged by the Government. To meet the budgetary requirements for LGRP an additional $20m in contributions from donors will be required in the remaining period (FY02-04). Table 9 describes the Basket Fund contributions for FY 2001.

Table 9: Donor Pledges to the Common Basket Fund

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Donor Pledges FY01</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government of Tanzania</td>
<td>75,718.75</td>
</tr>
<tr>
<td>European Commission</td>
<td>1,250,000.00</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2,062,500.00</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1,875,000.00</td>
</tr>
<tr>
<td>Finland</td>
<td>850,000.00</td>
</tr>
<tr>
<td>Ireland</td>
<td>581,250.00</td>
</tr>
<tr>
<td>Denmark (a)</td>
<td></td>
</tr>
<tr>
<td>Norwegian</td>
<td>1,287,500.00</td>
</tr>
<tr>
<td>UNDP</td>
<td>1,006,250.00</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>8,988,218.75</strong></td>
</tr>
</tbody>
</table>

Table notes:


B. An assessment of decentralization in Tanzania

Introduction

155. This section provides an assessment of the decentralisation process to date and develops a prognosis for its short to medium term future. It is divided into two main parts. The first outlines a simple analytic or categoric framework in terms of which the LGRP may be assessed. The second uses this framework to develop a limited evaluation of the decentralisation process, drawing on the material presented in earlier parts of the document. The evaluation provides the basis for the conclusions and recommendations made in Chapter 4.

26 In FY01 UNDP will contribute funding into the common basket fund.
Framework for assessing the LGRP

Overview

156. The basic vision and objective of the LGRP has been consistently stated in a number of formal policy documents produced by Government: “The overall goal is to improve the delivery of services to the public and the main strategy for achieving this is decentralisation.” The logic underlying this strategy closely follows conventional thinking concerning the potential advantages of decentralised systems of governance. This may be summarised as follows:

- The chief service-delivery benefits arising from decentralisation derive from increased effectiveness and efficiency in the allocation and expenditure of resources by local authorities. In order to allow local authorities to allocate effectively (in line with local priorities) and deliver efficiently, local authorities need to be given increased authority over the use of their inputs (financial, human and other resources);

- Incentives to such allocational effectiveness productive efficiency will arise primarily from enhanced local accountability, which will be facilitated by increased transparency, itself underpinned by a reorientation of central (including regional) government towards monitoring and regulation, as opposed to its current “directive” role;

- The capacity for local authorities to take on the additional responsibilities implied by these changes will develop in response to the shift of responsibilities and powers intrinsic to this process, but will need to be systematically built over time.

Key change areas

157. Examined from an analytic rather than an operational perspective, the reforms that constitute the LGRP and form the focus of the work programme of the LGRT may be divided into three main categories: systemic reforms; local level restructuring; and capacity/systems building. These may be summarised as follows.

158. The systemic reforms comprise four core areas of change:

i. Increased local government jurisdiction over the determination and financing of the services which form the core of their functional responsibilities. The basic reform here has a number of interrelated elements:

- the specification, by central government (Treasury and sector Ministries) of national minimum standards for primary education, primary health and local roads;
- decreasing conditionality of the fiscal transfers which fund these services – most critically, the elimination of the PE-OC distinction and the introduction of block grants for each sector;
- additional resources flowing to local government in the form of new unconditional grants, greater proportions of shared revenues, and perhaps new loan funding sources;
- enhancing own-revenue collections;
- it is worth stressing that the fiscal and financial reforms are in a sense the most complex and the most central systemic reforms of the LGRP. They underpin the

reform efforts in other areas, which will rely on the fiscal reforms to have their full effect.

ii. *Increased local control over service-delivery arrangements and staffing*. This involves:

- autonomy for each local authority to contract out service-delivery as local circumstances warrant;
- the freedom for each local authority to organise its internal administration (Standing Committees, LGA functions and structures) as it sees fit;
- the power of each local authority to determine its own staffing levels, to hire and fire staff and ultimately to set key conditions of service for staff;
- these reforms are linked to the financial and fiscal reforms in that the decreased conditionality of education, health etc. grants and the increased powers local authorities will have over their staff and establishments is intended to fundamentally alter the incentive structure for local authorities. Whereas LGAs currently have incentives to overemploy (as the quantum of the conditional grants they receive is linked to establishment size), these reforms attempt to ensure that they will in future be driven by delivery and output imperatives.

iii. *Enhanced accountability of local authorities*. These comprise enhancements in:

- “internal” accountability of staff-members, particularly senior staff, to elected local representatives rather than to central Ministries;
- “downwards” accountability of councils to local residents so that the allocation decisions and performance of local governments are subject to local pressures related to efficiency and effectiveness;
- “upwards” accountability of councils in reporting to central government – e.g. the submission of audited financial statements - so that local performance becomes increasingly transparent;
- it may be noted that upwards and downwards accountability are symbiotically related – the aim of increasing upwards accountability is to enhance downwards accountability rather than to increase the control of central government over local authorities.

iv. *An alteration to the intergovernmental functional and institutional structure*, involving:

- for Central Ministries, a shift from a direct delivery and interventionist to a policy, regulatory and monitoring role, and
- a shift from a directive to a supportive role for the Regions.

159. Although the LGRP addresses these core systemic shifts in varying degrees of detail and priority, if the programme is to deliver its intended outcomes these reforms will need to occur in an integrated manner. If one or more of its core elements lags badly, the integrity of overall programme is likely to be threatened. Rapid reduction of grant conditionality or central budget oversight in an environment in which there is little improvement in financial reporting and local accountability is likely to weaken incentives for efficiency and effectiveness rather than strengthen them. To some extent, then, the ability of the LGRP to progress the systemic changes at its core in a co-ordinated manner is going to be as critical to the outcome (positive or negative) of the programme as its ability to deliver change in any single area, no matter how important.
160. In the context of these systemic reforms, the LGRP envisages that concrete District and Municipal restructurings will take place, area by area, at two levels:

i. A re-organisation of the service-delivery and administrative structure of each local authority. In the first instance this will be kicked off by the 17 step process described in Annex 3, which will initiate a restructuring of:

- service-delivery arrangements (outsourcing of certain services, etc.);
- the organisational structure of the local authority;
- the staff establishment;
- the budget;
however, it is intended that this will really be an ongoing process at the local level as local authorities begin to exercise their new powers and respond to the incentives and pressures unlocked by the systemic changes described above. Local authorities – via their CRTs – are expected to undertake these restructurings themselves, though they will receive advice from the ZRTs and funds (to a maximum of $100 000) will be made available to them to procure technical assistance and advice.

ii. The introduction of new ways of doing council business, in first instance through the introduction of new guidelines and regulations covering:

- the introduction of new Model Standing Orders;
- Codes of Conduct;
- Staff management and relations.

161. The third and final element of the equation is the building of the capacity and systems at different levels of government required for the overall system to function effectively:

i. Within local authorities capacity will need to be built in the key areas of:

- general and strategic management;
- financial management and accountability (proper budgeting, expenditure/revenue control and financial reporting);
- human resource and personnel management (to deal effectively with the new staffing powers received from the centre);

ii. At regional and national level capacity needs to be built in order that the shifts in role can be accommodated – to effectively monitor the dispersal and usage of the new fiscal transfer system; to support and provide assistance to local authorities, and so on. In both cases it should be remembered that existing capacity around existing roles is weak. Thus redeployment of personnel from one area to another, in most cases, is not really an option. It will need to be built anew.

162. This simple framework for categorising reform activities has been developed because it allows for a rapid appreciation of the interconnectedness of the key dimensions – systemic change, local-level restructuring, capacity-building – which decentralisation in Tanzania needs to tackle if it is to succeed. It is one of the virtues of the LGRP, and an indication of its overall coherence, that it does, in fact, address all these elements.
Progress of LGRP

163. Progress on the systemic changes anticipated by the LGRP has been slow, in some cases even marginal. In detail, the position towards the end of 2000 was as follows.

i Increased local jurisdiction of the determination and financing of core services

- Although certain Financial Regulations which anticipate the new “block grant” system have been introduced, national minimum standards as a basis for determining grant allocations have neither been clearly agreed and promulgated nor used as a basis for determining budget allocations for FY 2001;
- The existing PE/OC system of conditionalities – in which personnel and other operating expenditure are effectively fixed at the centre - has been used to determine these allocations, the only change from previous practice being that Phase 1 local authorities are now permitted to determine their own line-item expenditures within the OC component of their conditional grants. This is only a slight alteration from the existing system and is arguably widespread practice already;
- No new resources – in the form of additional grants or greater proportions of shared revenues – will flow to local authorities;
- With the exception of Dar es Salaam – which has had a very successful revenue enhancement programme, although predating the LGRP – own source revenue enhancement exercises are very much in their infancy.

ii Increased local control over service-delivery arrangements and staffing

- The law now gives local authorities fairly wide powers to contract out certain services, and this practice appears to be spreading slowly (e.g. refuse removal is contracted out in Moshi, as are wastewater disposal and market revenue collection in Mwanza and Bukoba.)
- Recent administrative instructions have given local authorities limited discretion to alter their internal committee structures, and some such re-organisation has taken place to date (Morogoro, for example, reduced the number of its committees from seven to three.)
- In respect of employment, perhaps the major reform that has been effected is the introduction of 2000 Regulations promulgated under the Local Government Service Act. The key material changes that have taken place here are that senior (Category A) local officials may no longer be transferred arbitrarily by central government, but need to go through a competitive process (though the LGSC and the Minister retain the power of approval.) In addition, local authorities have improved internal procedures for selecting Category B and C staff.
- In general, however, local authorities still have very limited power over their staff establishments and employees: the LGSC remains in place and handles all senior recruitments and promotions, though now with greater consultation with the local authorities concerned; the addition of all new posts to local authority establishments is subject to central approval (currently there is a freeze on these), and all dismissals are subject to review either by the LGSC (category A staff) or central government, through the Regional Commissioner (junior staff.) Conditions of service (such as salary scales) are still set at the centre, although local authorities now appear to have the power to pay certain staff-members an “incremental scheme” – i.e. a marginal payment on top of their salary as determined by the centre – in order to attract or retain skilled employees. Although this is an important shift, the net position is that
local authorities continue to have little effective control over the size and of their establishments and expenditures thereon. It should be mentioned, however, that some initial steps have been taken with a view to introducing the institutional changes that will be necessary to ensure that LGAs have the sort of control over staffing anticipated under the LGRP (e.g. a review of the role of the LGSC is being undertaken.)

iii Enhanced accountability.

- The limitation of the right of central Ministries to transfer senior local staff is one important step in ensuring that such staff are responsive to local service delivery pressures rather than the dictates of central government, and should be regarded as significant progress towards enhancing internal accountability. However, more significant reform – extending, for example, to the clear right of local councils to hire and fire senior staff – will be needed before such accountability is effectively established in the sense envisaged by the LGRP;
- Enhancing “downwards” accountability is being dealt with largely through the general public education and sensitisation campaigns in the ‘Governance’ component of the LGRP, and the participatory planning and budgeting programme. It is difficult to gauge the impact of these campaigns, although they presumably have had some effect. The participatory planning and budgeting programme, however, has yet really to begin;
- Although the CAG has made real progress with the pace and timing of local audits, further reforms to produce improvements in “upwards” accountability, particularly in financial reporting and auditing, have yet to be defined. There is some discussion of the introduction of performance auditing, but this remains at very initial stages.

iv Reform of intergovernmental functional structure and roles

- The process of shifting roles of central government Ministries in the core service areas of local authorities (e.g. health) appears to have begun and is proceeding, although somewhat haltingly;
- The redefinition of the roles of the Regional Administrations seems, however, to be far more problematic. One the one hand there appears to be considerable unclarity as to what, in respect of local authorities, these bodies should actually be doing. The thrust towards promoting downward accountability of local authorities would appear, for example, to place in real question the current oversight role that the Regional Secretaries are supposed to play in respect of local budgets. On the other, there would seem to a definite need for support for the LGRP, particularly at the local level, to be provided regionally. This important issue remains unresolved.

164. Similarly, progress on the local level restructurings has been slow.

i Re-organisation of service delivery and administrative structures.

