



EXAMINING FUNDING SYSTEMS FOR LOCAL ECONOMIC DEVELOPMENT IN TANZANIA: A KEY COMPONENT OF ECONOMIC STRUCTURAL TRANSFORMATION

Ambrose Kessy and Jamal Msami

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Authors: Ambrose Kessy and Jamal Msami

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Introduction

This report, titled *“Examining Funding Systems for Local Economic Development in Tanzania: A Key Component of Economic Structural Transformation”*, investigates the funding mechanisms that support Local Economic Development (LED) initiatives across seven regions in Tanzania: Kilimanjaro, Dar es Salaam, Mwanza, Kigoma, Iringa, Dodoma, and Mtwara. LED is recognized as a strategic approach to enhancing local economic capacities through decentralized governance, enabling local authorities to tailor initiatives to their communities’ specific needs. However, the success of LED largely hinges on effective funding systems—how financial resources are mobilized, allocated, and managed. This study explores the main sources of funding, the effectiveness of allocation mechanisms, and the financial management practices that influence the outcomes of LED projects.

Methodology

The research employed a cross-sectional mixed-methods approach, combining quantitative and qualitative data collection methods to gain comprehensive insights into LED funding systems. Surveys were conducted with 1,708 respondents, complemented by Key Informant Interviews (KIIs) and Focus Group Discussions (FGDs) with stakeholders, including local government officials, private sector representatives, and community leaders. The study areas included both urban and rural districts, allowing for diverse perspectives on LED funding challenges and opportunities. Quantitative data was analysed using descriptive statistics, while qualitative data underwent thematic analysis, providing depth to the understanding of local experiences with LED funding.

Key Findings

1. Main Sources of LED Funding: LED initiatives in Tanzania are primarily funded through central government transfers, local revenue generation, private sector investments, international aid, and community contributions. Government grants remain the dominant source of funding, particularly in rural regions. Private sector investment and community contributions play an important role in regions like Iringa and Mwanza, while international aid is more prominent in areas like Mtwara and Kigoma.

2. Allocation Mechanisms and Criteria: The allocation of finance is influenced by a range of factors, including population size, development priorities, and community needs assessments. However, political considerations often overshadow objective criteria in some regions, leading to disparities in fund distribution. In regions such as Iringa and Kilimanjaro, community engagement in fund allocation has contributed to more targeted and relevant LED initiatives, whereas other regions like Kigoma and Dodoma have exhibited inefficiencies due to bureaucratic delays and limited financial transparency.

3. Effectiveness of Funding Systems: The study identified both successful and unsuccessful LED projects across regions. Success stories, such as Rombo District’s water supply system and Chamwino District’s sunflower oil processing plant, demonstrate the importance of effective financial management and local engagement. However, projects such as the failed market infrastructure project in Kasulu and the underutilized agricultural storage facility in Mufindi highlight the negative impact of poor financial oversight and lack of community involvement on project sustainability.

4. Financial Management Practices: Financial management practices vary significantly across regions, with some councils utilizing standardized accounting templates and digital systems to enhance transparency and accountability. However, manual accounting practices in regions like Kigoma and Mwanza have led to inefficiencies and resource mismanagement. The limited capacity of local government finance officers and the lack of training opportunities further exacerbate financial challenges in these regions.

Conclusions

Analysis concludes that while LED holds great potential for driving local economic growth, the current funding systems in Tanzania present significant challenges. There is substantial reliance on centralized funding, which limits the autonomy of local governments to manage LED projects effectively. Additionally, political interference, poor financial management practices, and the lack of transparency in fund allocation hinder the success of LED initiatives. Disparities in access to diverse funding sources further exacerbate regional inequalities, with some regions better positioned to attract private sector investments and international aid than others.

Despite these challenges, the study highlights the critical role that community involvement, transparent budgeting processes, and effective financial management play in ensuring the success of LED initiatives. Regions that have adopted participatory budgeting and diversified funding sources have demonstrated better outcomes in terms of project sustainability and local economic impact.

Recommendations

- A. **Diversification of Funding Sources:** Local governments should actively seek to diversify their funding sources by fostering partnerships with the private sector, NGOs, and international agencies. Encouraging local revenue generation through innovative tax reforms and community-driven initiatives will reduce overreliance on central government transfers.
- B. **Capacity Building for Financial Management:** Strengthening the financial management capacity of local government officials is essential. This includes providing training in modern accounting practices, budgeting, and auditing to enhance the efficiency and transparency of fund allocation and use. The adoption of digital financial systems should also be prioritized to minimize errors and improve oversight.
- C. **Strengthening Transparency in Fund Allocation:** Introducing more transparent and participatory budgeting processes will ensure that LED funds are allocated in line with community priorities. Regular independent audits and public disclosure of financial records should be implemented to enhance accountability and restore trust in the fund allocation process.
- D. **Improving Coordination and Reducing Bureaucratic Delays:** There is a need to streamline coordination between central and local governments to ensure timely disbursement of funds. Improving communication between various administrative levels and reducing bureaucratic bottlenecks will enhance the efficiency of LED project implementation.
- E. **Promoting Public-Private Partnerships (PPPs):** Local governments should actively pursue PPPs to leverage private sector investment in key sectors such as agriculture, infrastructure, and tourism. Successful examples, such as the sunflower processing plant in Chamwino, demonstrate the potential of PPPs to drive sustainable economic growth and create employment opportunities.
- F. **Enhancing Community Engagement:** Community participation is key to the success of LED initiatives. Councils should encourage more active involvement from community

members in the planning, implementation, and monitoring of projects. This will ensure that projects are aligned with local needs and increase the likelihood of long-term success.

1.0. INTRODUCTION

Tanzania is in the midst of a significant structural transformation aimed at shifting its economic foundation from low-productivity sectors to more diversified, higher-value activities. This transformation is essential for achieving sustainable development and improving the livelihoods of the population, as envisioned in Tanzania Development Vision 2025 (United Republic of Tanzania, 1999). Recognizing the complexities and multifaceted nature of this transformation, REPOA is implementing a five-year research program titled “**Structural Transformation & Development Trajectory in Tanzania.**” This program seeks to examine the drivers of structural transformation from various theoretical perspectives within the Tanzanian context, addressing constraints on productivity growth and competitiveness in key production sectors. It also explores the potential of non-traditional industrial sectors to accelerate structural transformations.

A critical focus of this program is the **political economy of structural change**, particularly the role of state and institutional governance in facilitating productivity growth and the development of non-primary sectors. According to Khan (2021), the success or failure of structural transformation, especially in processes of production upgrading, depends significantly on changes in the distribution and configuration of power among different organisations—a concept referred to as the “**political settlement.**” This settlement reflects the distribution of power within a country and influences whether the ruling coalition supports the design and implementation of policies that incentivize firms to invest in learning and technological upgrades.

One important aspect of political settlement in Tanzania is the **decentralization of Local Economic Development (LED)**. Decentralization involves transferring authority and resources from central to local governments, enabling them to make decisions that directly affect their constituencies. LED refers to a constellation of activities aimed at enhancing the economic well-being of a locale, involving partnerships among local governments, the private sector, non-governmental organisations, and communities (Beer et al., 2003). These activities encompass a wide range of initiatives, including land and property development, infrastructure investment, business subsidies to attract or retain jobs, technology transfer, innovation programs, labour market initiatives, and support for small and medium-sized enterprises (SMEs). LED strategies may also focus on developing cultural industries, promoting tourism, and implementing community economic development projects, local purchasing initiatives, and anti-poverty measures targeting specific groups, such as women, youth, and marginalized communities.

Local governments are presumed to have a better understanding of their local needs and priorities, which can lead to more efficient and effective resource allocation. In principle, they are better positioned to advance LED by tailoring initiatives to the specific economic context of their regions. However, in Tanzania, many local governments face significant **capacity constraints**, including limited financial resources, inadequate technical expertise, and weak institutional frameworks (Kessy, 2020; Tidemand, 2018a, 2018b). These challenges can hinder the effective implementation of LED policies and programs. Moreover, there is a risk that decentralization may exacerbate regional inequalities if wealthier areas are better able to leverage devolved powers and resources than poorer regions, thereby widening the development gap.

Funding systems are a critical component in the successful implementation of LED initiatives. The availability, allocation, and management of financial resources determine the capacity of local governments to support economic development activities effectively. Transparent, efficient, and equitable funding systems can enhance local governments’ ability to foster entrepreneurship, invest in infrastructure, and improve service delivery. Conversely, inadequate funding mechanisms can lead to underperformance of LED projects, misallocation of resources, and diminished trust among stakeholders.

Given this context, examining the funding systems for LED in Tanzania is essential to understand how financial resources are mobilized, allocated, and managed at the local level. This study, titled “**Examining Funding Systems for Local Economic Development in Tanzania: A Key Component of Economic Structural Transformation**,” aims to investigate the main funding sources for LED activities, evaluate the mechanisms and criteria used to allocate funds, assess the effectiveness of these funding systems in supporting and sustaining local economic initiatives, and analyse the financial management practices of councils regarding LED funding.

By focusing on these aspects, the research addresses a critical gap in knowledge concerning the financial underpinnings of LED within Tanzanian local governments. While decentralization holds promise for enhancing local economic development, significant challenges remain in ensuring that local authorities possess the necessary financial capacity and governance mechanisms to implement effective LED strategies. Understanding the intricacies of funding systems is crucial for optimizing resource utilization, improving financial management practices, and enhancing the impact of LED initiatives on economic transformation.