- None of the 38 Phase 1 local authorities has progressed beyond Step 3 (data gathering) of the 17 Step programme that each such local authority is meant to undergo. The remaining steps – through which the restructurings will be actually formulated and implemented - are likely to be particularly time-consuming;

ii New ways of doing council business
• Progress has been more positive with both the Model Standing Orders and the Code of Conduct having been promulgated and some restructuring of Standing Committees having occurred. It will, however, take considerable time before these reforms are fully implemented within the Phase I councils.

165. The situation in respect of capacity and systems building appears to be mixed.

i Within local authorities

• Some progress is definitely being made e.g. the roll-out of the Platinum financial management system, and some training for local authority staff and councilors, as conducted by the ZRTs. It is less clear that capacity in areas in which local authorities will gain increasing responsibility (human resource management, for example) is being built. And, as indicated in Chapter 2, a number of significant difficulties with the Platinum roll-out process and related back-up requirements have emerged.

ii Within central and regional government,

• Capacity to implement the LGRP continues to be built around the LGRT and associated structures (the ZRTs and proposed RRCCs, for example.) Aside from this, in other areas where capacity will be needed to manage and monitoring the emerging intergovernmental system (in Treasury, for example, which will be responsible for the new grant system) capacity does not appear to be being built.

166. In sum, two general themes characterise much of the implementation progress of the LGRP to date: First, in most areas the LGRP is beginning to lag significantly. Currently, by the LGRTs own account, the programme is about nine months behind schedule. Second, less obviously but perhaps more importantly, there have been a number of significant dilutions to those reforms that have been introduced thus far. For example, the ‘block grants” that have been implemented for Phase 1 local authorities for FY 2001 entail a far more modest change to the existing system than that which was originally intended. Similar dilutions characterise changes to the staffing and employment environment. In general, it appears that the areas where the most fundamental and critical reforms are needed for decentralisation to take serious effect are also those where most slippage has taken place.

Assessment and prognosis

167. When placed in the context of the features of the extant local and intergovernmental system in Tanzania as discussed in Chapter 2, the synopsis of the progress of the decentralisation process given above indicates a number of important points the Bank needs to consider. These are summarised here.

168. First, local government in Tanzania – and the decentralisation agenda as concretised in the LGRP – are firmly entrenched. In particular:

• The local government system introduced in 1984 is well-established; it has a clear legal and institutional existence and a set of accepted practices. It functions, however imperfectly;
The “second wave” of decentralisation – i.e. the LGRP – is also well-established as a process. Although heavily donor-influenced, there is a base-line of political commitment to it at national level. A relatively well-resourced and well-functioning unit (the LGRT) within the MRALG is devoted entirely to managing and implementing the programme.

The programme is conceptually coherent. Although certain gaps may be identified (see below), the basic architecture of the LGRP and the way it has been translated into an operational programme exhibits both a sensitivity to the core changes which are needed for decentralisation to proceed effectively and an appreciation of the universality of the changes that are required. Thus far the LGRP has also avoided a number of problems typical of local government reform efforts in other countries. For example, the basic functions of local government – and the expenditure assignments related to these – are stated reasonably clearly in existing law, and there is little confusion about them in practice. The LGRP does not anticipate any major changes here, and the risk of confusion emerging in this area is small.\(^{28}\) (One important caveat needs to be raised here. Although this is true insofar as the basic areas of functional responsibility of local government is concerned, matters are less clear insofar as the level of service that local authorities are meant to provide within these functional areas. As already discussed, this has yet to be resolved. Although central government appears to have displayed real sensitivity to affordability constraints thus far, the possibility exists that the minimum standards local authorities will be charged with delivering will exceed their financial capacity to do so. In other words, unfunded mandates – deriving from unclear or unviable expenditure assignments – may arise within functional areas. This is a substantial risk, which may well expand in magnitude for as long as the issue remains unsettled.)

It is arguable that if the key services which lie at the core of the local government mandate in Tanzania are to be delivered effectively at all, the LGRP – in some variation – has to succeed. The problems that have led to the introduction of the LGRP (in essence a dysfunctional service-delivery system) are both fundamental and real. “Re-centralisation” is neither technically nor politically a realistic option as a means to address these difficulties. And, even if it were, it would encounter the very same difficulties that decentralisation does – limited capacity, weak accountability, and so on. Given the existing conditions in Tanzania, then, effective steps towards improving service delivery and decentralisation appear, for the foreseeable future, to be inherently intertwined.

Second, and on the other hand, the LGRP agenda is an extremely ambitious one. The fundamental systemic changes, the local-level restructuring and the capacity building which are all necessary for decentralisation to develop an incarnate existence are in their infancy. In most cases, the most difficult – and important – transitions have yet to begin. As of late 2000 the existing system, and the various problems and dysfunctionalities which it manifests, is very much as it has been over the past 15 years.

Third, over one year into its effective implementation the LGRP displays two interrelated characteristics: (i) a definite and increasing gap between the actual changes it intends and the pace at which these changes are being implemented has opened up, and (ii) in key areas, those changes that have been introduced are very much weaker than the changes as proposed (and as

\(^{28}\) This is less true of Regional government where, as noted earlier, the lack of clarity is becoming an increasing problem. In this case, the confusion relates less to expenditure assignment than it does to their role in the LGRP and the oversight, monitoring and support role that the Regions should play in respect of local authorities. It is an issue which requires concentrated attention.
necessary if decentralisation is to have positive impact.) A number of factors are responsible for this:

- Many of the proposed reforms are technically complex. The changes to the intergovernmental fiscal system, for example, are not simple;

- The changes require both institutional restructuring (e.g. significant changes in role, and sometimes downscaling, of bodies such as the LGSC and Regional Administrations) and new legislation (e.g. for a new labour relations environment), both of which are intrinsically slow processes;

- The core changes require difficult policy and political choices to be made by government. For example, as the September 2000 PWC study graphically demonstrates, given current fiscal constraints the change of the conditional grant allocation system to a transparent, formula-based one driven by a set of minimum affordable standards promulgated at the centre would require that government explicitly (rather than implicitly, as is currently the case) commit itself to a set of standards which are significantly below those which sector Ministries currently believe to be acceptable. Resistance to the new approach may take some time to resolve;

- The proposed system will reduce the control by central authorities over important sources of patronage (e.g. over the allocation of jobs at the local level);

- There remains some real ambivalence within certain parts of central government as to the wisdom of certain key reforms and/or the implications of these. For example, interviews with senior members of Treasury indicated that if, as a consequence of the reduction of grant conditionality local authorities began to behave in ways which were not in accordance with desired outcomes (if, for example, they pushed their wage bills up rather than down), Treasury would have little hesitation in intervening to bring about desirable outcomes as they perceive them. There is an obvious conflict between this sort of orientation and the intended fiscal decentralisation reforms;

- Capacity and systems building – at any level of government – are intrinsically long, slow processes. They also often require that other core changes – not necessarily related specifically to decentralisation or local government – take place if they are to be effective or sustained (e.g. it is difficult to attract or hold on to skilled capacity at the local level in the absence of broader public service and pay reform);

- The structure of the reform process as it currently exists presents certain problems. For example, the current programme anticipates that systemic and local-level restructuring changes will take place more-or-less simultaneously, with the latter being driven largely from the centre (the LGRT via the ZRTs.) Usually, however, systemic reforms like those within the LGRP are required to create the incentives for local restructuring to be initiated. It should also be pointed out here that the capacity requirements for a local government restructuring are significant. Yet under the current plan, no additional staff are provided at the local level (the CRTs are all comprised of local government staff who are already in full-time positions) and each local authority is to receive a maximum of $100 000 to pay for all consulting fee and other costs related to both the planning and implementation of this restructuring. Given these constants it is highly unlikely that the 38 restructurings anticipated in Phase 1 will proceed at anything like the desired pace. Or, if they do, they are likely to be somewhat superficial in their impact.
Finally, a lack of co-ordination among key agencies is emerging as an increasing problem. A study recently commissioned by government found a number of difficulties in this area, and proposed extensive changes in the structure and organisation of the programme to address them. While some of these changes have been introduced (such as the establishment of an Interministerial Technical Working Group), it is not clear when many of the key recommendations will be implemented. In fact, a number of these recommendations – such as those relating to the role and capacity of the RSCs and DMTs - would themselves amount to fairly significant reforms of the intergovernmental system, and it is difficult to see how they could be implemented at all swiftly.

171. The factors listed above are profound and are unlikely to dissipate soon. In this context the likely prognosis for the LGRP over the short and medium term (6 to 36 months) is that it will continue to be characterised by a widening gap between its intended timeline and the pace of actual implementation, and a dilution of some of its key elements when policy is actually translated into practice or into legislation. Under such conditions it is possible that the credibility of the decentralisation effort itself may come under increasing pressure.

172. This situation may well aggravate some existing risks that the programme already faces. Two of the most important of these are:

- As indicated in Chapter 2 there is some evidence of deepening financial difficulties within a number of local authorities within Tanzania. Studies are currently underway to establish the actual position here. If the indicated problems are substantiated, Tanzania will be decentralising into an increasingly fragile local environment – local authorities will be assuming greater responsibilities as their financial problems are mounting. In addition to the obvious local-level service-delivery problems this will create, this situation could create a number of programmatic pressures: the seeming inability of local authorities to handle increased responsibility may undermine the decentralisation effort more widely; and problems at the local level may create a number of contingent liability difficulties for the central fiscus, increasing the apparent risks of the decentralisation programme and diminishing support for it in some quarters of government.

- The LGRP exhibits a number of apparent gaps (i.e. things which a comprehensive reform effort should cover, but which the current programme does not) and issues which have yet to be resolved. If these gaps are not filled, or if these issues remain unconcluded, they may begin to threaten the coherence of the overall reform effort. The most important unresolved issue – specification of minimum standards and the related determination of conditional grant amounts – has already been discussed. Five additional gaps are of some significance: An assessment of the actual aggregate financial position of local authorities in Tanzania and the development of a system to respond to local governments which run into financial difficulties; a restructuring of the local revenue system; improvements to the local-national budget and grant disbursement processes; a means (system of penalties and incentives) to ensure that local authorities comply with their legal obligations; and clarification of the role of the Regions.

173. Insofar as the LGRT and organisation of the programme itself are concerned:

- In general, the LGRT is a relatively well-capacitated unit within government. Located within the MRLAG it has a reasonably close relationship with the Ministry, it is focused specifically on the LGRP and has been able to attract local staff at relatively high skills levels. It appears to function well and has built up real momentum;
By account of both donor organisations and the LGRT, the Basket Fund arrangement is working well. The number of donor groups has expanded from the original four in 1998 to nine in 2000. Neither the LGRT nor donor groups indicated a desire for additional resources at the current time. This is due partly to the sufficiency of the original budget, but also derives from underspending resulting from a lag between actual and anticipated progress in key result areas;

The programme lags reported above are inevitably reflected in the LGRT’s activities. To take one indicator, the LGRT spent a little under 30% of its anticipated budget over the first four quarters of its existence, although the “spend rate” has reportedly picked up recently. The analysis developed above suggests that this is unlikely to be a passing phenomenon, and that such delays are likely to characterise the programme throughout. These may bring increasing difficulties for both the LGRP and the LGRT, but it should be stressed that they do not arise primarily from any obvious deficiencies within the team or the resources to which it has access. They arise predominantly from the ambitious, far-reaching and complicated character of the LGRP itself and fundamental features of the Tanzanian institutional and political structure.
A. The World Bank: additional strategic imperatives

174. In addition to factors which are essentially internal to the LGRP, a number of extrinsic but related dynamics will, or should, affect the strategic orientation of the World Bank towards the decentralisation process. These require some discussion before the strategic proposals are made.

175. The first is the simple fact that decentralisation – even if slowly and haltingly implemented – is making local government increasingly important in determining the character of public sector expenditure and the nature of service delivery in Tanzania. The analysis developed in Chapter 2 suggests that, in the short term, there is unlikely to be a significant upwards adjustment in the basic proportion of public expenditure which occurs at the local level. However, this analysis also indicates that whilst the composition of this expenditure has historically been largely determined by national government (Treasury and line Ministries), as the LGRP proceeds both expenditure decisions and service delivery outputs will increasingly be dictated at the local level and by the quality and capacity of local institutions. Insofar as the Bank is interested in the performance of the public sector in general, and in the various services for which local government is responsible in particular, it will increasingly need to analyse and respond to local government and the decentralisation process. It is noteworthy, here, that the 2001 Public Expenditure Review has increased its focus on local government relative to that of previous years.

176. Second, the decentralisation process is of tangible political significance to the government of Tanzania. A view expressed in some quarters during the DSW research was that decentralisation had fairly shallow indigenous political roots, and that it derived its impetus more from donor agency agendas than from organic needs or desires on the part of Tanzania. Although donors may have had an important influence over this process, it is also clear that the factors driving the LGRP are complex and include a range of economic, demographic (urbanisation), institutional, political and other dynamics. A discussion of the origin and relative importance of these would ultimately be both speculative and largely beyond the scope of this document. For now, it is sufficient to note that - with due regard for the various ambivalences detailed in Chapter 3 - the government is publicly and as a matter of policy committed to decentralisation: it has instituted a relatively well-resourced unit to implement the process, has introduced legislation which orders significant changes in practice, and has begun to change the way in which fiscal transfers are structured and organised. Whatever the origins of the programme, therefore, government has gained a vested, if ambivalent, interest in its continuation and success.

177. Third, the LGRP is clearly also of central importance to the other donor agencies in Tanzania – indeed, it is difficult to identify any other single issue which occupies the same profile within the donor community, has gathered as much consensus between these organisations, or around which there has been as much inter-agency co-operation. This is something that the Bank cannot afford to ignore. Its attitude and actions towards the LGRP, and the impact of its programmes on the decentralisation process, will inevitably affect – in one way or another – its relationships with donor organisations, regardless of the merits of decentralisation itself.

29 Although it is interesting to note here that the most fundamental change thus far, the “first wave” of decentralisation, took place 1982-84 when donor groups had a far lower profile and were far less influential in Tanzania than is the case today.
Moreover, the funding and organisational structure of the LGRP represents a good opportunity for the Bank to “help remove inefficiencies of fragmented and parallel aid delivery systems by encouraging other donors to assist the government in its effort to increase selectivity, coherence, and harmonisation of donor resources.” (2001-03 CAS p 21.)

178. A fourth set of factors is historical and derives from the Bank’s recent (and current) involvement in programmes which have some relationship to decentralisation. One of the chief examples here is the USRP, through which the Bank has provided – among other things - support for infrastructure rehabilitation and has assisted with strengthening capacity in nine local authorities through (i) updating of valuation rolls, (ii) improvement of accounting and auditing capacity, including support for the introduction of the Platinum system; and (iii) ongoing training of municipal staff. Given that all nine USRP project towns are Phase 1 LGRP towns, and are concurrently undergoing local level restructuring, progress in the implementation of USRP’s institutional component has and will continue to be influenced by the legislative and institutional reforms currently being introduced by Government. Given that local authorities are central to the delivery of services in other sectors (e.g. education; health), a number of Bank activities are likely to be similarly affected.

179. On the other hand, some of the apparent weaknesses of the USRP may have important lessons for the Bank’s future programmes and the relationship of these to the LGRP. A view consistently expressed to USRP supervision missions by a wide range of stakeholders within and outside of government, is that whereas the project has enjoyed significant success in putting infrastructure (mainly local roads and water systems) in place, in most cases the local authorities which will become responsible for the ongoing maintenance and upkeep of this infrastructure view USRP projects as largely extraneous to their activities and concerns. For example, in a number of cases arrangements have not been made to ensure that O&M costs are budgeted at the local level. The predominant assumption – which seems to flow largely from the way in which the project has been structured and implemented (i.e. outside of rather than through local authorities) - is that O&M responsibilities will and should fall to central government. There is clearly an unproductive tension between this sort of orientation and the sorts of outcome the LGRP is trying to achieve.

180. Fourth, the Bank’s formal strategy in respect of Tanzania – particularly as documented in the 2001-2003 CAS – is an important reference. The CAS, of course, predates the decentralisation ESW (and arguably does not give decentralisation sufficient weight), but key points of relevance may be identified nevertheless:

- The CAS identifies “Increasing Empowerment and Accountability” as one of the three priority areas for government and identifies the LGRP as one of the core themes within this area;

- “Public Sector Reform and Institution Building” is identified by the CAS as one of the four areas of strategic importance in which the Bank should focus its lending. Given that (i) the LGRP is perhaps the pre-eminent public sector reform in Tanzania at present, and (ii) local authorities are responsible for the delivery of key elements (in the health and education sectors) of the social infrastructure of central importance to the Bank, it is difficult to escape the conclusion that the Bank’s formal country strategy implies an inevitable engagement of some kind with the decentralisation process. This appears to be the context in which the CAS identifies a Local Government Capacity Building/Slum Upgrading project for 2002/03. But it would seem that, in relevant functional areas, this general orientation should also perhaps guide the design and structure of Bank projects in future.
181. It may also be pointed out that the decentralisation process – and the extent to which it is able both to strengthen local capacity and to sharpen incentives for improved service delivery importance – may well become an important factor in dictating the pace at which the Bank should move towards ‘budget support’ of the type anticipated under the discussion of the PERC in the CAS. Relative to conventional ‘project’ investments, this type of instrument places increased reliance on the robustness, capabilities and accountability of the institutions which are responsible for expending funds. The progress of the LGRP and the extent to which local authorities are strengthened rather than weakened in Tanzania over the next 12-36 months is going to be an important determinant of this. In addition, a PRSC/PERC type instrument – and specifically the nature of its conditionalities - offers an important vehicle through which the Bank may impact the decentralisation process.

182. Finally, the Bank’s comparative advantages should be mentioned. Two of these seem obviously important. First, the Bank has wide experience of decentralisation in other countries and extensive technical expertise regarding both the design and implementation of decentralisation programmes, and specific projects which promote decentralisation approaches (e.g. the LGDP in Uganda.) This is available to be drawn on where necessary. Second, the Bank is able to offer funding support to Tanzania at a quantum unparalleled by donor agencies. Even if the LGRP itself does not require such funding at the moment, Bank investment in other programmes may, in the way they are designed and implemented, offer significant support to the decentralisation process.

B. Proposals

183. The assessments provided in the preceding chapters have implications for both (a) the overall strategic orientation of the Bank to the decentralisation programme and (b) Bank projects and programmes in sectors which fall within the functional competence of local government or which may have some impact on decentralisation. Proposals at both levels are made below.

184. Before the proposals are outlined it is important that their scope is made clear. The DSW has consciously avoided the debate about whether decentralisation in Tanzania is an appropriate or desirable policy at the moment. It has also not attempted to assess whether, from a technical point of view, the LGRP is the best way of going about it. These are important questions, of course, by they are not ones this project is intended to address. Rather, the proposals take local government and the LGRP – as assessed above – as a set of realities to which the Bank needs to respond. They go primarily to the nature of this response, rather than to whether decentralisation as a strategy, or the LGRP as a programme, should exist in the way that they do.

Bank support for/involvement in the LGRP

185. In general, the Bank should support, and be seen clearly to support, the decentralisation effort. There is little sensible alternative; and there is little scope for hedging in this area. It is not possible both to support decentralisation and a second-best ‘recentralisation’ or ‘status quo’ option. Recentralisation is neither politically nor institutionally conceivable in the short or medium term; nor would it appear to be a technically sensible option to adopt. Moreover, much-diluted ‘decentralisation’ – as in the current system - carries major risks, as both accountability relationships and performance incentives become badly distorted and confused. A little bit of decentralisation does not translate into a little bit of improvement in service delivery: the basic incentive structure of the local and intergovernmental system needs to undergo a qualitative transformation if service delivery is have a real prospect of getting any better. It is to the LGRP’s credit that it recognises this and has been designed to achieve it. If the basic structure of the
programme becomes compromised, service delivery is likely to worsen rather improve relative to the situation at present.

186. Having said this, the particular modalities of Bank support should be influenced by three basic realities:

- The limitations and features of the programme as it is actually being implemented, specifically a likely widening divergence between the stated goals of the LGRP and actual implementation with regard both to timelines and, more importantly, to the nature of the reforms that are actually introduced once policy is translated into practice. Although this divergence may be undesirable, it is probably inevitable. It is intrinsic to the ambition of the reform agenda and the context within which it is unfolding. Moreover, there does not appear to be anything decisive that the Bank could achieve regarding the implementation difficulties the programme confronts by joining the LGRP-related structures at this point. In fact, the Bank may be better placed to assist break any implementation deadlocks from outside of the Team than from within it (though the analysis developed earlier suggests that it will be some time before pressures build to the point where any such intervention is likely to be productive);

- The current operation of the LGRT and associated structures. The important features here are the functionality of the Basket Fund, the lack of demand for additional budgetary resources for the Team (in fact the LGRT’s budget problem is one of underspending rather than an insufficiency of funds); and the absence of any real pressure on the Bank to join either the fund or the Donor Consultation Forum;

- The Bank’s comparative advantages. Although the Bank has not been involved in the LGRP since its inception – and has played no significant role in the design of the programme – it has at its direct or indirect disposal significant resources and experience in the area of the design and implementation of decentralisation programmes. Given this experience, and given the magnitude of the financial resources the Bank can mobilise, the Bank is also uniquely positioned to effect significant shifts in policy or practice through dialogue with government, or through the nature of its lending instruments, should this become necessary;

187. These factors suggest that an indirect, complementary strategic orientation for the Bank vis a vis the LGRP is appropriate. In particular, there seems to be little need for the Bank to join the LGRT-related structures or contribute to the Basket Fund at this time.

188. Within the parameters of this overall orientation, there are three potential areas in which the Bank could usefully support the decentralisation effort:

i. Systemic reforms. The Bank can assist with the systemic changes necessary to extend and implement the LGRP at two levels:

  - First, there are a number of areas in which the Bank can contribute to the development of the decentralisation analytic and policy agenda. A caveat is important here. Because the LGRP is centrally concerned with the key systemic changes that lie at the heart of the decentralisation effort, and because these systemic changes are profoundly interrelated, the Bank should avoid becoming involved in investigating or formulating systemic reforms unless the areas in which it does so can be isolated from, and are clearly not covered by, the LGRT agenda. In fact, one such area stands out: the current and projected financial position of key local authorities in Tanzania; the implications of this for the decentralisation
process; and the development of remedial measures (a policy and institutional framework) to address situations where local authorities run into financial difficulties. As part of the PER, it has already been agreed that a study into the aggregate financial position of local authorities in Tanzania will be undertaken. This is critical. The Bank may also give consideration, together with the GoT/LGRT, to undertaking a project to formulate specific and detailed policy, regulatory and supportive measures to ensure that municipalities which encounter financial difficulties problems are systematically dealt with. The final proposals would need to be designed with reference to – and support – the systemic fiscal decentralisation measures at the centre of the LGRP, and would need to be formulated on the basis of ongoing consultation with the LGRP.

- Additional areas of systemic reform which are not presently covered by the LGRP may be identified – a restructuring of the local tax system is one example which has previously been mentioned. These areas are so intrinsically related to the rest of the systematic reform effort that there seems little justification for the Bank to take them on outside of the LGRT, but it would probably be useful for the Bank to establish a systematic dialogue with the Team and discuss these projects as part of that process. This dialogue could be carried out in a focused manner through the Reference Group interactions proposed below, but the annual PER may also provide an additional channel for such discussion. In this regard the absence of any solid aggregate data on off-budget donor funded expenditure at the District and Municipal level has been mentioned, and it is proposed that a study on this be conducted at the earliest opportunity.