Moreover, the study contributes to the broader discourse on the **political economy of structural transformation** by highlighting how funding systems at the local level can influence the trajectory of economic development. It recognizes that successful structural transformation is not solely dependent on macroeconomic policies or sectoral interventions but also on the micro-level dynamics of how resources are allocated and managed within local contexts. By examining these dynamics in seven diverse regions of Tanzania—Kilimanjaro, Dar es Salaam, Mwanza, Kigoma, Iringa, Dodoma, and Mtwara—the study provides valuable insights into the opportunities and challenges associated with funding LED across different socio-economic and geographical settings.

Accordingly, this research is timely and significant, offering practical implications for policymakers, practitioners, and stakeholders involved in LED and decentralization processes in Tanzania. It seeks to inform the development of more effective funding systems that can enhance the capacity of local governments to drive economic structural transformation, reduce regional disparities, and improve the livelihoods of communities across the country.

1.1 Background

LED is a strategic approach that focuses on enhancing the economic capacity of a defined area to improve its economic future and the quality of life for its inhabitants. It involves the concerted efforts of local governments, the private sector, non-governmental organisations, and communities to stimulate economic activity and development (World Bank, 2017). In Tanzania, LED has emerged as a pivotal mechanism for fostering inclusive growth and achieving the country’s long-term development goals outlined in the Tanzania Development Vision 2025. This vision aims to transform Tanzania into a middle-income country characterized by sustainable economic growth and reduced poverty levels (United Republic of Tanzania, 1999). The government’s commitment to decentralization through the Decentralization by Devolution (D-by-D) policy has empowered local authorities to play a more active role in economic development (United Republic of Tanzania, 1998).

The Tanzanian economy has experienced steady growth over the past decade, with an average GDP growth rate of around 6% per annum (World Bank, 2020). However, this growth has not been evenly distributed, leading to persistent regional disparities, high levels of poverty in rural areas, and significant unemployment rates among youth and women (National Bureau of Statistics, 2019). LED initiatives are seen as a means to address these challenges by harnessing local resources, promoting entrepreneurship, and creating employment opportunities.

Funding is a critical component of LED activities. The success of LED initiatives largely depends on the availability and effective utilization of financial resources from various sources, including central government transfers, local revenue generation, international aid, and private sector investments (United Nations Development Programme, 2015). However, local councils in Tanzania often face challenges related to inadequate funding, inefficient allocation mechanisms, and weak financial management practices (O. H. Fjeldstad et al., 2010). Previous studies have highlighted the importance of robust funding systems in achieving sustainable local development. For instance, Mwamanga (2017) emphasizes that transparent and equitable allocation of funds enhances community trust and participation in development projects. Similarly, Ngowi and Mselle (2018) argue that effective financial management practices are essential for optimizing resource utilization and achieving desired development outcomes.

1.2 Rationale for the Study

Despite the recognized importance of funding in the success of LED initiatives, there is a paucity of empirical research examining the intricacies of funding systems within Tanzanian local councils. Most existing literature focuses on the outcomes of development projects without delving into the mechanisms that underpin funding processes (Kessy & Urio, 2006). This lack of comprehensive analysis impedes the ability of policymakers and practitioners to identify and address systemic issues affecting LED funding.

Inefficient allocation mechanisms and lack of transparency in fund distribution have been identified as major impediments to effective LED in Tanzania (Mashindano et al., 2013). Furthermore, inadequate financial management practices, including poor budgeting, accounting, and auditing processes, have led to misappropriation of funds and underperformance of development projects (Controller and Auditor General, 2020). Addressing these challenges requires a thorough understanding of existing funding systems and their impact on LED outcomes.

The study is particularly timely given the government's ongoing efforts to strengthen local governance and promote economic structural transformation. The Third Five-Year Development Plan (FYDP III) emphasizes the need for enhancing the capacity of local governments in resource mobilization and management to drive industrialization and human development (United Republic of Tanzania, 2021). By examining funding systems across diverse regions and districts, the research will provide valuable insights into best practices and areas needing improvement. Moreover, the selected regions—Kilimanjaro, Dar es Salaam, Mwanza, Kigoma, Iringa, Dodoma, and Mtwara—represent a cross-section of Tanzania's socio-economic landscape. This diversity allows for a comprehensive analysis of how different contexts influence funding sources, allocation mechanisms, and financial management practices. For instance, urban districts like Dar es Salaam may have access to more diverse funding sources compared to rural districts in regions like Kigoma or Mtwara.

In addition, the study contributes to the global discourse on sustainable development by aligning with the United Nations Sustainable Development Goals (SDGs), particularly Goal 8 (Decent Work and Economic Growth) and Goal 16 (Peace, Justice, and Strong Institutions) (United Nations Development Programme, 2015). By enhancing the effectiveness of funding systems for LED, the research supports efforts to promote inclusive and sustainable economic growth and build effective, accountable institutions at all levels. This study therefore addresses a critical gap in understanding the funding systems that support local economic development in Tanzania. The findings will not only inform policy and practice within the country but also offer lessons applicable to other developing nations facing similar challenges.

1.3. Funding Systems for LED: Balancing Decentralization, Local Financial Institutions, and Evidence-Based Policies

Funding systems for LED play a crucial role in shaping the economic landscape of communities. These systems involve a complex interplay of various stakeholders, including local and central governments, private sector entities, and community organisations. The effectiveness of LED funding mechanisms can significantly impact a region's ability to foster economic growth, create jobs, and improve the overall quality of life for its residents. One of the primary challenges in LED funding is striking the right balance between centralized and decentralized approaches. While centralized funding can ensure a more equitable distribution of resources across regions, decentralized systems often allow for more targeted and responsive economic development strategies.

The experience of many countries has shown that overly centralized funding policies can lead to slowing economic growth, prompting a shift towards decentralization (Subroto & Baidlowi, 2020). This decentralization of funding sources between central and local governments has been found to significantly increase local economic activities and contribute to overall economic growth. However, the effectiveness of decentralized funding systems is not uniform across all contexts. The success of such systems depends on the local government's ability to effectively regulate fiscal income sources and expenditure. When implemented successfully, decentralized funding can encourage local economic growth and ultimately improve the welfare of the community (Subroto & Baidlowi, 2020). This highlights the importance of capacity building at the local government level to ensure effective management of decentralized funds. Interestingly, the role of small regional banks in LED funding presents a compelling case for localized financial institutions.

Theoretical and empirical evidence suggests that small banks operating at a regional level can be more effective in spurring local economic growth compared to large interregional banks, especially in regions with lower initial endowments and severe credit rationing (Hakenes et al., 2014). This finding challenges the conventional wisdom that favours large, centralized banking institutions and underscores the importance of tailored financial services that cater to local economic needs. The diversity of funding sources for LED is another critical aspect to consider. Funding can come from various channels, including EU funds, state incentives, employers, and public-private partnerships (Tafrā & Gardašević, 2024). This diversity can provide resilience to LED initiatives, ensuring that they are not overly dependent on a single funding source. However, it also requires sophisticated coordination and management to effectively leverage these diverse funding streams. One of the key contradictions in LED funding systems is the disconnect between policy intentions and outcomes. While many LED policies aim to stimulate growth in key economic sectors, the actual impact of these sectors on local economies can be surprising. For instance, a study in South Africa found that traditional economic base sectors such as agriculture and manufacturing had less of a positive impact on the local economy than expected, while sectors like community service, trade, construction, finance, and electricity showed more positive relationships with LED (Garidzirai et al., 2019). This highlights the need for evidence-based policymaking in LED funding allocation, rather than relying on assumptions about which sectors drive local economic growth. In conclusion, funding systems for local economic development are complex and multifaceted, requiring careful consideration of various factors including the balance between centralization and decentralization, the role of local financial institutions, the diversity of funding sources, and the actual impact of different economic sectors on local growth.

Thus, effective LED funding systems should be flexible enough to adapt to local contexts while also ensuring equitable distribution of resources. Future research and policy development in this area should focus on developing more sophisticated metrics for measuring LED outcomes,

exploring innovative funding mechanisms that can leverage both public and private resources, and investigating how technological advancements can be harnessed to improve the efficiency and effectiveness of LED funding systems.

1.4. Funding Systems for LED in Tanzania: A Key Component of Economic Structural Transformation

Local economic development in Tanzania has been a focus of both government and development partners, with a shift from traditional top-down approaches to more inclusive bottom-up strategies (Bishagazi, 2021). This shift recognizes the importance of local initiatives in driving economic growth and poverty reduction. However, the effectiveness of LED initiatives heavily depends on the availability and management of funding systems. The banking sector plays a crucial role in supporting LED through financial depth, which positively influences economic growth by expanding access to finance (Lotto, 2023). The government's policy of subsidizing access to finance for informal businesses is recommended to boost growth. Additionally, the Central Bank of Tanzania is encouraged to lower lending rates to promote investment and foster economic growth (Lotto, 2023). Non-Bank Financial Intermediaries (NBFIs) have also shown a significant positive effect on economic growth in the short run, although their long-term impact is less clear (Chuku & Ndanshau, 2016).

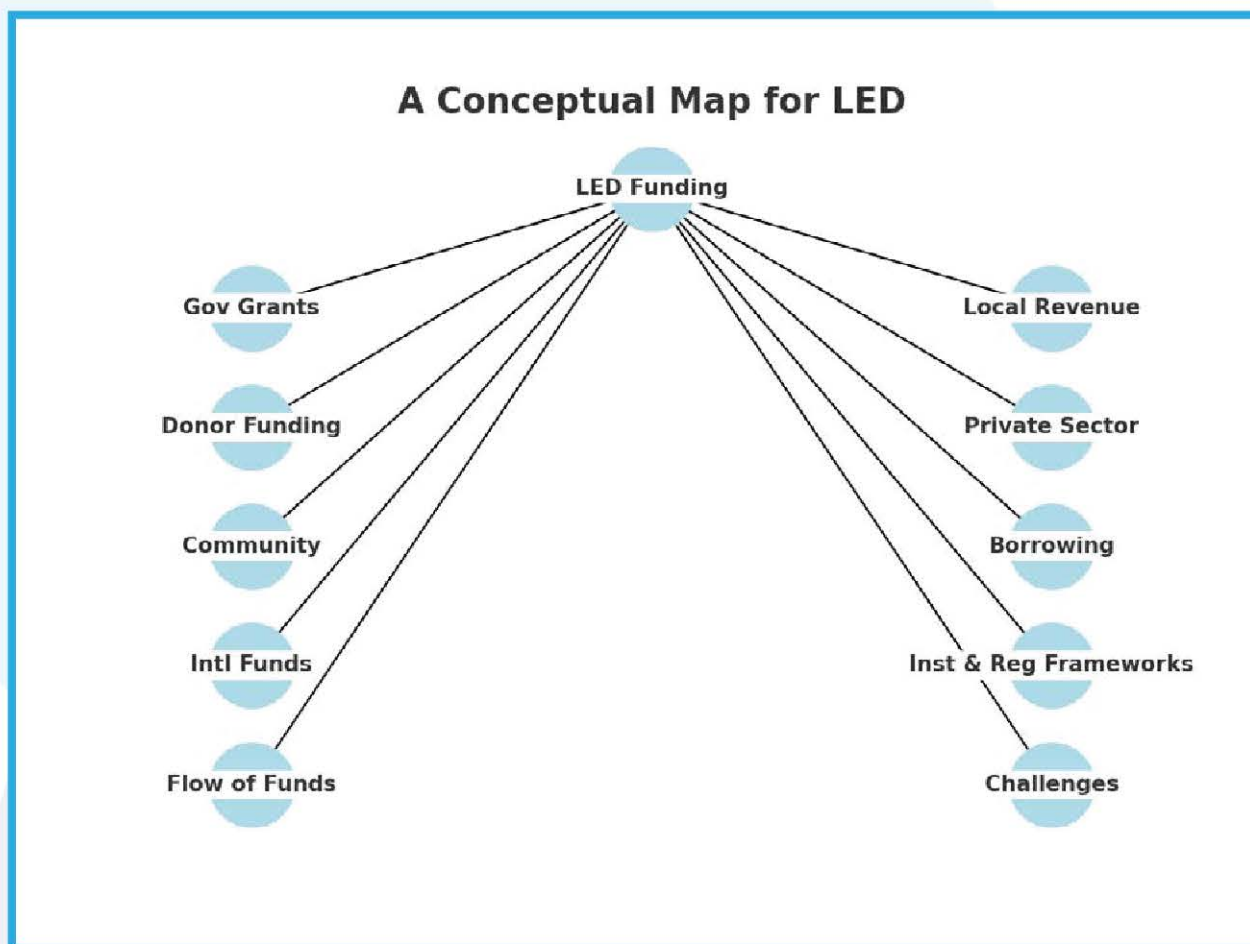
Interestingly, while local funding systems are essential, Tanzania's economic growth has been significantly dependent on Official Development Assistance (ODA) flows (Rotarou & Ueta, 2010). This reliance on external funding highlights the need for a more balanced approach to financing LED initiatives. The success of regional integration efforts, such as the East African Community (EAC), has promoted trade creation and economic growth among member states (Ali Keya, 2023). However, Tanzania continues to depend on Western Europe, North America, Japan, and China as major trading partners and sources of capital and technology (Sumbai, 2019). The reliance on external funding and major trading partners outside the region underscores the importance of developing sustainable local financing mechanisms and diversifying trade relationships to enhance Tanzania's economic resilience and promote long-term, self-sustaining local economic development. Strengthening regional integration efforts within the East African Community could provide a pathway for reducing dependency on distant markets and fostering more robust intra-regional trade and investment. Balancing external support with the growth of domestic financial intermediaries may be crucial for achieving sustainable economic growth and reducing vulnerability to external economic shocks.

Funding systems for LED in Tanzania require a multi-faceted approach. While the banking sector and NBFIs play crucial roles, there is a need to diversify funding sources and reduce dependence on external aid. The government should consider public-private partnerships, external borrowing, and increased domestic revenue to improve investment rates and gradually reduce reliance on aid (Rotarou & Ueta, 2010). Furthermore, aligning LED funding with broader economic trends and facilitating economic restructuring that promotes innovation and technological development is essential for sustainable growth (Dickinson, 2014). One should note that while diversifying funding sources and reducing dependence on external aid may seem beneficial, it could potentially lead to economic instability and reduced access to important resources. Pursuing public-private partnerships and increased domestic revenue might place undue burden on local communities and businesses, potentially stifling economic growth rather than promoting it. Moreover, rapid economic restructuring and technological development could exacerbate inequality and disrupt traditional industries, leading to job losses and social unrest.

1.5. Conceptual Map and Conceptual Framework Map for LED Funding

Figure 1 shows a conceptual map which visualizes the funding for LED. The central node represents LED funding, with branches depicting various funding sources and their relationships. Each node illustrates the elements and flows of financial resources that contribute to LED.

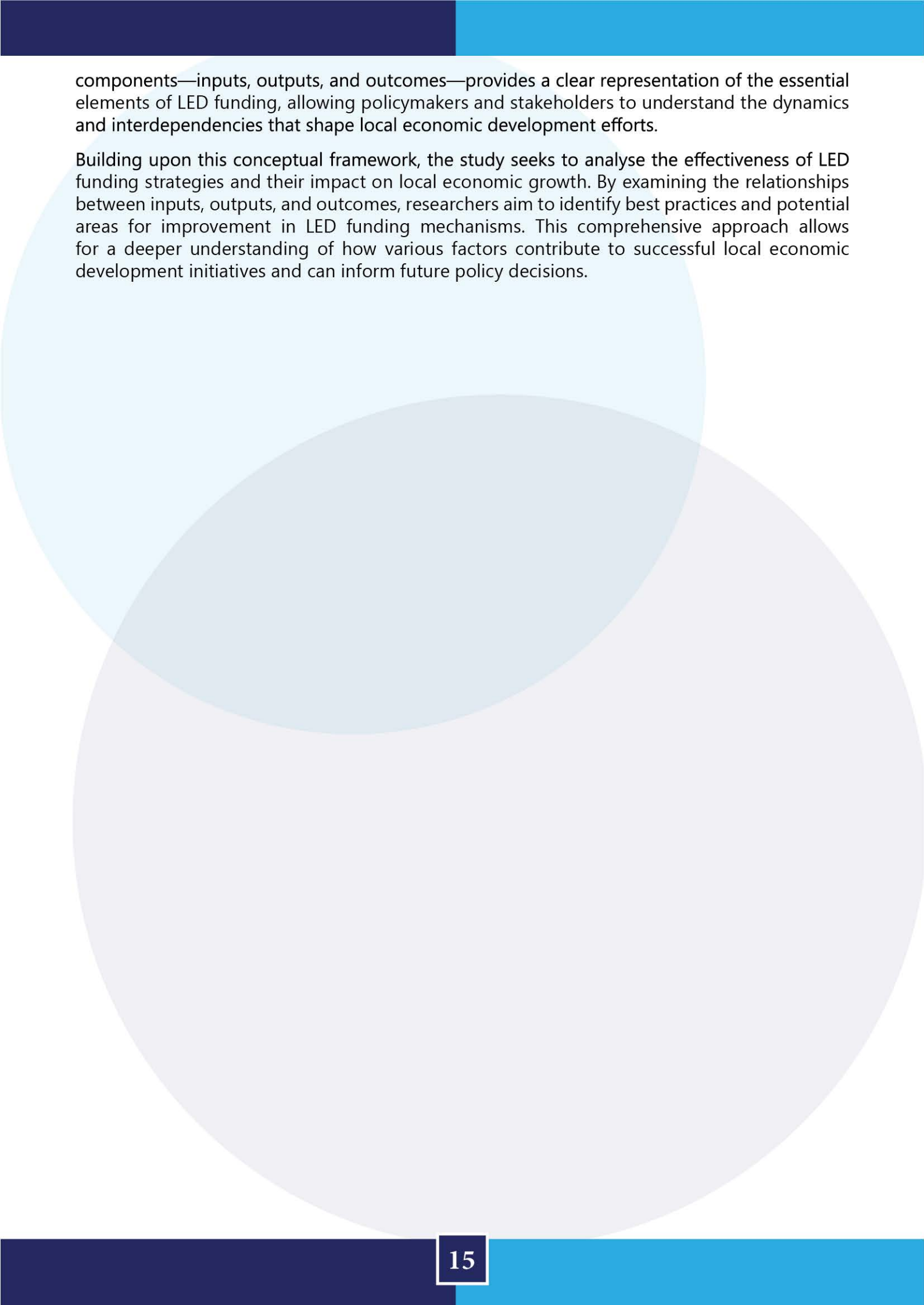
Figure 1: Conceptual Map for LED Funding



Conceptual Framework Map for LED Funding

The conceptual framework map for funding LED illustrates a comprehensive system of interdependent elements, starting with Inputs (Funding Sources), proceeding through Processes, and culminating in Outputs and Outcomes. The highlighted inputs include funding from various sources such as central government grants, local government revenues, development partners, private sector contributions, and community efforts. These inputs converge in the processes that involve funding allocation mechanisms and governance structures, representing how resources are effectively mobilized and regulated. The role of institutional arrangements and oversight bodies is critical in ensuring accountability and optimal use of resources. The directional arrows emphasize the flow from these inputs through processes, resulting in tangible outputs like infrastructure development, funded LED projects, and community empowerment programs.