- Second, the Bank can assist with dialogue at the appropriate level to bring about key changes, particularly where significant bottlenecks emerge (e.g. where policy is not being implemented, or is being diluted to the point of ineffectiveness.) This can occur through discussion with government on an ad hoc basis and/or it can be integrated, more systematically, with the Bank’s lending agenda. Budget support loan instruments, for example, provide a key opportunity for linking decentralisation reforms to funding flows in order to promote effective and efficient service delivery.

ii. **Local-level restructuring.** The capacity and resource constraints regarding local-level restructuring efforts have been discussed as a source of concern above. In most cases, these restructuring exercises will have a much better chance of delivering substantial results timeously if they are better resourced than they are presently. This presents a further area of opportunity to support the LGRP without becoming an integral part of it. Because such local level initiatives are not intrinsically related to one another, it would be possible for the Bank, in agreement with the LGRT, to supplement the efforts of the LGRP in this area on a case-by-case basis. In fact, given the difficulties that confront any attempt to bring about successful restructurings across 38 locations simultaneously, this is really the only practical way for the Bank to become involved. Opportunities for the Bank here are evident in two areas:

- The restructuring of Phase I local authorities in a select number of cases. One key deficiency these efforts face is the lack of additional staff at the local level (e.g. within CRTs) to drive these efforts; a second area is the limited funding available to local authorities to procure the additional technical expertise they require. The Bank could provide these;
• Improving local revenue systems and collection efforts, similar to that which has happened in Dar es Salaam, and, to some extent, in certain of the USRP towns. Although the LGRP intends to introduce training for Phase I local authorities in revenue collection methods in 2001, and some work in this area (e.g. valuation rolls) has been conducted under the USRP, Bank experience in other East African countries suggests that more intensive approaches can bring about dramatic increases in local revenue receipts. The Bank could consider supporting such initiatives in a limited number of local authorities alongside the broader LGRP programmatic efforts.

iii. Capacity building and technical input. The need for assistance with capacity building is almost infinite, and it is recommended that the Bank conduct a more detailed study on how it might make an effective contribution here than has been possible as part of the DSW. For the moment, however, two obvious areas in which the Bank could provide assistance are:

• Technical support for LGRT (i.e. acting as a “Knowledge Bank”). Earlier it was indicated that, although it is relatively well-resourced, the LGRT has limited technical skills and experience of the practice of implementing systemic and institutional changes of the magnitude contemplated in Tanzania in other countries. The Team may benefit greatly from the input of a Reference Group comprising international experts in the field, particularly those with direct experience of such transitions. The Bank could consider convening a meeting of a group of such individuals with the LGRP once or twice a year over a two-three day period to discuss and evaluate the programme, generate responses to problems which have emerged, etc.;

• Financial management and IFMS. The Bank has already supported the introduction of IFMS to a number of localities as part of the USRP. It is well-placed to support the roll-out of this programme to other areas and to ensure that supplementary inputs to deal with the problems previously discussed are provided. The capacity required for financial management, however, extends beyond the implementation of IT systems. The Bank could also support associated capacity building exercises at the local level and/or support national institutions and processes which expand local accountability (e.g. the CGA Office which is already one of the components of the ATIP.)

Bank programmes

189. The analysis presented in earlier Chapters also has important implications for the way in which the Bank should design and implement its programmes in sectors where decentralisation is likely to have an impact (mainly local infrastructure, such as roads and water, and health, education and agricultural extension.) This section suggests a number of general principles or approaches which the Bank should consider applying to its programmes in these sectors, and briefly illustrates these with respect to future investment in local infrastructure. Given the youth of the LGRP, and the fluidity of its implementation progress thus far, the DSW has avoided attempting to be too categoric in its suggestions, or to develop these in any great detail. The intention here is rather to provide some overall points of departure which Bank staff working in particular sectors may wish to consider as Bank projects are designed and implemented.
In general, the Bank should structure its projects in a manner which supports rather than undermines the overall decentralisation effort. Thus, as a general rule, funds for expenditures (capital or recurrent) on service-delivery in these sectors should flow - in the first instance - to District or Municipal authorities, should be put on-budget, and should be integrated with the system of intergovernmental transfers as this evolves.

This simple recommendation raises a number of dilemmas. It is not possible to resolve these here, but some discussion of the most important may be of assistance.

- One of the more obvious arises from a combination of the phased nature of the LGRP and the halting implementation of the programme. What are the concrete implications of the fact that only 38 local authorities are targeted by Phase 1, for a project (say, to support primary education) where, if the above approach were adopted, funds for expenditure on classroom repair or on textbooks would flow to local authorities? Perhaps the only general response that may be offered at this point is that Bank projects will need to be flexible enough to cater for a process which is going to be unpredictable over time. As discussed earlier, the more significant conditional grant reforms planned for FY 2000/01 were not introduced as intended. For this year, and for as many years as implementation significantly undershoots policy intention, the situation will remain similar to the current one, and differences between Phase 1 local authorities and the remainder will be minor. Once the stated reforms are actually introduced, however, a significant difference between these types of local authority will arise, and Bank programmes will need to be flexible enough to cater for these differences. Under such circumstances asymmetry may become, if not a virtuous, at least a necessary property of project design.

- A second dilemma arises from the Bank’s need to ensure that funds which are earmarked for sector-specific expenditures are, in fact, spent on the intended investments in a context where local authorities - often characterised by weak financial management - may well divert such funds to other uses. The usual response to this is to design tightly managed conditional grant mechanisms in order to minimise this problem. For at least two reasons, however, caution should be exercised here. First, the insistence on tight conditionality “upwards” to the central government – or to the Bank – may well undermine the downwards accountability relationships that the LGRP is trying to strengthen and, by limiting local discretion over budget decisions, may constrain the emergence of the allocative efficiencies which are a core goal of the programme. Second, proliferating conditional grants inevitably loads thinly stretched local governments with monitoring and compliance tasks which they find difficult to perform successfully, and to which they have to divert resources which could otherwise be used more productively elsewhere.

- Given that Tanzania is in a transitional phase, control and incentive measures will inevitably need to involve a judicious mix of central and local accountabilities, but the potential tension between heavy conditionality/earmarking and the overall incentive structure which the LGRP is trying to create needs to be clearly recognised. So do the high opportunity costs intrinsic to conditional grant mechanisms. In this context the Bank may wish to consider approaching conditionality somewhat differently than is often done i.e. by being concerned less with sector or expenditure earmarking and more with using grants to create incentives for building local capacity and strengthening local accountability (as the LGDP is attempting to do in Uganda, for example.) Grant mechanisms of this type are not entirely dissimilar to the sorts of budget support instrument being considered at national level; they have been successfully used in other countries and are worth exploring in the context of local government in Tanzania. Moreover, while it may be too early to consider dropping sector earmarking altogether, opportunities should also be sought to integrate grant types within sectors. This
would imply, for example, that the District Health Basket Fund grants (to which the Bank does not currently contribute) should be folded into the health sector grants at such time that the shift to a formula-based “block” grant system, in which the PE-OC distinction is collapsed, takes place. Finally, at a later time – once substantial experience with earmarked “block” grants has been gained – the possibility of dropping earmarking altogether and moving towards an undifferentiated intergovernmental transfer system could be explored.

192. The reach and capacity of the local state to allocate resources and ensure effective service-delivery needs to be extended and built, not undermined, by the types of funding mechanism which are designed and implemented. Simultaneously, system-management and monitoring capacity needs to be built at the centre. Concretely this implies that while “intra-local decentralisation” should be encouraged where appropriate (e.g. through establishing School Boards to oversee expenditures for particular schools, or to contracting out the delivery of certain services out to private contractors), this should be distinguished - and should not detract - from local authorities’ ability to exercise the allocation and other powers which are properly theirs. In addition, the relationships between District and Municipal governments and sub-District/Municipal spending agencies (such as School Boards) should be designed to build, and not weaken, mutual accountability. Where mechanisms need to be put in place for the transfer of public funds to expenditure units such as School Boards, these mechanisms should be designed to build the coherence and integrity of the local budgeting and financial management process, and the legitimate scope of authority of local government. This implies a general avoidance of parallel funding programmes where local public goods are concerned.

193. A similar set of principles should guide Bank thinking in respect of the possible creation of “supra-District” entities with sector-specific responsibilities (e.g. road transportation) across an aggregated number of local jurisdictions. From an efficiency perspective, these sorts of entity may have a number of advantages – and they have often worked well in other parts of the world – but it does need to be recognised that the issues they raise are not straightforward and will need to be carefully worked through. Movement in this direction should be careful to avoid disrupting or undermining the accountabilities, incentive structure, and capacity-building dynamic which the LGRP is attempting to create.

194. It has already been observed that one of the key difficulties the LGRP confronts is an overambitious schedule. Even though Phase I is over 9 months behind schedule, and notwithstanding the fact that many of the basic systemic shifts planned for Phase I have still to be implemented, there appears to be a reluctance on the part of government to countenance a more realistic reform process. The Bank should avoid repeating or aggravating this problem. The enormity of the reforms intended by the LGRP – and the fact that, even if things proceed remarkably well, institutional change of this type is an inevitably time-consuming process – should be explicitly acknowledged. And, in this context, the Bank should structure the institutional scope (how many local authorities are involved) and pace (how quickly the changes are introduced) of its programmes accordingly. In general, approaches which focus on expending sufficient time and resources to implement changes over manageable batches of local governments should be preferred over those which become too thinly stretched.

195. In respect of local infrastructure, the design of a potential follow-on to the USRP provides a good example through which to demonstrate the concrete implications of some of the above principles. In this case, following the approaches suggested here would mean:

- The Bank should avoid, as far as possible, a straightforward replication of the USRP, which is directed at the investment of large sums in local assets (roads, drainage, water etc.), without local authority involvement in the physical and budgetary planning for these or their
maintenance. This kind of programme is likely to undermine rather than support the decentralisation effort in Tanzania, and will probably be widely perceived as doing so.

- Future programmes focused on investing in the same sorts of infrastructure as the USRP should be designed as local infrastructure grant facilities, made available to local authorities for expenditure on locally-determined priorities on the basis of certain conditions which create incentives for these authorities to maximise expenditure efficiency, make real budgetary commitments to the ongoing maintenance of assets, and build local financial management capacity. The planning, management and implementation of such grant funded projects would need to involve local authorities, though not necessarily exclusively so. Consideration would need to be given to integrating these grants with the existing water and roads grants as these evolve in line with the LGRP.

- In certain areas, where urban poverty is particularly extensive and/or where capacity is sufficient, it may be possible to expand such programmes to include grant windows for community and residential upgrading schemes, linked to revenue raising efforts, which are managed by the local authorities themselves.

196. Given that a project of this kind would provide perhaps the only significant source of investment funding over which local authorities have real control, it is likely – as the LGDP has done in Uganda - to provide both significant impetus to the decentralisation process, and a testing ground for the more ambitious forms of fiscal decentralisation (regarding the recurrent transfers) yet to come. This project could also lay the basis for the creation of a consistent, ongoing intergovernmental transfer programme to support local infrastructure development which would ultimately be funded directly from the budget of the GoT rather than by the Bank on a project basis. This would be conducive to sustainability; it would also be a natural fit with any move towards budget support instruments at the national level, should the Bank find this desirable.

197. At a more general level – and with specific reference to budget-support instruments – Bank programmes provide it with significant opportunities both to promote co-ordination between decentralisation and other reform efforts, and to enhance progress on decentralisation where this is necessary. Where appropriate, linking these programmes to particular decentralisation reforms may potentially have both positive impact on decentralisation (e.g. in ensuring forward movement in critical change areas when this appears threatened) and may ensure that intergovernmental and other public sector reforms promote rather than undermine one another. Future credits of this type should be designed with these possibilities clearly in mind.

C. Conclusion: risks

198. Although this document has argued that decentralisation is a core fact of life in Tanzania, and that the Bank should react accordingly, it has also pointed to a number of important difficulties that the LGRP confronts. In concluding, it should be stressed that, while the Bank should support decentralisation, should assist with the process where it is able, and should structure its projects in line with this dynamic, the decentralisation programme faces substantial obstacles. This presents risks for the Bank.

199. The core impediments facing the LGRP were traversed briefly earlier: a lack of capacity (at central and local level); technical complexity; powerful interests which stand to be adversely affected by it; and so on. Although the LGRP has gathered both pace and profile, it has not yet achieved much implementation progress in the areas which are simultaneously most difficult and most important (fiscal decentralisation, for example.) To some degree, this is to be expected – decentralisation, like any thoroughgoing institutional reform, is inevitably a messy and
troublesome process and seldom proceeds according to plan. But recognising this should not
disguise the fact that success (even defined simply as definite, consistent, forward movement)
cannot be taken for granted. In fact, the longer that core issues remain unresolved, the greater is
the risk that the process will lose focus and momentum. Slow progress, in other words, may well
slow progress. If accompanied by instances of local failure (the bankruptcy of a few local
authorities, for example), any credibility problems the LGRP has will mount. It should not be
forgotten that Tanzania has once previously scrapped local government in its entirety. It is also
as well to observe that, in many other countries, decentralisation has had deleterious
consequences (an escalation in ethnic tensions, for example.) Thus far Tanzania has been free of
these, but it would be imprudent to believe that there is no prospect of their arising.

200. At this point it is not possible to attach a likelihood to the risk of reversal. But it is
necessary both to indicate this risk and to suggest certain implications for the Bank, recognition
of which underlies some of the proposals made earlier:

• In general, and most obviously, the Bank will need to monitor and assess the progress of the
LGRP systematically. This will tend to happen naturally if some of the suggestions made
earlier are adopted, but it might be useful to ensure this by having a regular Chapter on
decentralisation and local government in the PER;

• Second, the Bank should preserve some independence from the LGRP itself, both to ensure
that its wide and diverse interests are protected, and the better to intervene in support of the
programme if necessary. These points have already been made. But it is worth stressing that
interventions around decentralisation – either on an ad hoc basis, or as part of an investment
strategy (e.g. tied to a budget support programme) – are probably inevitable at some point.
The Bank may want to begin to think about both the conditions under which it would
intervene, and the form of such an intervention (including the possibility of linking
decentralisation reforms to budget-support credit instruments), in the not too distant future;

• Finally, it is should be stressed that the shifts and uncertainty which are intrinsic to the LGRP
generate a need for increasingly flexible programme and project design. In those spheres
and sectors which are likely to be affected by decentralisation, the Bank may well want to
form a conscious bias in favour of loan instruments which are capable of accommodating
transitional and changing circumstances which, although unpredictable, are likely to tend in
the direction of increasing local responsibility, discretion, and authority.
ANNEX 1: Key legislation relating to local government and decentralisation in Tanzania

Local Government (District Authorities) Act, 1982, an Act to make better provision for and consolidate laws relating to local government, to repeal the Local Government Ordinance, to repeal certain other written laws and to provide for other matters connected with or incidental to the organization of local government in mainland Tanzania.

The Local Government (Urban Authorities) Act, 1982 (as amended), an Act to make better provision for the establishment of urban authorities for purposes of Local Government, to provide for the functions of those authorities and for other related matters connected with or incidental to those authorities. This edition of the Local Government (Urban Authorities) Act, 1982, incorporates all amendments made to it since its enactment in 1982 until December 31, 1999 and is printed under the authority of section 18 of Interpretation of Laws and general Clauses act, 1972.


Local Government Service Act No. 10 of 1982 (Regulations), gazetted in August, 2000 as Subsidiary Regulation, being regulations and staff code of conduct applying to all Local Government Authorities.

Regional Administration Act 1997, being an Act to make provisions for restructuring Regional Administration for the purposes of strengthening and promoting the local government system. The legislation is deemed to have come into operation on the 28th day of June 1996.

Urban Authorities (Rating ) Act 1983 (as amended up to December 31, 1999), being an Act to enable Urban Authorities and Township Authorities to impose and collect rates. This edition of the Urban Authorities (Rating) Act, incorporates all the amendments made to it since its enactment in 1983 up to December 31, 1999.

The Local Government Service Commission Act, 1982, an Act to establish the Local Government Service Commission, and make provisions relating to service in local government authorities and to provide for other matters connected with or incidental to the service

The local Government Finance Act, 1982 (as amended to 31 December, 1999), an Act to make provision for sources of revenue and management of funds and resources of local Government authorities and for matters connected or incidental to securing proper collection and sound management of finances in the local government system

The District Corporations Act, 1973 (as amended to December 31, 1999), an Act to confer upon the Minister responsible for Regional Administration and Local Government power to establish District Corporations, to provide for the functions of District Corporations, and for related matters.. This edition of the District Corporations Act incorporates all the amendments made to it since its enactment in 1973 up to December 31, 1999 and as printed under the authority of section 18 of the Interpretation of Laws and general Clauses Act, 1972.

The Local Government Laws (Miscellaneous Amendments) Act, 1999 An Act to amend certain written laws pertaining to local government and related laws covering, inter alia, Acts on;
Public Procurement Act, 2000, being an Act to regulate public procurement and for related matters. The Act specifically affects Local governments in regard to regulation of the district Tender board.
ANNEX 2: Functions of local government in Tanzania

District Councils

*Education Services*: pre-school, primary, education, education

*Health Services*: health centers, dispensaries, midwifery, control of communicable diseases, primary health care, rural ambulance services, environmental sanitation, health education, vector control etc

*Water Services* provision of rural water and preservation of water resources. Rural water services have mainly been supported by donor effort with intervention of the Ministry of Water (MoW) in some critical areas.

*Roads*: rehabilitation and maintenance of roads not under the Central Government responsibility

*Markets and piers*: administration, management and maintenance

*Decentralized activities*: for example agricultural extension services, local government development planning, land administration, physical planning, trade licensing, etc

*Other regulatory and policy related functions*, including other functions delegated by the central government.

Urban Councils (city, municipal and town)

In addition to the above, and except for functions related to agriculture, urban councils do the following:

- Street and public place lighting
- Fire brigade and ambulance services
- Public facilities (libraries, halls, museums etc)
- Water supply and sanitary services (outside the jurisdiction of the National Water and Sewerage Corporation)
ANNEX 3: Structure and progress of the LGRP and LGRT

A. SCOPE AND OBJECTIVES

1. The LGRP is comprised of 6 components. Each of these components contributes towards the aim of the Local Government Reform Agenda (LGRA) by creating an enabling policy, legislative and institutional environment; establishing the capacity, tools and means for local authorities to become more effective in carrying out their new mandate; and assisting local authorities to undertake the necessary reforms. The objectives of each component are:

- Governance: to establish broad-based community awareness of, and participation in the reform process; and to promote principles of democracy, transparency and accountability.

- Legal: to establish enabling legislation, for effective implementation of Local Government Reforms.

- Finance: to increase resources available to Local Government and improve the efficiency of their use.

- Human resources: to improve accountability and efficiency of human resources at Local Government level.

- Restructuring: to enhance the effectiveness of Local Government and ensure the sustainable delivery of quality services.

- Programme Management: to support the effective and efficient management of the overall Local Government Programme and in particular, the work of the Local Government Reform Team.

2. The focus of the LGRP is on institutional, financial and legal reforms. The program does not carry out investments in infrastructure and services, but rather creates the conditions for these investments to be made in a sustainable manner through parallel sectoral projects or programs that are managed and financed separately, but coordinated closely with LGRP. An outline of the LGRP components, activities and achievements is provided in the following sections and a summary is provided in Table 1.

B. INSTITUTIONAL ARRANGEMENTS

3. LGRP is managed by a Local Government Restructuring Team (LGRT) which is structured according to the 6 components outlined above. The LGRT is the main implementing agency of LGRP and is supported by Zonal Reform Teams (ZRTs) and Council Reform Teams (CRTs). While ZRTs function as technical assistance extensions of the LGRT, CRTs are reform organs at council level established to take the necessary actions required to improve efficiency and effectiveness. In addition to the LGRT, several governing bodies have been created to oversee and guide the LGRP. These bodies carry out various functions including policy formulation and guidance, interagency coordination, and fundraising. They include the Inter-ministerial Coordination Committee (IMCC) which provides overall policy guidance from Government to

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30 Parallel support for decentralization has been provided through ongoing District Support Programmes carried out by the Dutch Government, FINNIDA, Irish Government and SIDA.
LGRP, the Inter-ministerial Working Group (IMWG) which coordinates reform activities across sectors; the Donor Consultative Forum, which consults with, and informs, donor agencies on LGRP progress; and the Common Basket Fund Steering Committee (CBFSC) which enables fundraising and provides financial management oversight.

4. The following section provides an overview of the implementing and coordinating structures of LGRP.

C. IMPLEMENTING AGENCIES

Local Government Reform Team

5. The LGRT is the technical arm of MRALG charged with spearheading and supervising the implementation of the LGRP. As the Program was established before the MRALG was created, the establishment of a dedicated LGRT was a necessary step in launching the program. The LGRT is staffed by Tanzanians recruited on a contractual basis, and supported by technical assistance units (Zonal Reform Teams), and parallel donor projects.

6. The LGRT is comprised of 6 component heads (including the Program Manager), a Program Accountant, Monitoring and Evaluation Expert, Chief Technical Advisor and support staff. The role of the LGRT is to: provide i) specific policy recommendations to MRALG; ii) planning and technical support to program implementers (ZRTs and CRTs); iii) support for capacity building initiatives in LAs; and iv) management capacity for funding, communication, and coordination. Although it is considered a technical arm of the MRALG, it is financially and managerially autonomous and retains direct responsibility for activities outlined in the Annual Budgets and Work Plans.

Table 1: Local Government Reform Programme Organizational Structure

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31 The LGRP was initially established under the Prime Minister’s office. The Ministry for Regional Administration and Local Government is a relatively new institution created to ensure proper coordination and support to local government reforms.
**Zonal Reform Teams**

7. Five Zonal Reform Teams (ZRT) have been established in key regional centres (Dar es Salaam, Arusha, Mwanza and Mbeya) to support the implementation of LGRP. The primary responsibility of ZRTs is to assist local authorities to restructure themselves and carry out the necessary reforms required to ensure efficient and effective service delivery. Each ZRT is expected to use the Local Government Reform Programme Restructuring Manual to help establish, train and support Council reform teams in each reforming local authority. Each ZRT therefore has a financial, HRD, and local government specialist. In Phase 1 of the LGRP, 38 councils are being supported by these 5 ZRTs.\(^{32}\)

**Regional Reform Coordination Committees.**

8. The functions of ZRTs are expected to be handed over to Regional Reform Coordination Committees (RRCC) once capacity is built and the ongoing restructuring of Regional Government is complete. MRALG is currently carrying out studies to determine how best to establish RRCCs as part of Regional Secretariats. RRCCs are expected to provide policy guidance to CRTs and coordinate local government reform interventions. Once established the RRCCs would be chaired by the Regional Administrative Secretary (RAS) and comprised of sectoral Regional Administrative Officers.

**Council Reform Teams**

9. At council level, CRTs have been formed to set out local strategies and carry out reforms. Key members of the CRT are expected to include the Council Director, Heads of Departments - Finance, Personnel, Planning, Education and Health - and two councilors. Council staff, Councilors are expected to carry out the 17 step process set out in the Restructuring Manual as part of their normal duties. In carrying out these responsibilities they are expected to consult with other Sectoral Department Heads, District Development Advisors and civil society. Each CRT is expected to carry out a series of activities designed to help them: i) review their current status and requirements; ii) plan for more efficient service delivery, and iii) reorganize themselves to become more effective institutions. Technical assistance is provided by ZRTs with funds provided by LGRP. Where necessary CRTs may use their own funds and additional resources from their local development partners to complement LGRP funds.

**D. PROGRAM COORDINATION**

**Inter-ministerial Coordination Committee**

10. The LGRP is coordinated by an Inter-ministerial Coordination Committee (IMCC) chaired by the Permanent Secretary of the Ministry of Regional Administration and Local Government. The IMCC oversees and coordinates all related sectoral initiatives in order to avoid duplication and re-centralization. IMCC is also responsible for harmonizing legislation, circulars, regulations and guidelines to ensure consistency with decentralization reforms. To ensure coordination between Government and Donors, the Government Donor Consultative Forum, Common Basket Fund Steering Committee and Inter-ministerial Technical Working Group are also chaired by the Permanent Secretary of the MRALG.

\(^{32}\) An additional ZRT was created at the end of 2000 to increase capacity for starting Phase II activities.
**Government-Donor Consultative Forum**

11. The LGRP was developed through a process of extensive consultations between the Government and donors. Through the consultative forum, the Government ensures that its development partners are informed about the reforms and consulted on key policy and programme issues. Participants in the consultative forum meet on a quarterly basis to discuss progress of LGRP and agree on modalities of support. Donors participating in the consultative forum include Danida, DFID, NORAD, Irish Aid, SIDA, UNDP, FINNIDA, Netherlands, EC, and the SDC. Other donors that are not involved in funding LGRP, such as the World Bank, are also invited to attend.

**Inter-ministerial Working Group**

12. The Inter-ministerial Working Group was established to coordinate sectoral activities across all line ministries; and to draw them more actively into the development and implementation of LGRP. Activities facilitated by the IMTWG include the development of National Minimum Standards for Service Delivery and a review of sectoral policy and legislation to ensure these are in line with the Local Government Act.

**Common Basket Fund Steering Committee**

13. Eight of the donors supporting the LGRP have agreed to pool their funds in a common Basket Fund which is managed by a steering committee for which terms of reference have been approved by contributing donors and four officials from GOT. The steering committee is responsible for approving annual budgets and quarterly allocations from a satellite account. The basket does not include funds for sectoral investments. Separate basket funds – such as the Health Basket Fund - are being for this purpose.