The subsequent Outcomes highlight the intended results of these processes, including improved local economic growth, enhanced service delivery, and reduced inequality within communities. The inclusion of Challenges in the framework—such as sustainability issues, capacity limitations, and corruption risks—demonstrates the recognition of barriers that could impede successful LED implementation. These challenges feed back into the processes, influencing their efficiency and requiring adaptation to ensure sustainable outcomes. The visual emphasis on key



components—inputs, outputs, and outcomes—provides a clear representation of the essential elements of LED funding, allowing policymakers and stakeholders to understand the dynamics and interdependencies that shape local economic development efforts.

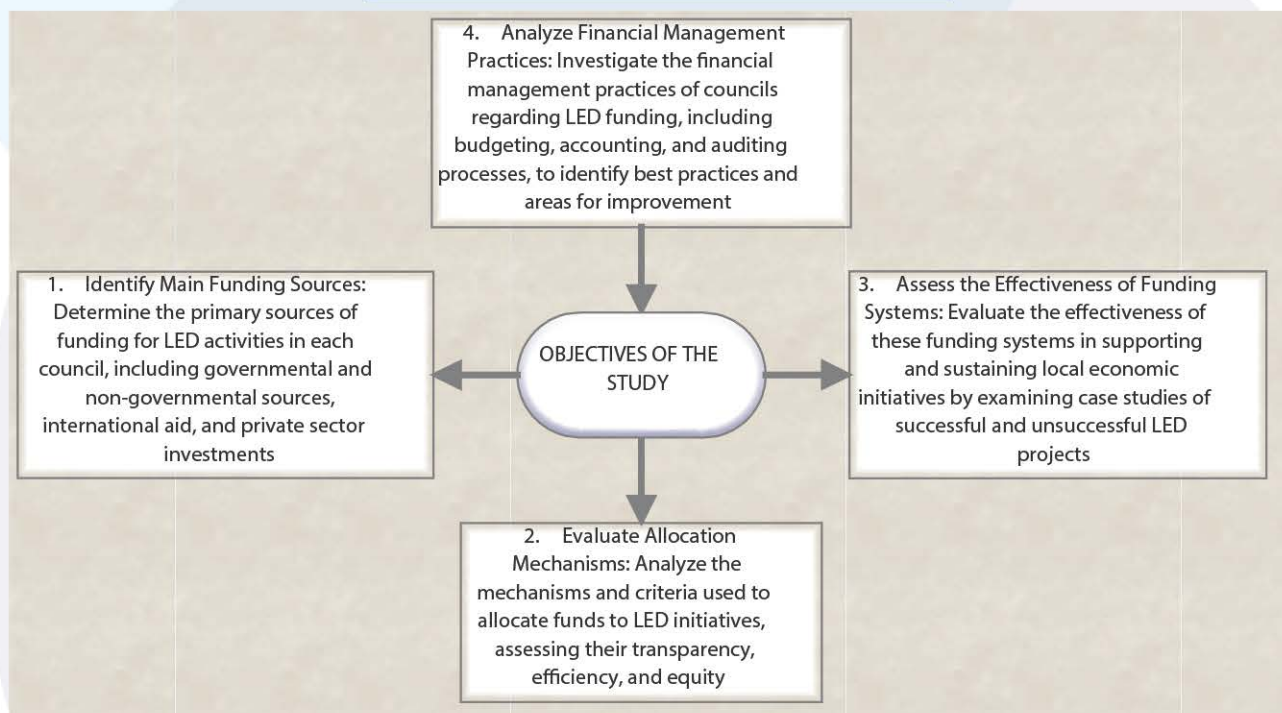
Building upon this conceptual framework, the study seeks to analyse the effectiveness of LED funding strategies and their impact on local economic growth. By examining the relationships between inputs, outputs, and outcomes, researchers aim to identify best practices and potential areas for improvement in LED funding mechanisms. This comprehensive approach allows for a deeper understanding of how various factors contribute to successful local economic development initiatives and can inform future policy decisions.

2.0. OBJECTIVES OF THE STUDY

The study aimed to achieve the following specific objectives:

1. **Identify Main Funding Sources:** Determine the primary sources of funding for LED activities in each council, including governmental and non-governmental sources, international aid, and private sector investments.
2. **Evaluate Allocation Mechanisms:** Analyse the mechanisms and criteria used to allocate funds to LED initiatives, assessing their transparency, efficiency, and equity.
3. **Assess the Effectiveness of Funding Systems:** Evaluate the effectiveness of these funding systems in supporting and sustaining local economic initiatives by examining case studies of successful and unsuccessful LED projects.
4. **Analyse Financial Management Practices:** Investigate the financial management practices of councils regarding LED funding, including budgeting, accounting, and auditing processes, to identify best practices and areas for improvement.

Figure 2: Objectives of the Study



3.0. RESEARCH METHODOLOGY

3.1 Study Area

The study was conducted across seven regions in Tanzania, each selected to represent a diverse range of socio-economic conditions, geographical locations, and levels of urbanization. These regions were Kilimanjaro, Dar es Salaam, Mwanza, Kigoma, Iringa, Dodoma, and Mtwara. In each region, two districts—one urban and one rural—will be purposively selected to capture the varied experiences and challenges related to funding systems for LED (See Table 1).

Kilimanjaro Region, with its diverse landscape and economic activities, presents a unique case study for understanding funding mechanisms in Tanzania. The region's economy is multifaceted, with agriculture serving as the backbone. Coffee, a major cash crop, is cultivated on the slopes of Mount Kilimanjaro, benefiting from the area's fertile volcanic soils and favourable climate. Banana farming, both for local consumption and export, also plays a crucial role in supporting local livelihoods. The tourism sector, centred around Mount Kilimanjaro and its surrounding national parks, contributes significantly to the region's economy, attracting both domestic and international visitors (United Republic of Tanzania, 2013a, 2018). The selection of Moshi Municipal Council and Rombo District Council for this study provided a comprehensive view of the region's economic landscape. Moshi, as an urban centre, serves as a hub for small-scale industries and tourism-related businesses, while Rombo, being predominantly rural, showcases the agricultural potential of the region. This urban-rural contrast allows for a nuanced examination of how funding mechanisms adapt to different socio-economic contexts within the same region. Furthermore, the presence of both agricultural activities and tourism potential in these districts offers insights into how diverse economic sectors interact and influence funding allocation and utilization at the local level.

Dar es Salaam Region is a pivotal urban centre that plays a crucial role in the country's economic landscape. As Tanzania's largest city and principal port, it serves as a gateway for international trade and commerce. The region's economic significance is underscored by its diverse industrial base, thriving trade sector, and robust service industry, which collectively contribute substantially to the national GDP (National Bureau of Statistics, 2016). This economic diversity makes Dar es Salaam an ideal setting for studying complex funding systems and their impact on urban development. The study's focus on the urban district of Ilala Municipal Council and the peri-urban district of Kigamboni District Council provides a comprehensive perspective on the region's varied urban landscape. Ilala, being centrally located, represents the core urban dynamics of Dar es Salaam, while Kigamboni, with its rapidly developing coastal areas, offers insights into the challenges and opportunities of peri-urban growth. This dual focus allowed for a deeper examination of how funding systems operate across different urban contexts within the same region, potentially revealing disparities in resource allocation, development priorities, and economic opportunities between established urban centres and emerging peri-urban areas.

Mwanza Region situated along the southern shores of Lake Victoria in northwestern Tanzania, presents a diverse economic landscape dominated by fishing, agriculture, and mining activities. The region's proximity to Lake Victoria, Africa's largest freshwater lake, has made fishing a cornerstone of its economy, providing both sustenance and income for local communities. Agricultural production, particularly the cultivation of rice and cotton, forms another significant pillar of Mwanza's economic structure (United Republic of Tanzania, 2013b, 2017). These crops not only contribute to local food security but also serve as important cash crops for the region. Additionally, the presence of mining activities adds another dimension to Mwanza's resource-based economy, further diversifying its economic profile. The selection of Nyamagana Municipal Council, an urban district, and Magu District Council, a rural district, for study provides

an opportunity to examine the funding systems across different socio-economic contexts within Mwanza Region. This comparative approach allows for a nuanced understanding of how resource allocation and financial mechanisms operate in both urban and rural settings. By focusing on Mwanza, researchers gained valuable insights into the complexities of funding systems in regions that heavily rely on natural resources and agriculture.