**Other Institutions**

14. The Association of Local Authorities (ALAT) is a key partner of the LGRT. All 112 Local Authorities are members of ALAT and benefit from its important role in information dissemination. In partnership with LGRP, ALAT has enabled its members contribute to the development of relevant policy, legislation and regulations (e.g. Local Government Act, Codes of Conduct, etc). In addition ALAT provides support for monitoring progress of LGRP through its regional branches, which submit quarterly reports to the ALAT National Executive Committee. ALAT receives some funding support from the LGRP to organize consultative meetings for its members.

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33 Donors that contributed to the establishment of the CBF are: DFID (Tsh130m), Denmark (Tsh250m), EC (Tsh205) and Norway (Tsh55m)

34 Commissioner for Local Government, Commissioners for Budgeting and External Finance, Permanent Secretary, MRALG.
E. PLANNING AND BUDGETING

Action Plan and Budget

15. The activities of LGRP are outlined in an Action Plan and Budget (APB) for the period July 1999 to December 2004, and Annual Workplans and Budget (July 2000-2001) that are updated or refined on an annual quarterly basis (Quarterly Progress Reports). The APB defines and costs all activities carried out by LGRTs, ZRTs, and CRTs under each component. It is supported by Council Reform Team APBs that outline activities to be carried to at the council level. Annual work plans are drawn up in consultation with key actors and submitted to the MRALG for consolidation. They are then forwarded to the Ministry of Finance and incorporated into the MRALG’s development budget. Quarterly reports and updates are prepared to re-program activities and source additional funding where necessary.

17. The annual budget for LGRP is about US $10 million. This budget provides for establishment costs, salaries and running costs of the LGRT and ZRTs (ZRT operations are estimated to cost about a quarter of the total annual budget\(^{35}\).) The budget also includes itemized funding for implementation of the 6 components including consultancies, publication, dissemination, training and capacity building activities at all levels, including Government. It excludes funding for CRTs which are budgeted separately.

Financial Management Manual

16. Procedures for planning and budgeting of all funds used by LGRP are outlined in a Financial Management Manual developed for the project. To complement this, Guidelines for Utilization of Funds have also been provided to guide CRT activities. Both documents spell out procurement, disbursement, accounting and auditing procedures.

Council Reform Team Action Plans and Budgets

17. CRT APBs cover a range of activities including studies, workshops, equipment and minor capital investments, required to carry out the 17 steps in the restructuring process. They also include limited equipment, supplies and funding for operational costs (allowances, transport, etc) of CRTs. Each CRT has a budget of US$ 0.1 million for the one year period during which they are supposed to implement the restructuring manual.

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\(^{35}\) ZRT operational costs include salaries, travel costs, accommodation, subsistence and backstopping from LGRT. In the first year of operation ZRTs were contracted from Price Waterhouse Coopers.
Table 2:  **LGRP Budget FY00 and FY01**

<table>
<thead>
<tr>
<th>Component</th>
<th>Approved Budget FY00</th>
<th>Approved Budget FY01</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td>858,675.00</td>
<td>1,188,455.00</td>
</tr>
<tr>
<td>Restructuring</td>
<td>1,815,443.75</td>
<td>1,937,650.00</td>
</tr>
<tr>
<td>Finance</td>
<td>926,875.00</td>
<td>1,859,562.50</td>
</tr>
<tr>
<td>Human Resources</td>
<td>508,006.25</td>
<td>2,236,737.50</td>
</tr>
<tr>
<td>Legal</td>
<td>285,607.50</td>
<td>434,150.00</td>
</tr>
<tr>
<td>Programme Management</td>
<td>5,679,708.75</td>
<td>4,770,557.50</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>10,074,316.25</td>
<td>12,427,112.50</td>
</tr>
</tbody>
</table>

F. **FUNDING ARRANGEMENTS**

18. The budget for all three phases of LGRP is US$ 48,806,090. This includes funding from donors and Government. The first LGRP planning period (October–December 1998) was funded through a combination of common basket and “ear-marked” funds. This arrangement was complex to manage - due to varying procedures and parallel reporting arrangements of the various donors, and led to questions regarding accountability and ownership of those activities that were funded directly by donors. As a result, the establishment of a common Basket Fund into which all development partners would contribute was accepted as the mode of operation.

Table 3:  **Donor Pledges to the Common Basket Fund**

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Donor Pledges FY01</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government of Tanzania</td>
<td>75,718.75</td>
</tr>
<tr>
<td>European Commission</td>
<td>1,250,000.00</td>
</tr>
<tr>
<td>Royal Netherlands</td>
<td>2,062,500.00</td>
</tr>
<tr>
<td>British</td>
<td>1,875,000.00</td>
</tr>
<tr>
<td>Finland</td>
<td>850,000.00</td>
</tr>
<tr>
<td>Ireland</td>
<td>581,250.00</td>
</tr>
<tr>
<td>Danish</td>
<td>(a)</td>
</tr>
<tr>
<td>Norwegian</td>
<td>1,287,500.00</td>
</tr>
<tr>
<td>UNDP</td>
<td>1,006,250.00</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>8,988,218.75</td>
</tr>
</tbody>
</table>

Table notes:

The Common Basket Fund

19. During the LGRP’s first year of operation (1998), four donors contributed to the Basket Fund. The number of contributors rose to 8 in 2000 and efforts are underway to increase this further. In FY01 out of a total of Tsh 7 billion ($8.9m) in pledges to the Common Basket, Tsh 60 million ($0.07m) was pledged by the Government. To meet the budgetary requirements for LGRP an additional $20m in contributions from donors will be required in the remaining period (FY02-04).

20. Contributions to the basket fund are deposited into a satellite fund from which, the Basket Fund is replenished quarterly on the basis of satisfactory reports and audits. Funds deposited into the basket are used according to financial procedures established by the LGRP and agreed with contributing donors. All funds received in the basket are managed by the LGRT in coordination with ZRTs and CRTs. Each reforming Council receives a $0.1 million budget over the two-year period within which their restructuring program is expected to take place. These funds are deposited into separate bank accounts managed at Council level and accounted for/audited by Council.
<table>
<thead>
<tr>
<th>Task</th>
<th>Objective</th>
<th>Key Task/Output</th>
<th>Status in July 2000</th>
<th>Constraints</th>
<th>Period</th>
<th>Budget (Tsh)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td>Broad awareness of and participation in LGRP</td>
<td>Awareness of LGRP raised among the general public.</td>
<td>More than 7,000 booklets have been distributed, and seminars, radio programs organized</td>
<td>Some workshops were not held due to commitments related to July 2000 budget and November 2000 elections.</td>
<td>Q1</td>
<td>Planned 222,910</td>
<td>Actual 81,227</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Q2</td>
<td>293,640</td>
<td>51,569</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Q3</td>
<td>210,570</td>
<td>107,806</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Q4</td>
<td>281,812</td>
<td>33,335</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,008,932</td>
<td>273,937</td>
</tr>
<tr>
<td></td>
<td>Promote democracy, transparency, and accountability</td>
<td>Decentralization guidelines.</td>
<td>Consultations have been conducted. Guidelines were prepared by consultants</td>
<td>Further delays expected due to November 2000 elections.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poverty alleviation guidelines.</td>
<td>Draft reviewed by GOT.</td>
<td>Several documents prepared earlier but review process was slowed down by November elections</td>
<td></td>
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<td></td>
<td></td>
<td>Code of Conduct.</td>
<td>Draft expected to be gazetted by GOT.</td>
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<tr>
<td></td>
<td></td>
<td>Model Standing Orders.</td>
<td>Draft expected to be gazetted by GOT in November 2000.</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Anti corruption strategy/guidelines.</td>
<td>Draft reviewed by GOT</td>
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<tr>
<td></td>
<td></td>
<td>Councilor/staff relations guidelines.</td>
<td>Guidelines reviewed with ALAT</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Materials for sensitization of public for grass-root elections.</td>
<td>Guidelines finalized and used in 1999 grassroots elections</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Decentralized/Participatory planning/budgeting (moved from finance component to governance component).</td>
<td>Consultants study complete, design of guidelines initiated, Review of regional approaches underway.</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Task</td>
<td>Objective</td>
<td>Key Task/Output</td>
<td>Status in July 2000</td>
<td>Constraints</td>
<td>Period</td>
<td>Budget (Tsh)</td>
<td>%</td>
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<td>--------------</td>
<td>---------------------------------------------------------------------------</td>
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<td>----</td>
</tr>
<tr>
<td>Restructuring</td>
<td>Enhance effectiveness of Local Authorities (LAs) in delivering quality services sustainably</td>
<td>Guidelines for restructuring LAs</td>
<td>Restructuring Manual disseminated to 38 reforming Councils (see separate annex)</td>
<td>Restructuring program extended by 4-5 months due to November 2000 elections.</td>
<td>Q1</td>
<td>11,500</td>
<td>482</td>
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<td>Q2</td>
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<td>Q3</td>
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<td>Q4</td>
<td>1,526,120</td>
<td>191,316</td>
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<td></td>
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<td></td>
<td></td>
<td>Councils lack capacity to analyze data gathered through restructuring process</td>
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<td></td>
<td>Coordinate Sectoral reforms with LA reforms</td>
<td>All 38 LAs have completed Step 2 and 3 of the restructuring manual Information gathered from Sector Ministries.</td>
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<td></td>
<td>Orient/train ZRTs and CRTs</td>
<td>5 ZRTs established, and strengthened (2 additional staff provided per ZRT in 10/2000)</td>
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<td></td>
<td>Financial support to CRTs</td>
<td>Seed funding distributed to each of the 38 reforming LAs (40m Tsh)</td>
<td></td>
<td>CRT Annual Plans and Budgets only received after first tranche of 5m Tsh was disbursed to them</td>
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<tr>
<td>Finance</td>
<td>Increase availability of resources to LAs</td>
<td>National Minimum Standard (NMS) levels of funding determined</td>
<td>NMS standards proposed and agreed, but not used as an input to the 2000 budget (block grant). Revised affordable NMS standards proposed in MTEF.</td>
<td>Mismatch of proposed NMS levels to funds available in 2000 budget;</td>
<td>Q1</td>
<td>169,584</td>
<td>312</td>
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<tr>
<td></td>
<td>Improve efficiency of resource use</td>
<td></td>
<td></td>
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<td>244,165</td>
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<td>95,071</td>
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<td></td>
<td>Improved revenue sharing systems between Central and Local government</td>
<td>Financial/revenue generation capacity assessment conducted</td>
<td>Inadequate communication regarding block grant utilization procedures to LAs; late disbursement of block grants</td>
<td>Planned</td>
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<td></td>
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<td>Improved revenue collection procedures introduced in LAs</td>
<td>Training on improved revenue collection procedures initiated.</td>
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<td></td>
<td>Financial Management system developed and training conducted</td>
<td>Financial Regulations approved in July 2000. Financial benchmarking exercise conducted and training in financial management initiated Platinum system installed in 28 councils, training conducted for all 38 reforming Council Directors; and for 41 Central Government and LA auditors</td>
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<td>Future role of Local Authority Provident Fund (LAPF) and Local Government Loans Board (LGLB) defined</td>
<td>Actuarial study initiated on LAPF and study on future of LGLB initiated with SIDA/ALAT</td>
<td>Council Directors training on platinum system delayed by November 2000 general elections.</td>
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<tr>
<td>Human Resources Development and Management</td>
<td>Improve accountability and efficiency of Human Resource use in LAs</td>
<td>Regulations for management of decentralized staff.</td>
<td>Staff Regulations approved by GOT</td>
<td>Primary teachers rationalization study delayed</td>
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<td>398,455</td>
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<td>90,500</td>
<td>268,500</td>
<td>352,065</td>
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<td>602,775</td>
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<td>12,565</td>
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<td></td>
<td></td>
<td>Civil Servant Transfers to LAs</td>
<td>Civil servant transfers to be completed by November 2000</td>
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<td></td>
<td>LAs adequately staffed and trained.</td>
<td>Staff inventory/manning levels study carried out in 38 councils;</td>
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<td></td>
<td></td>
<td>Reorientation of LA staff to new devolved system.</td>
<td>CRT reorientation for utilisation of regulations finalized to date underway (e.g. financial regulations)</td>
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<td></td>
<td></td>
<td>LGSC and TSC roles and functions re-defined.</td>
<td>Study on LGSC underway TSC study delayed</td>
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<tr>
<td>Legal</td>
<td>Establish enabling legislation for effective LA reforms</td>
<td>Relevant legislation prepared or amended.</td>
<td>Amendment of Local Government Act, and other relevant legislation</td>
<td>Financial Block Grant regulations not implemented as planned (see Finance section above)</td>
<td>Q1</td>
<td>109,114</td>
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<td></td>
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<td>Legal instruments approved/gazetted and circulated</td>
<td></td>
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<td>97,760</td>
<td>12</td>
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<td></td>
<td>Preparation of Guidelines on model by-laws, regulations initiated</td>
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<td>Q3</td>
<td>109,410</td>
<td>12</td>
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<td></td>
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<td>Translation of key documents</td>
<td></td>
<td>Q4</td>
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<td></td>
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<td>Popular versions of legislation.</td>
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<td>467,644</td>
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<td>Review and amend relevant sector laws.</td>
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<td></td>
<td>Review of Sectoral Legislation completed</td>
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<td>Workshops held in 4 of the 20 regions in Phase I of LGRP</td>
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<tr>
<td>Programme Management</td>
<td>Effective and efficient management of LGRP</td>
<td>Regional Secretariats (RS) re-oriented to new roles.</td>
<td>RS operational manual drafted but not implemented.</td>
<td>Due to the weak capacity of Regional Secretariats. Their role is currently under review</td>
<td>Q1</td>
<td>1,573,645</td>
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<td>Task</td>
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<tr>
<td>MRALG capacity including Regional Secretariats strengthened and Local Government Reform Team mainstreamed into MRALG.</td>
<td>MRALG strategy drafted and an assessment of s underway</td>
<td>Location of MRALG HQ in DODOMA may weaken their effectiveness in coordinating LGRP</td>
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<tr>
<td>LGRP and Sector Reforms Coordinated.</td>
<td>Inter-ministerial Committee and Working Group established</td>
<td>Affordable NMS standards suggested as interim measure</td>
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<td>Policy Reforms undertaken.</td>
<td>Policy paper approved by Cabinet</td>
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<tr>
<td>Funding for LGRP identified.</td>
<td>Adequate funding for LGRP available for 1999-2003 (see APB below)</td>
<td>Donor pledges are adequate for full LGRP programme</td>
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<tr>
<td>LGRT established and strengthened.</td>
<td>LGRT fully staffed and strengthened (addition of ZRT coordinator to LGRT team)</td>
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<td>M&amp;E framework for LGRP prepared.</td>
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<tr>
<td>Baseline Service Delivery survey conducted for each of 38 councils.</td>
<td>Baseline Survey completed in all 38 councils. Indicators designed and MIS under development.</td>
<td>Due to weak council capacity to analyse the information. LGRP will need to provide assistance.</td>
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<td>Quarterly, Medium, Annual Plan and Budget (APB)s.</td>
<td>Quarterly and Annual Plans and Budgets prepared routinely</td>
<td>Underspending of budgets by up to 50% in all quarters</td>
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<tr>
<td>Regional Reform Coordination Committees</td>
<td>established and facilitated</td>
<td>No RRCCs have been formed due to ongoing review of the regional roles in a decentralised framework. ZRT capacity strengthened to undertake functions that RRCCs were supposed to perform.</td>
<td>Due to weak regional capacity roles and functions of RRCCs are being redefined.</td>
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<tr>
<td>CRTs established in reforming councils.</td>
<td></td>
<td>All 38 CRTs in first phase established.</td>
<td>Constrained capacity in LGRT and ZRT for support to Phase I or II Councils Elections will result in changes in some CRTs (new councilors).</td>
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<tr>
<td>Increased knowledge and experience of decentralization.</td>
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<td>Study tours organised and workshops attended by some LGRT staff</td>
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F. IMPLEMENTATION STATUS BY COMPONENT

Overall Status – Phase I

21. The LGRP is currently at the midpoint of its second year of operations. Phase I activities began in July 1999, with a focus on establishing the necessary policy, legislative and institutional requirements for implementation of reforms. By January 2000 the restructuring exercise was initiated in the 38 councils included in Phase I of the program. The second Phase is expected to start in January 2000 for the remaining councils.

22. Due to several factors including the length of time taken in i) preparing policies and legislation, ii) preparation for the 1999-2000 budget and iii) the October 2000 elections, implementation of Phase I is lagging behind scheduled. As a result, it is anticipated that Phase I activities will be completed about 9 months behind schedule. These delays are partly reflected in slow spending of Program funds. In the first quarter of the 1999-2000 APB, about .07% of funding committed for that period was spent. This increased to 23% and 40% in the second and third quarters, but declined to 24% in the fourth quarter. The rate of spending does however, reflect the actual status of implementation of activities in each component. In the fourth quarter on average 64% of planned activities were considered complete while 24% of the was budget for this period was spent. A similar pattern was repeated in the previous period, with 80% of activities were completed against 40% of budgeted funds.

23. The start of Phase II activities (scheduled for January 2001) may also be slowed down to allow adequate assessment of the results of Phase I. LGRP is scheduled to undergo a review in mid 2001. The time period for implementation of Phase II should be somewhat faster as all preparatory activities (legislation, guidelines, etc) were carried out in Phase I. Constraints in implementing Phase II may arise from capacity limitations at council level – Phase I councils are relatively stronger - and could be further constrained by the absence of local donor projects – which have provided support for LGRP activities in Phase I councils.

Status by Component

24. Governance: The objectives of the Governance component are i) to establish broad-based community awareness of, and participation in, the local government reform process and ii) to promote principles of democracy, transparency and accountability. An assessment of the status of implementation of this component reveals that 27% of the budget for the first four quarters of LGRP had been spent. Although spending varied over these periods with a peak of 51% in the 3rd quarter, this level of underspending does not correspond with implementation. Indications from the 4th quarter progress report are that 64% of activities were completed with 11% of the budget. Key factors in slowing down project implementation are the pace at which new tools (standing orders, code of conduct, etc) were developed – due to the extensive consultations carried out in preparing these tools. The table above provides information on the status of each of the activities in this component. The following summarizes key accomplishments to date:

- increasing awareness of LGRP among general public, developing and disseminating materials for sensitization. LGRP has prepared and disseminated numerous documents (including 7,000 booklets on the programme) to the public. This has been complemented by numerous seminars and radio programmes aimed at increasing awareness of the LGRP and related activities (e.g. the 1999 grassroots and 2000 general elections). The high level of awareness of LGRP in local authorities
(including those not currently participating in Phase 1 of the program) illustrates the impact that this component has had.

- preparing and disseminating guidelines on decentralization, poverty alleviation and preventing corruption. Good governance guidelines have been drafted and poverty alleviation and decentralization guidelines are being prepared. These documents are expected to be useful in assisting councils understand their new mandate, prepare strategies to tackle key issues such as poverty and corruption. They are being developed through a process of consultations at all levels.

- preparing a code of conduct for staff and councilors and model standing orders for standing committees. These documents have been approved by Government and are awaiting gazettement by government. This was expected to take place in November 2000. They are intended to provide councilors and staff a better understanding of roles and responsibilities, rules and procedures, and to provide Council residents a better understanding of what is to be expected from their Local Authority officials. Both documents will be used in conjunction with guidelines on improving staff/councilor relations that have been prepared by LGRP.

- prepare an approach to participatory planning and budgeting. This activity is intended to harmonize approaches and come up with a standard approach and methodology to be disseminated to all councils. So far a working session of key Government agencies has been held to deliberate on the way forward. A consultancy has been initiated to develop the approach further building on participatory methodology already in use.

25. The main activities left in the component are publication, dissemination, translation and training of councilors and staff in the use of the above mentioned tools. The preparation of participatory planning and budgeting tools (transferred from the Finance Component) is still ongoing and is expected to undergo intensive consultations before being finalized.

26. **Restructuring**: The objective of this component is to enhance the effectiveness of Local Government in delivering quality services in a sustainable manner. By the end of the 17 step restructuring process (see Appendix), councils are expected to have taken the necessary steps to enable them ensure quality services are delivered. In addition to service delivery improvements, re-orientation of staff, and introduction of new financial and institutional procedures is expected to be completed. By the 3rd quarter of the LGRP (ending June 2000) this component had spent about 12% of budgeted funds over the four quarters. This was partly due to the lower cost of initial preparatory activities - primarily the guidelines for restructuring (completed in 1999). The following summarizes key accomplishments to date:

- preparation and dissemination of guidelines for restructuring LAs. The establishment of ZRTs and CRTs could not begin without the guidelines so their establishment was delayed until early 2000. The guidelines are intended to be implemented by councils with funding support (US$ 0.1 m per Council) from LGRP.

- guidelines for; coordination of reforms between sector ministries and local authorities; Consultations are underway with sector ministries to ensure that LGRP activities are coordinated with sector reforms. Initial meetings were held with various agencies including Ministry of Agriculture and Cooperatives and an Interministerial Technical Working Group established to facilitate coordination across sectors.
• recruitment of Zonal Reform Teams (ZRT); Five ZRTs were recruited and managed by a consulting firm (Price Waterhouse Coopers) under a 12 month year contract. Each of the existing five ZRTs covers up to 8 councils in 3-4 Regions and an additional ZRT is being put in place in Mtwara to strengthen capacity for bringing on-stream the additional Councils in Phase II36. A ZRT coordinator has now been recruited by LGRP to support and establish links (learning and experience sharing) between ZRTs and it is anticipated that 2 additional team members (HRD and Finance) will be added to each zonal team to boost capacity. As specified in the 17 step restructuring manual, ZRTs carry out a wide range of activities including assisting CRTs organize awareness seminars, training and orientation workshops, facilitating capacity and needs assessments, carrying out monitoring and benchmarking exercises. Key activities carried out by ZRTs to date include: financial management training for 200 staff (ranging from accounts clerks to treasurers); dissemination of information on the block grants and NMS; support for revenue collection and administration through coaching of 165 staff and technical assistance for data collection exercises such as baseline surveys and staff inventories. Although ZRT capacity has been enhanced, Phase II councils are expected to come on stream in early 2001 when Phase I councils will be in step 4-6 in the restructuring process (see appendix 2). It is doubtful that completion of Phases I and II will be achieved by the end of 2001 unless additional capacity is brought on stream.

• establishment, training and funding for Council Reform Teams (CRT). Phase I CRTs have been formed in 38 districts. Line functionaries at Council level are expected to implement the 17 step process. As the capacity of each council varies, each CRT has prepared a workplan for implementing the restructuring process, and identified where there are capacity constraints. Given the limited capacity of CRTs to carry out analysis of data, the LGRT may need to put in place additional capacity to support analysis of data for Councils that do not have access to support from development partners working at council level. Projects have provided some additional support in areas where the Council does not have the necessary expertise, or where additional funding (e.g. hiring consultants) is required. Although CRTs were initially expected to be comprised of Council Staff and councilors, some CRTs have membership from civil society. Civil society representation in CRTs ranges from 1% to 25% of members and reflects the extent to which other actors were already involved in service delivery or other roles within the Council. After nine months of implementation, Phase I councils are currently at step 3 or 4 in the process. Due to the November 2000 elections and start up of Phase II councils in early 2000, it is expected that step 17 will be completed by October 2001 at the earliest. Due to the 2000 general elections, some restructuring of CRTs will be required to accommodate and orient new members.

27. **Finance:** The objective of the finance component is to increase resources available to Local Government and improve the efficiency of their use. Expenditures under this component were 22% of budget, with a gradual increase in spending over the four quarters, indicating progress in implementation of this component. Most key blocks are in place including financial regulations, block grants, and staff regulations, however implementation is proving to be a problem due to resource constraints and capacity limitations at national level and resistance to decentralization by some line ministries. It may therefore take some time before what is on paper, is fully implemented. Table 3 provides information on the status of each of the activities in this component. The following summarizes key accomplishments to date:

• development of National Minimum Standards for service as an input to the block grant system; A key activity implemented under this component in the year 2000 was the introduction of block grants to phase 1 councils. In preparation for this, the establishment of national minimum standards was

36 In the 3rd quarter of Phase I, ZRTs worked 27% overtime to cope with the workload.
carried out through a process of consultation involving sector agencies. Due to the high cost of introducing the NMS standards under current budgetary constraints, affordable minimum standards were introduced. The block grant system was initiated in the 2000 budget but this is experiencing some teething problems, such as the late disbursement of funds to councils.