Kigoma Region is characterized by its unique geographical location and diverse economic activities. Bordering Burundi and Lake Tanganyika, this region serves as a strategic gateway for cross-border trade, contributing significantly to its economic landscape. The urban district of Kigoma-Ujiji Municipal Council and the rural district of Kasulu District Council represent contrasting yet interconnected aspects of the region's development. While fishing in Lake Tanganyika provides a vital source of livelihood for many residents, small-scale agriculture remains a cornerstone of the rural economy, with crops such as cassava, maize, and beans being cultivated (United Republic of Tanzania, 2016). The region's remote location presents both challenges and opportunities for LED initiatives. On one hand, its distance from major urban centres can limit access to resources, infrastructure, and markets, potentially hindering economic growth. On the other hand, Kigoma's unique position as a cross-border trade hub offers potential for innovative LED strategies that capitalize on international connections. The contrast between the urban Kigoma-Ujiji and rural Kasulu districts provides a comprehensive view of the diverse funding needs and approaches required for LED in different settings. This makes Kigoma an ideal case study for examining how LED initiatives can be tailored and funded to address the specific needs of remote areas while leveraging their unique economic potentials, particularly in regions with significant cross-border activities.

Iringa Region situated in the southern highlands, has an economy based on agriculture (maize, beans, sunflower), forestry, and an emerging tourism sector (National Bureau of Statistics, 2013). The region's unique geographical position along Lake Tanganyika and its border with Burundi presents both challenges and opportunities for LED. The contrast between the urban Kigoma-Ujiji Municipal Council and the rural Kasulu District Council offers a diverse landscape for studying LED initiatives in different settings. Additionally, Iringa Region's varied economic sectors, including its growing tourism industry, provide an interesting comparative case for examining funding strategies and economic diversification efforts in Tanzania's southern highlands. The urban district of Iringa Municipal Council and the rural district of Kilolo District Council were selected. The inclusion of Iringa aimed to explore how funding systems support agricultural and forestry-based LED initiatives in both urban and rural settings.

Dodoma Region located in central Tanzania, is the nation's political capital. Its economy revolves around agriculture (grapes, millet), livestock keeping, and administrative services (United Republic of Tanzania, 2014, 2019). The selection of Dodoma region offers a diverse range of economic activities and governance structures for comparison. This diversity allows for a comprehensive analysis of LED funding strategies across different sectors and administrative levels. Furthermore, the inclusion of both urban and rural districts within Dodoma provides an opportunity to examine how LED initiatives are tailored to address the unique challenges and opportunities present in each setting. The study will focus on Dodoma City Council as the urban district and Chamwino District Council as the rural district. Examining Dodoma offers an opportunity to understand funding mechanisms within a political and administrative context. Dodoma Region has undergone significant economic transformation due to its designation as the nation's political capital. This strategic move has spurred infrastructural development, urbanization, and diversified economic activities. Agriculture remains a cornerstone of the region's economy, with crops such as grapes and millet being predominant. The relocation of government functions has bolstered the administrative sector, created numerous employment opportunities and stimulated local businesses. African Development Bank (African Development Bank Group, 2021)

Mtwara Region, situated in the southeastern corner of Tanzania, is characterized by its strategic location bordering Mozambique and the Indian Ocean. This positioning has significantly influenced its economic landscape, which is primarily driven by agriculture, fishing, and natural gas exploitation (National Bureau of Statistics, 2017). The region's agricultural sector is dominated by cashew nut production, a crop that has historically been a major export commodity for Tanzania. Cashew farming not only contributes substantially to the local economy but also provides livelihoods for a significant portion of the rural population in Mtwara. In addition to agriculture, Mtwara's coastal location has fostered a thriving fishing industry, which serves both local consumption needs and contributes to regional exports. The discovery of substantial natural gas reserves off the coast of Mtwara in recent years has added a new dimension to the region's economic profile. This has led to increased investment in infrastructure and has the potential to transform Mtwara into an important energy hub. However, the development of the natural gas sector also presents challenges in terms of balancing economic growth with environmental conservation and ensuring equitable distribution of benefits to the local population (National Bureau of Statistics, 2017). As Mtwara continues to develop, the integration of these diverse economic activities will be crucial for sustainable growth and improved living standards in the region. The urban district of Mtwara-Mikindani Municipal Council and the rural district of Masasi District Council were therefore selected for this study. Mtwara provides a setting to investigate funding for LED in regions with emerging natural resource exploitation.

Figure 3: A Map of Tanzania Showing the Field Site for the Study

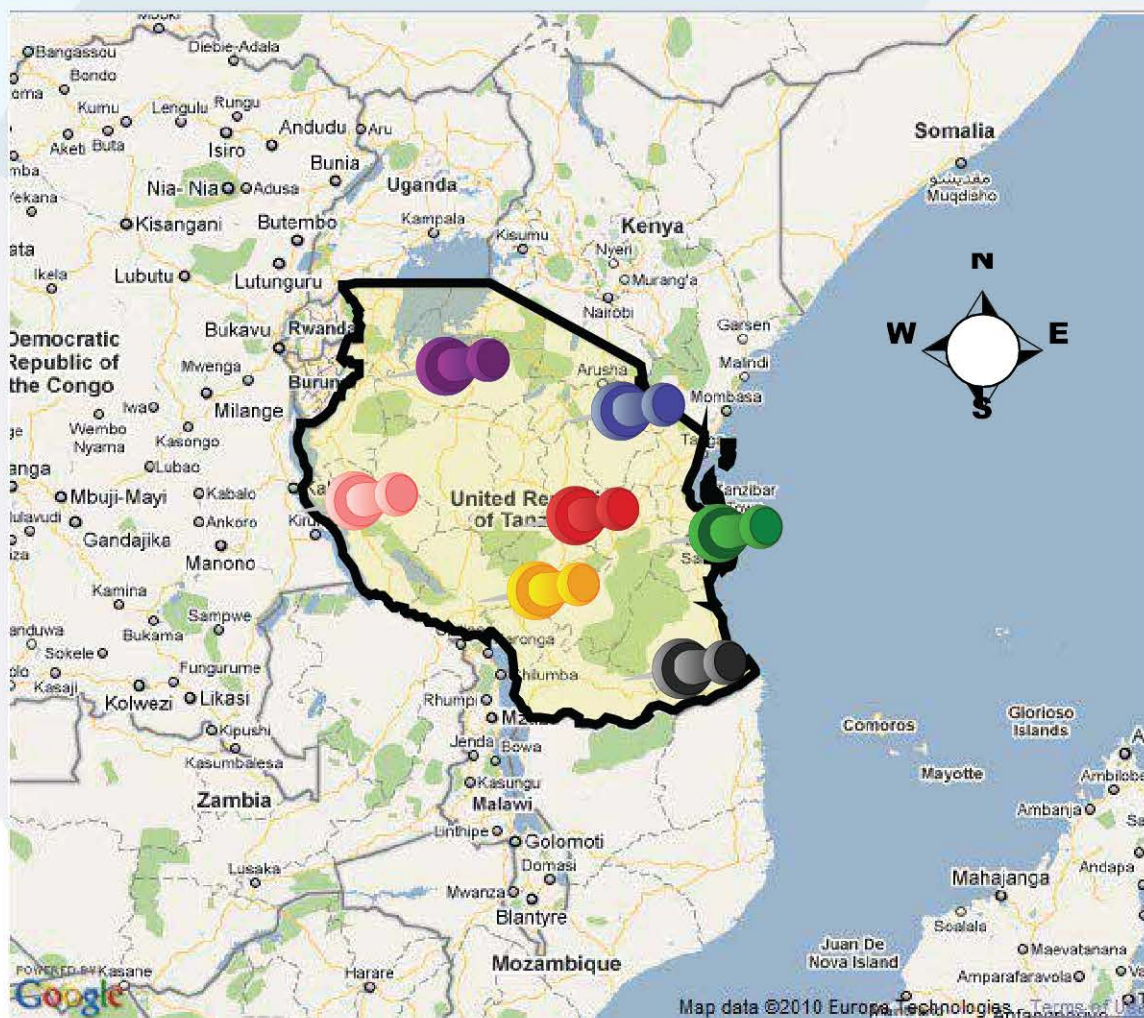


Table 1: Selected Zones, Regions, and Districts

Region	Zone	Economy	Urban District	Rural District
Kilimanjaro	Northeastern Tanzania	Agriculture (coffee, banana), tourism, small-scale industries	Moshi Municipal Council	Rombo District Council
Dar es Salaam	Eastern coast	Industrial, trade, service sectors	Ilala Municipal Council	Kigamboni District Council
Mwanza	Southern shores of Lake Victoria	Fishing, agriculture (rice, cotton), mining	Nyamagana Municipal Council	Magu District Council
Kigoma	Western Tanzania	Fishing, small-scale agriculture, cross-border trade	Kigoma-Ujiji Municipal Council	Kasulu District Council
Iringa	Southern highlands	Agriculture (maize, beans, sunflower), forestry, tourism	Iringa Municipal Council	Kilolo District Council
Dodoma	Central Tanzania	Agriculture (grapes, millet), livestock, administrative services	Dodoma City Council	Chamwino District Council
Mtwara	Southeastern Tanzania	Agriculture (cashew nuts), fishing, natural gas	Mtwara-Mikindani Municipal Council	Masasi District Council

The purposive selection of these districts based on their rural or urban characteristics is essential to capture the diversity of LED experiences influenced by economic disparities, infrastructural differences, and cultural and social factors. Urban districts like Dar es Salaam may have more diversified economies and better access to funding sources compared to rural districts such as those in Kigoma or Mtwara (World Bank Group, 2019). This diversity is critical for understanding how different contexts influence funding sources, allocation mechanisms, and financial management practices.