- assessment of revenue generation potential and measures to be taken improved revenue collection. An assessments of revenue generation capacity was carried out and a paper presented for review by the steering committee and task force. Training of councils, in methods for improving revenue collection, is expected to be carried out in early 2000.

- financial management, development and training through introduction of the Platinum accounting system and other activities; The preparation and dissemination of Financial (Block Grant) Regulations has been completed. In addition, the Platinum system was introduced to all 38 councils and training for council Directors, and 41 central and local government auditors has been carried out. Training of MRALG staff is planned for 2001.

- studies on the future roles of the Local Authorities Provident Fund and Local Government Loans Board were initiated. Consultants have been identified to carry out these studies in consultation with key actors.

28. Human resources: The objective of this component is to improve accountability and efficiency of human resource use at Local Government level. Various important steps have been made including the preparation of staff regulations that place control of human resources management in the LA. The impact of transfers from regional authorities are beginning to be felt and measures to improve accountability (code of conduct, guidelines on good governance, model standing orders) have been taken. In the first four quarters of LGRP this component used 9% of budgeted funds, this was partly due to late recruitment of a human resource component manager and the focus on developing materials and guidelines in the early stages of the program. Emphasis on capacity building, training programs and re-orientation of staff will be initiated in 2001. The following summarizes key accomplishments to date:

- development of new staff regulations for management of decentralized staff; supporting the transfer of civil servants to LAs; New staff regulations have been approved and it is expected that they will be come effective in December 2000.

- enabling the training and staffing of LAs; Staff inventories have been compiled by all councils and forwarded to LGRP for analysis. The data will be used to determine manning levels and staff LAs accordingly.

- reorienting staff to the new devolved system; A training forum was held in 2000 to review options and establish training priorities. In addition, an HR benchmarking exercise intended to establish the status of human resources across councils was prepared. Training programs are ongoing in a number of components (finance), and materials are being developed for several others (governance).

- review the roles of the Local government Service Commission (LGSC) and Teachers Service Commission (TSC) in light of the decentralization program. Studies to review the roles of these key institutions were initiated. These include the teacher rationalization study, and reviews of the LGSC and TSC.
29. **Legal**: The objective of the legal component is to establish the enabling legislation, for effective implementation of Local Government Reforms. These activities form the backbone of the LGRP as policy and legislation are pre-requisites for most other components (e.g. financial regulations, staff regulations, etc). Overall expenditures for this component are around 6% of the budget allocated for the first four quarters of LGRP. Slow progress in this component is also reflected in the smaller percentage (40%) of activities completed during the 4th quarter. Delays in implementation of this component stem from the complex and tedious nature of legislative reforms.

- legal instruments for implementation of local government reform have been amended, published, translated and disseminated. Following the amendment of the Local Government Act no. 6, translation and preparation of supporting regulations is underway. Other activities being carried out include preparation of popular versions of legislation for the public and review.

- prepare legal instruments on specific sectors. Amendments to sectoral legislation will be introduced in 2001. This will allow adequate time for preparation of detailed reports on the findings of a review of sector law.

- draft and publish local government bylaws. Efforts are underway to initiate a consultancy on the translation of this legislation into local bylaws. A legislation manual is under preparation and seminars and training courses will be carried out to enable the use of the new legislation

- Various other studies aimed at streamlining enforcement mechanisms (courts and police) are planned for 2001.

30. **Programme Management**: The objective of this component is to support the effective and efficient management of the overall Local Government Reform Program and in particular, the work of the Local Government Reform Team. Most activities under this component have been initiated. Although some will require continuous implementation, others such as the development of a cabinet policy paper on decentralization have been completed. During the four quarters budgeted for through LGRP, 35% of funds were spent with an average rate of expenditure of 40% in the last three quarters.

- reorientation of Regional Secretariats (RS) to their new roles. Manuals outlining the new roles and staffing of regional secretariats have been prepared. These guidelines are still being reviewed and capacity constraints experienced by RSs may translate into changes to the staffing and functions of RS.

- building capacity of the Ministry of Regional and Local Government and integrating the LGRT more closely into the ministry. A strategic plan has been drafted for MRALG. This plan outlines how the ministry should evolve to take on increasing responsibilities being created through the LGRP process. Specific training and staffing support is being provided. These include training on the platinum system and job descriptions for the Ministry.

- ensuring coordination between LGRP and Sectors. The Interministerial Technical Working Group ensures collaboration between line ministries on matters of mutual interest. This includes development of NMS, for which a review of a service delivery impact assessment carried out across all 38 councils was conducted. Despite their participation in the IMTWG, several ministries are carrying out activities that may undermine the objectives of the LGRP.
• developing a policy framework for LGRP. A high level of consultation has been facilitated through LGRP to ensure that stakeholders contribute to policy formulation. Various policy documents have been reviewed including the Cabinet Policy Paper on Decentralization; staff regulations, codes of conducts, etc, with key actors. LGRP and ALAT have worked closely in this regard

• carrying out a service delivery baseline survey. The service delivery baseline data has been collected in 38 councils. This is being analyzed and a database will be established as a monitoring tool for the LGRP.

• preparing annual plans and budgets. Regular functions of the LGRT such as progress reporting, planning, budgeting and coordination are carried out in a timely manner and the various for a established to ensure coordination between the various actors involved in LGRP are functioning effectively

• establishment of Regional Reform Coordination Committees (RRCCs). The establishment of RRCCs has fallen behind schedule. This is because the Government is reviewing the roles of regional institutions and intends to make further changes to the proposed structures and functions of these institutions. Although it was initially intended that Regional Reform Coordination Committees be established to provide support to the ZRTs and gradually take on functions currently being carried out by ZRTs, to date no Regional Coordination Committees have been established. Furthermore, despite recent reforms at regional level, it is not expected that RRCCs will have the capacity to provide effective support to CRTs in the near future. Reorientation of RRCCs to their new advisory and monitoring functions has not yet been completed and some Regional Secretariats do not have the necessary skills. In some cases, capacity at regional level is lower than that of Councils making it difficult for them to act in an advisory capacity.
APPENDIX: LGRP RESTRUCTURING MANUAL

Overview

The manual outlines the 17 steps to restructure a local government. It is designed to assist local government authorities in re-defining and restructuring themselves in light of their mandate, roles and responsibilities. National policies and priorities that underlie the reform process are incorporated and tools for each steps are provided to help each Council carry out the reforms largely on their own. Most Councils in Phase 1 of LGRP are in Step 3 or 4 of the process.

Step 1  Formation of Council Reform Team. Zonal reform teams facilitate the establishment of CRTs and the preparation of terms of reference. The role of the management team in implementing the reform process is outlined and the composition of the CRT agreed. A timetable and budget (Council Reform Team Annual Plan and Budget) for implementing the reforms is prepared and the responsibilities of key actors are agreed. Formats and checklists provided in the manual are used to prepare plans and monitor progress. Skills are sourced from the ZRTs or other external sources.

Step 2  Stakeholder consultations. A workshop is held to consult stakeholders on their priorities and to communicate the reform process to them. An analysis of stakeholders is also conducted to form the basis for the reforms. Resource allocation and activities are agreed with stakeholders to build consensus on the reform process.

Step 3  Data Collection. Data is collected through a baseline survey on key factors such as population, economic activities, infrastructure, etc. An assessment of external activities is conducted to determine where the assistance of local development partners (e.g. NGOs) may be possible and a review of the policy and legal framework conducted. The survey results are analysed and options for improving efficiency through outsourcing and privatisation identified.

Step 4  Data Analysis and Feedback Workshop.

Step 5  Second Stakeholder Workshop. The results of the survey are presented to stakeholders along with other findings regarding legal, policy, institutional and revenue collection arrangements. Options for outsourcing and privatisation are discussed and agreed. A vision for the council is formulated along with a mission statement, goals and objective and priorities for quick wins. Finally strategies for implementation are worked out to ensure that potential stumbling blocks are identified.

Step 6  Formulation of Performance Indicators and Strategies. Preparation of monitoring tools is undertaken and cost benefit analysis of strategies conducted. A resource envelope for the council is agreed.

Step 7  Assess practicality of strategies, performance indicators and targets. A working meeting is held to refine the targets and evaluate performance indicators. Agreement on quick wins is sought and strategies for implementation laid down.

Step 8  Preparation of Strategy Document. Agreed strategies for implementing the restructuring process are presented to council for decision.
Step 9. **Organisation review.** A review of the organisation is conducted to assess the current structure, develop organisational structure and cost the options.

Step 10. **Implement Quick Wins.** Implementation of quick wins is initiated.

Step 11. **Select the preferred organisational option.** A working meeting is held to review the organisational structure.

Step 12. **Prepare an Implementation Plan.** An implementation plan is prepared and fully costed against the envelope. This is based on consideration of the agreed organisational and strategy options.

Step 13. **Approve the Implementation Plan.** The implementation plan for the council is approved and strategies agreed for privatisation, outsourcing and organisational reforms.

Step 14. **Design a Human Resources System.** Detailed job descriptions are prepared to match the approved structure and a new performance appraisal system designed. A staff audit is undertaken to assess staff numbers, qualifications and skills.

Step 15. **Integrate the Implementation Plan into the APB.** The implementation plan is integrated into the LGRP annual planning and budgeting process.

Step 16. **Implement Human Resource Processes and Service Delivery Strategies.** Preparation and implementation of recruitment programme, retrenchment programme, individual performance targets, training programme.

Step 17. **Monitor Implementation.** A quarterly review of implementation progress is carried out and the plan
ANNEX 4: organisations consulted during the DSW research

The following organisations were consulted during the research for this project:

Ministry of Finance
Ministry of Regional and Local Government
Local Government Reform Team
Ministry of Health
Local Government Services Commission
Control and Auditor General
Association of Local Authorities of Tanzania
Local Government Provident Fund
Local Government Loans Board
Dar es Salaam City Commission
Ilala Municipal Council
Morogoro Municipal Council
Morogoro District Council
USRP
Danida
Price Waterhouse Coopers

In addition, DSW team members who also participated in the of the PER visited the following regional and local authorities during the PER mission:

Arusha RAS
Arusha Municipal Council
Arumeru District Council
Monduli District Council
Arusha OCAG
Arusha Sub-Treasury
Dodoma RAS
Dodoma District Council
Dodoma Municipal Council
Dodoma OCAG
Dodoma Sub-Treasury
Kilimanjaro RAS
Moshi Municipal Council
Moshi District Council
Same District Council
Hai District Council
Mwanza RAS
Mwanza City Council
Magu District Council
Mwanza Sub-Treasury
Bagamoyo District Council
Kibaha District Council
ANNEX 5: Main documentary sources consulted for DSW


Kithinji Kiragu, Service Delivery Improvements Though Decentralization: Issues of Linkages and Coordination between The Central and Local Governments, KK Consulting Associates, report for the Tanzania Civil Service Department, President’s Office, March 2000 Dar es Salaam


Ministry of Regional Administration and Local Government, LGDP, Policy Paper on Local Government Reform, Dar-es-Salaam, October 1999


Tanzania Local Government Loans Board, A Brief Outline of The Local Government Loans Board (LGLB), an official brief of the LGLB


The United Republic of Tanzania, National Budget Estimates and Budget Speeches 1999/00 and 2000/01


Urban Sector Rehabilitation Project, Proceedings of Project Implementation and Mid-Term Review Workshop, 1999

Price Waterhouse Coopers, Local Government Finance Reform Project Interim National Minimum Standards and Phase 1 Block Grants, December 1999

United Republic of Tanzania, Task Force Report on Rationalisation of Central and Local Government Taxes, February 1999


The Local Government (District Authorities) Act, 1982

The Local Government (Urban Authorities) Act, 1982 (as amended)

The Local Government (Urban Authorities) Act, No 8 of 1982

Local Government Service ACT No. 10 of 1982 (Regulations)

The Regional Administration Act 1997

Urban Authorities (Rating ) Act 1983 (as amended up to December 31, 1999)

The Local Government Service Commission Act, 1982B

The local Government Finance Act, 1982 (as amended to 31 December, 1999)

The District Corporations Act, 1973 (as amended to December 31, 1999).

The Local Government Laws (Miscellaneous Amendments) Act, 1999

Public Procurement Act, 2000