3.2 Research Design

The study employed a cross-sectional research design using a mixed-methods approach to collect and analyse data. A cross-sectional design was appropriate because it allows for the examination of data at a single point in time across multiple regions and districts, providing a snapshot of the current state of funding systems for LED (Creswell, 2014). The mixed-methods approach combines both quantitative and qualitative research methods, enhancing the comprehensiveness of the study. This approach leverages the strengths of quantitative methods in identifying patterns and relationships and qualitative methods in exploring underlying reasons and contextual factors (Greene, 2007). By integrating both methods, the study aims to provide a holistic understanding of the research problem.

The research was conducted in two phases. The quantitative phase involved collecting numerical data through surveys to quantify funding sources, allocation mechanisms, and financial management practices. The qualitative phase involves in-depth exploration through focus group discussions (FGDs) and key informant interviews (KIIs) to gain insights into stakeholders' experiences, perceptions, and challenges related to LED funding.

This design facilitated triangulation, enhancing the validity and reliability of the findings by

cross-verifying data from multiple sources and methods (Patton, 2015). It also allowed for complementarity, where qualitative insights help explain and contextualize quantitative results, providing a more nuanced understanding of the complexities involved in funding systems for LED.

3.3 Sampling Strategy

The sampling strategy was designed to ensure that the study captures a representative and diverse range of perspectives from key stakeholders involved in LED across the selected districts.

District Selection was based on purposive sampling, selecting districts that meet predefined criteria relevant to the research objectives, specifically their classification as rural or urban (Tongco, 2007). This approach ensures that the study includes districts with varying characteristics that may influence funding systems and LED outcomes. Participants in the study included key stakeholders involved in LED, such as council officials, project managers, community leaders, local entrepreneurs, and representatives from funding organisations. The sampling frame consisted of individuals and entities actively engaged in LED within the selected districts.

For the quantitative component, stratified random sampling was used to select participants from different stakeholder groups, ensuring representation across various roles and responsibilities (Etikan & Bala, 2017). An estimated 1,708 respondents (approximately 100 per district) were surveyed, determined using Cochran's formula for sample size calculation with a 95% confidence level (Cochran, 1977). For the qualitative component, purposive and snowball sampling was used to identify key informants and FGD participants with rich information on the subject matter. At least 280 key informant interviews (approximately 20 per district) were conducted to capture diverse expert opinions. Additionally, 28 FGDs (2 per district) were held, each comprising 6-8 participants (See Table 2).

The stakeholder categories included:

1. Council Officials: District Executive Directors, Planning Officers, Finance Officers, and LED Coordinators.
2. Project Managers: Individuals managing specific LED projects funded by various sources.
3. Community Leaders: Village chairpersons, ward councillors, and influential community members.
4. Local Entrepreneurs: Business owners, particularly those who have received support from LED initiatives.
5. Representatives from Funding Organisations: Officials from NGOs, international development agencies, and private investors.

Rationale for Participant Selection:

The selection of participants for the mini-survey, FGDs, and KIIs is based on the following considerations:

1. Population Representation: Each district's population size, as reported in the 2022 Census, ensures that the sample size of 100 participants per district is proportionate and representative.
2. Economic Diversity: The chosen regions and districts encompass a variety of economic activities, including trade, agriculture, mining, tourism, and fisheries. This diversity allows for a comprehensive understanding of different economic contexts across Tanzania.
3. Geographical Coverage: The selection spans all major zones of Tanzania—Central, Eastern,

Lake, Northern, Southern Highlands, Western, and Southern—ensuring geographical diversity and inclusivity in the survey.

4. **Urban and Rural Balance:** By including both city councils (urban areas) and district councils (rural areas), the study captures perspectives from both urban and rural populations, providing a balanced view of the socio-economic landscape.

This approach ensures that the fieldwork captures a wide range of experiences and insights, reflecting the diverse demographic and economic realities of Tanzania See Table 1:

This sampling strategy ensured that the study encompasses a broad spectrum of perspectives, enhancing the depth and breadth of the data collected and providing a comprehensive understanding of the funding systems for LED in different contexts.

3.4 Data Collection Methods

Data collection involved both quantitative and qualitative methods to gather comprehensive information on funding systems for LED. The integration of quantitative and qualitative data offered insights into both the broader trends and specific examples of LED financing.

Surveys were administered to collect quantitative data. A structured questionnaire was developed based on a thorough literature review and existing instruments used in similar Tanzanian contexts (O.-H. Fjeldstad et al., 2010; Ngowi & Mselle, 2018). The questionnaire included sections on demographic information (age, gender, education level, position, years of service), funding sources (types, amounts, reliability), allocation mechanisms (processes, criteria, stakeholder involvement), financial management practices (budgeting procedures, accounting systems, internal controls, auditing), and effectiveness measures (perceptions of funding adequacy, timeliness, impact on LED outcomes). The questionnaires (1,708) were administered in seven (7) regions by trained enumerators in Kiswahili and local languages as needed (See Table 2). Data collection utilized tablets with data entry applications to minimize errors and enhance data quality.

Focus Group Discussions (FGDs) were conducted to gather qualitative data from community members, local business owners, and beneficiaries of LED projects. The FGDs explored participants' awareness of LED initiatives and funding sources, perceptions of transparency and fairness in fund allocation, the impact of funding on local economic activities, challenges faced in accessing funding, and suggestions for improvement. Each FGD lasted approximately 1.5 to 2 hours and were conducted in neutral locations convenient for participants. Discussions were guided by a semi-structured FGD guide to ensure consistency while allowing flexibility for participants to express their views freely.

Key Informant Interviews (KIIs) involved in-depth interviews with regional and district-level officials, representatives from donor agencies, and private sector investors. The interviews focused on the role of their organisations in LED funding, experiences with funding allocation and management, challenges and opportunities in the current funding systems, and recommendations for enhancing funding effectiveness. KIIs were conducted using tailored interview protocols designed to elicit detailed and specific information relevant to each informant's expertise and organisational role.

Table 2: Distribution of Zones, Regions and Districts for the Fieldwork

SN	Administrative Zone	Region (Main Economic Activities)	Local Government Authority	Population (2022 Census)	Number of FGDs	Number of KIs	Mini-Survey Participants	Total Interviews
1	Central Zone	Dodoma (trade, transport hub, construction)	Dodoma City Council (CC)	765,179	2	20	100	122
			Chamwino District Council (DC)	486,176	2	20	100	122
2	Eastern Zone	Dar es Salaam (commercial metropolitan)	Temeke Municipal Council (MC)	1,368,881	2	20	100	122
			Ubungo MC	1,231,292	2	20	100	122
3	Lake Zone	Mwanza (mining, livestock, fisheries)	Nyamagana MC	597,723	2	20	100	122
			Misungwi DC	438,868	2	20	100	122
4	Northern Zone	Kilimanjaro (tourism, coffee, trade)	Moshi MC	221,733	2	20	100	122
			Rombo DC	260,963	2	20	100	122
5	Southern Highlands Zone	Iringa (agriculture, forestry, trade)	Iringa MC	179,485	2	20	100	122
			Mufindi DC	392,867	2	20	100	122
6	Western Zone	Kigoma (agriculture, trade, fisheries)	Kigoma MC	215,458	2	20	100	122
			Kasulu DC	634,221	2	20	100	122
7	Southern Zone	Mtwara (agriculture, cashew nuts, gas)	Mtwara MC	161,756	2	20	100	122
			Masasi DC	317,965	2	20	100	122
	Total			8,063,757	28	280	1,400	1,708

Ethical Considerations

Ethical considerations were strictly adhered to during data collection. Informed consent was obtained from all participants after providing them with detailed information about the study's purpose, procedures, potential risks, and benefits. Confidentiality was maintained by anonymizing data and securely storing all information collected. Data collectors received training on ethical research practices, cultural sensitivity, and respectful engagement to ensure that data collection is conducted appropriately and respectfully.

3.5 Data Analysis

Data analysis involved the integration of both quantitative and qualitative data to provide a comprehensive understanding of the research findings. Quantitative data analysis was conducted using the Statistical Package for the Social Sciences (SPSS) version 26. Descriptive statistics, including frequencies, percentages, means, and standard deviations, were used to summarize data on funding sources, allocation mechanisms, and financial management practices. Qualitative data analysis involved thematic analysis following Braun and Clarke's (2006) six-step framework: (1) familiarization with the data, (2) generating initial codes, (3) searching for themes, (4) reviewing themes, (5) defining and naming themes, and (6) producing the report. Transcripts from FGDs and KIIs will be analysed using NVivo software, which facilitated the organisation, coding, and retrieval of qualitative data. This analysis identified recurring themes and patterns related to stakeholders' experiences, perceptions, and challenges concerning funding systems for LED.

Integration of quantitative and qualitative data were achieved through triangulation. This process involved comparing and contrasting findings from both data sets to identify convergences and divergences, enhancing the validity and reliability of the results (Patton, 2015). Qualitative insights complemented quantitative findings by providing context and depth to the numerical data, explaining underlying reasons and factors influencing observed patterns.

Quality assurance measures were implemented throughout the data analysis process. For quantitative data, double data entry was performed to minimize errors, and reliability checks will be conducted. For qualitative data, inter-coder reliability checks will ensure consistency in coding, and member checking with participants will confirm the accuracy of interpretations. Ethical considerations, including maintaining confidentiality and data security, were strictly observed during analysis. Findings have been reported honestly and transparently, adhering to ethical research standards and avoiding fabrication or misrepresentation.

4.0. FINDINGS

The effectiveness of LED initiatives is deeply intertwined with the availability and management of funding from various sources. Main funding avenues for LED typically encompass government allocations at both central and local levels, private sector investments, international aid, and financial services provided by banking and non-banking financial institutions. Each of these sources plays a pivotal role in supporting economic activities, infrastructure development, and community programs that stimulate local economies. Understanding the dynamics, strengths, and challenges associated with these funding sources is essential for crafting strategies that enhance economic growth and ensure equitable development. The following sections delve into the findings on these main funding sources, shedding light on their impact, effectiveness, and the obstacles faced in different regions, thereby providing insights into how funding mechanisms can be optimized to support LED more effectively.

4.1. Main Sources of Funding

Based on the survey data, we have consolidated a table to present a comprehensive view of the primary sources of funding for LED activities across the seven regions. Table 3 illustrates the primary sources of funding for LED activities across the seven regions in Tanzania, revealing significant disparities. Regions like Iringa and Mwanza demonstrate a relatively diversified funding portfolio, with high reliance on government grants (87% and 74%, respectively), supplemented by contributions from the private sector, NGOs, and community contributions. In contrast, regions such as Dodoma, Dar es Salaam, Kigoma, and Mtwara show minimal or no reliance on these alternative funding sources, indicating a heavy dependence on limited or absent government grants. The data highlights an uneven distribution of financial resources for LED, with some regions struggling to access diverse funding streams, potentially undermining their capacity to implement sustainable local economic initiatives.

Table 3: What are the primary sources of funding for LED activities in your council?

Region	Government Grants (Yes)	International Aid (Yes)	Private Sector Investments (Yes)	NGOs (Yes)	Community Contributions (Yes)
Dodoma	8%	0%	0%	0%	0%
Dar es Salaam	0%	0%	0%	0%	0%
Mwanza	74%	10%	23%	18%	20%
Kilimanjaro	72%	11%	21%	19%	29%
Iringa	87%	13%	52%	24%	23%
Kigoma	2%	1%	0%	0%	0%
Mtwara	1%	0%	0%	0%	0%
Total	35%	5%	14%	9%	10%

Source : Field Survey (2024) (N =1,400)

The following sections discuss the findings from the KIIs, FGDs and review of some important documents.

4.1.1. Government Funding and Public Sector Contributions

In all the regions surveyed, government funding remains a central pillar of LED initiatives, but this approach is accompanied by numerous challenges. For instance, in Dodoma, the Dodoma City Council and Chamwino District Council rely heavily on local government tax collection and central government transfers to fund LED projects. A specific example is the regional business council organised by the Regional Administrative Secretary (RAS) in collaboration with the Tanzania Chamber of Commerce, Industry, and Agriculture (TCCIA). These meetings foster dialogue between local government authorities (LGAs) and entrepreneurs, aiming to create an enabling environment for local businesses through local revenue generation, which includes taxes and levies. The meetings' initiatives highlight the importance of collaboration between government entities and private sector organisations in promoting LED. However, the

heavy reliance on tax collection and government transfers may pose sustainability challenges, particularly if economic conditions fluctuate or if there are changes in central government policies. Additionally, the effectiveness of such collaborative efforts might be influenced by the capacity of local institutions to implement and manage LED projects efficiently. Moreover, the imposition of taxes by LGAs without adequate stakeholder engagement remains a challenge, often creating friction with the private sector.

Similarly, in Iringa, government funding has primarily targeted infrastructural projects such as roads and public facilities. The Iringa Municipal Council and Mufindi District Council have leveraged funds from the Local Government Finance Act to invest in community infrastructure projects. This Act empowers councils to collect local levies, which are then channeled towards constructing health centres and schools. Despite these efforts, issues persist with the efficiency of fund allocation and the sufficiency of these funds to meet all community needs.

4.1.2. Non-Governmental Organisations (NGOs) and International Agencies

International development partners and non-governmental organisations (NGOs) play a significant role in supporting LED initiatives across various regions in Tanzania by providing both technical and financial assistance. In Dodoma, NGOs such as VSO/Restless Development, JICA, and KOICA have been instrumental in financing and implementing community-level projects. For instance, JICA has focused on improving schools and health facilities, while VSO supports agriculture projects and climate resilience efforts. These partnerships help bridge funding gaps that often arise due to limited public sector budgets, leading to the development of essential infrastructure like community health centres and irrigation facilities, which are critical for local economic activities. On the impact of NGOs on local development, participants from FGD in Dodoma noted:

"When decentralization is in place, the NGO can reach the community in need easily. The powers vested to the local government and the NGO activities can reach the people in need efficiently. Had the NGO been working with the central government only, they would not have been able to achieve what they have managed to do."

In Kigoma, NGOs have a substantial impact, especially in Kasulu and Kigoma-Ujiji councils. Organisations like ActionAid are active in enhancing community resilience and promoting agricultural development, while World Vision contributes to improving social amenities and education. A practical example is the construction of community irrigation systems in Kasulu, supported by ActionAid, which has boosted agricultural productivity and subsequently contributed to local economic growth.

Another example is the Kigoma Joint Programme Phase Two (KJP II) which is a UN joint initiative involving 17 agencies, aimed at bolstering development and human security in Kigoma, Tanzania, from 2022 to 2027. It supports refugees, migrants, and host communities, integrating humanitarian, development, and peace efforts. KJP II focuses on four main outcomes: People (education, health & nutrition, WASH, elimination of violence against women and children), Prosperity (agriculture & economic empowerment), Planet (climate smart adaptation, natural resource management, sustainable & renewable energy, disaster risk reduction), and Enabling Environment (governance). The programme aims to benefit 2.3 million people, including host communities and refugees, across six districts in the Kigoma region: Kigoma Town, Kasulu, Buhigwe, Kakonko, Kibondo, and Uvinza. The total funding required for KJP II is USD 93.3 million, with specific allocations for each outcome area: People (USD 44.8 million), Prosperity (USD 17.2 million), Planet (USD 23.1 million), and Enabling Environment (USD 6.5 million). This programme

is overseen by a Joint Steering Committee co-chaired by the Kigoma Regional Commissioner and the UN Resident Coordinator. A Joint Technical Committee provides technical support, and the UN Area Coordinator in Kigoma ensures smooth orchestration of all program components.

4.1.3. International Aid

International aid is a significant source of funding in many councils, often channelled through development programs targeting specific areas of local economic growth. In Mtwara, for example, aid has substantially benefited the development of the natural gas sector. The European Union (EU) and the United Nations Development Programme (UNDP) have supported various capacity-building projects aimed at enabling local farmers and entrepreneurs to capitalize on opportunities presented by the burgeoning gas industry. This includes training programs for smallholder farmers in Masasi District, which have helped them integrate into value chains for major crops like cashew nuts and sesame, enhancing their ability to benefit from regional and global markets. On capacity-building programs in agriculture, One participant from Kigoma noted that:

The training provided through international support, such as from UNDP, has helped farmers like us in Misungwi understand better farming methods, especially for cash crops like cashews and sesame. This has enabled us to sell at better prices and access wider markets, benefiting our families and the community.” — Participant from Misungwi, FGD, Kigoma.

Similarly, in Kilimanjaro, international funding has supported local economic development through infrastructure improvements and community development projects. The construction of new water supply systems in rural areas of Rombo District, funded by the Korea International Cooperation Agency (KOICA), has improved agricultural productivity and reduced the time women spend fetching water. This improvement has increased women’s participation in economic activities, thereby contributing to overall economic growth in the region. KOICA Tanzania Office has supported a total of USD 100.55 million in grants, with significant projects in health, education, and water sectors, including partnerships with international organisations and NGOs. Key projects include the Health Outreach and Education Program for Women’s, Children’s, and Adolescents’ Health (2017-2021, USD 7 million) and the Improvement of Health Care Services for Mothers and Newborns in Chanika (2014-2018, USD 4.25 million). KOICA also provides various training programs to Tanzanian government officials to strengthen Human Resource Development and Capacity Building, sharing Korea’s experience in economic growth and poverty eradication (KOICA, 2022). One participant from FGD in Kilimanjaro supported the role of international aid:

“KOICA’s funding for water supply systems in Rombo District has changed lives here. Women now spend less time fetching water, and this has allowed many of them to engage in farming or small businesses, significantly boosting the household income in our village.” — Participant from Kilimanjaro Region, FGD.

These quotes illustrate the transformative role of international aid in both capacity-building and infrastructure development, demonstrating tangible benefits at the community level.

4.1.4. Private Sector Investment

Private sector investments, facilitated through collaborations with LGAs, play an important role in stimulating LED in Tanzania. In Dodoma, entities like European Free Trade Association's (EFTA) collaborate with LGAs to provide loans to local investors in sectors such as transportation, construction, and agriculture. A concrete example is EFTA's funding of sunflower processing plants in Chamwino District. This initiative has not only improved value addition in the agricultural sector but has also generated employment for local communities, thereby boosting the local economy. The funding of sunflower processing plants in Chamwino District has had far-reaching impacts on the local agricultural sector and economy. By establishing these processing facilities, EFTA has enabled farmers to transform raw sunflower seeds into higher-value products such as sunflower oil and meal. This value addition process has significantly increased the income potential for local farmers, as processed sunflower products command higher prices in both domestic and international markets compared to unprocessed seeds.

Moreover, the establishment of these processing plants has created a ripple effect throughout the local economy. The facilities have generated direct employment opportunities for community members, ranging from plant operators and technicians to administrative staff. Additionally, indirect employment has been stimulated in related sectors such as transportation, packaging, and distribution. This increase in employment has led to higher household incomes, improved living standards, and enhanced purchasing power within the community. As a result, other local businesses have experienced growth, further contributing to the overall economic development of Chamwino District. The success of this initiative demonstrates the potential of targeted investments in agricultural processing to drive sustainable economic growth and improve livelihoods in rural areas.

In Mwanza, the private sector's involvement has focused on small and medium enterprises (SMEs). The Mwanza Regional Administrative Secretariat has been instrumental in coordinating partnerships between LGAs and local banks to provide credit facilities for fish processors and traders. This financial support has enabled local businesses to enhance their processing capabilities, thus increasing the value of their products and ensuring their competitiveness in both regional and international markets. The implication of the private sector's involvement and the Mwanza Regional Administrative Secretariat's coordination efforts is that local fish processors and traders in Mwanza have improved access to credit facilities. This financial support has led to:

- a) Enhanced processing capabilities for SMEs in the fish industry
- b) Increased value addition to fish products
- c) Improved competitiveness of local businesses in regional and international markets
- d) Potential growth in the local economy through the expansion of fish-related businesses
- e) Strengthened partnerships between local government authorities and financial institutions

These developments have contributed to the overall economic growth and development of the Mwanza Region, particularly in the fisheries sector.

4.1.5. Community Contributions and Local Initiatives

The role of local communities in funding LED is evident through their active participation and various forms of contribution. In Dar es Salaam, community members engage in Village

Community Banks (VICOBA), which are savings groups that provide microloans to support small business initiatives. In Ilala Municipal Council, VICOBA has enabled individuals to start and expand ventures such as tailoring and street food vending, significantly contributing to local income generation. The role of local communities in funding LED extends beyond traditional financial institutions, showcasing the power of grassroots initiatives. In Dar es Salaam, VICOBA have emerged as a crucial mechanism for economic empowerment. These savings groups not only provide a platform for community members to pool their resources but also offer microloans that serve as catalysts for entrepreneurial activities. The success of VICOBA in Ilala Municipal Council demonstrates how community-driven financial systems can effectively address the capital needs of small-scale entrepreneurs, who might otherwise struggle to access formal banking services.

The impact of these community funding initiatives is multifaceted, contributing to both individual and collective economic growth. By enabling residents to start or expand businesses in sectors such as tailoring and street food vending, VICOBA directly influences local income generation and job creation. This grassroots approach to economic development fosters a sense of ownership and responsibility among community members, as they become active participants in shaping their economic landscape. Moreover, the success of these small businesses often leads to a ripple effect, stimulating further economic activities and improving the overall socio-economic conditions of the community. The VICOBA model in Dar es Salaam serves as a testament to the potential of community-led financial initiatives in driving sustainable local economic development:

"VICOBA has been a game-changer in our community. Through our savings group, I was able to take a loan and start my street food business. Now, I not only earn an income but also provide for my family, and other women in our group have started tailoring businesses or expanded their vegetable stalls." — Participant from KII Ilala Municipal Council, Dar es Salaam, Region.

Similarly, in the Iringa Region, community initiatives have been pivotal in funding agricultural projects. Farmers in Mufindi District have formed cooperatives that allocate a portion of their earnings to community projects like building storage facilities for agricultural produce. This not only enhances food security but also empowers farmers to negotiate better prices by allowing them to store crops during peak harvest times. The community-driven approach in Iringa, particularly in Mufindi District, has demonstrated the power of collective action in advancing agricultural development. By forming cooperatives, farmers have created a sustainable model for reinvesting in their communities. These cooperatives not only pool financial resources but also leverage collective bargaining power to improve the economic prospects of their members. The allocation of earnings towards community projects, such as storage facilities, addresses a critical gap in the agricultural value chain. For example, one member from the FGD in Mufindi echoed the role played by cooperatives in agricultural development in Iringa:

"In our cooperative, we decided to use part of our earnings to build a storage facility. This has allowed us to store maize and beans after harvest and wait for better market prices. It has made a big difference in ensuring food security and increasing our incomes by avoiding selling at low prices during peak harvest." — Farmer from Mufindi District, FGD, Iringa Region.

The construction of storage facilities serves multiple purposes beyond mere storage. It allows farmers to mitigate the effects of market fluctuations by holding onto their produce during periods of oversupply, thereby avoiding the need to sell at unfavourable prices. This strategic approach to crop management enhances food security at both the household and community levels. Moreover, the ability to store crops for extended periods empowers farmers to participate more effectively in market negotiations, potentially leading to improved income stability and economic resilience for the entire farming community. This model of community-funded agricultural infrastructure could serve as a template for other regions facing similar challenges in agricultural development and market access.

4.1.6. Stability and Reliability of Funding Sources

The stability and reliability of funding sources are critical to the success of LED initiatives in Tanzania, as evidenced in various findings from the regions, including Dar es Salaam, Dodoma, Iringa, and others. A major issue highlighted from the findings is the heavy reliance on external funding sources, such as donor aid and private investments, which can be volatile and uncertain, thereby making long-term planning for LED projects challenging. For instance, findings from Kilimanjaro indicate the evolution of funding sources over time and emphasizes the need for a more sustainable and diversified base of revenue, including contributions from local communities, non-governmental organisations, and private sector investments. This diversification can mitigate risks associated with dependency on a single source and enhance the resilience of LED initiatives, particularly in times of economic

Table 4 reflects significant regional variations in the perceived stability and reliability of funding sources. Dodoma and Kigoma exhibit overwhelmingly negative assessments, with 83% and 87% respectively rating these sources as "Very Unstable," underscoring acute instability in these regions. Dar es Salaam shows a slightly less severe yet still concerning profile, with 47% categorizing the funding as "Very Unstable" and a relatively higher 10% viewing it as "Very Stable." Mwanza presents a more balanced perspective, where 31% find the funding "Very Unstable," but a notable 22% view it as "Very Stable," suggesting a polarized experience. Kilimanjaro and Iringa show the most moderate responses, with high proportions of "Moderate/Neutral" ratings (33% and 62%, respectively), indicating a mixed but less extreme view of reliability. Mtwara aligns more closely with Dar es Salaam, with instability (53% "Very Unstable") dominating but a small contingent (8%) perceiving stability. Aggregated data reveals a prevailing sentiment of instability (67% combining "Very Unstable" and "Unstable"), with only 14% rating the sources as "Stable" or "Very Stable," reflecting widespread dissatisfaction and uncertainty about funding reliability, albeit with some regional nuances in optimism and neutrality.

Table 4: How stable and reliable are funding sources (Rated on a scale of 1-5, with 1 being very unstable and 5 being very stable) downturn or donor withdrawal.

Region	Very Unstable	Unstable	Moderate/Neutral	Stable	Very Stable	Prefer Not to Say	Total
Dodoma	83%	15%	1%	0%	1%	0%	100%
Dar es Salaam	47%	32%	4%	1%	10%	6%	100%
Mwanza	31%	23%	18%	6%	22%	0%	100%
Kilimanjaro	13%	45%	33%	8%	2%	0%	100%
Iringa	7%	11%	62%	16%	5%	0%	100%
Kigoma	87%	11%	1%	0%	1%	1%	100%
Mtwara	53%	9%	13%	16%	8%	1%	100%
Total	46%	21%	19%	7%	7%	1%	100%

Source : Field Survey (2024) (N =1,400)

Findings from FGDs in Iringa and Mtwara further elaborate on the mechanisms used to allocate funds to LED projects, pointing out inefficiencies in financial management practices and highlighting the need for transparency, equity, and accountability in these processes. The findings from Iringa suggest that challenges in budgeting, accounting, and auditing contribute to discrepancies in fund allocation, which ultimately undermines the stability of funding for LED initiatives. In Mtwara, stakeholders noted that the lack of clear demarcation in roles and the weaknesses in coordination among different administrative tiers further contribute to an unreliable funding landscape for LED projects. Improving these systems by establishing stronger financial oversight and creating mechanisms for consistent stakeholder engagement in budget discussions could lead to more stable and predictable funding environments, crucial for the successful implementation and sustainability of LED initiatives.

4.1.7. Challenges and Observations on Funding from the Field

Across various regions in Tanzania, several challenges in funding allocation for LED have been highlighted. In Dodoma and Kigoma, there is noticeable tension between LGAs and private sector actors due to taxes and levies imposed without adequate consultation, which has sometimes discouraged private sector investments. Additionally, the LGAs' limited financial autonomy and heavy reliance on central government transfers often lead to delays and inefficiencies in implementing LED projects. In Mtwara region, while international aid has significantly contributed to infrastructure development, coordination issues between different tiers of government and donors persist. A lack of clarity regarding roles has led to overlapping responsibilities and delays in project implementation. In Kilimanjaro and Mwanza, distinct yet significant challenges exist. Kilimanjaro faces difficulties in ensuring that international funds are allocated transparently and reach the intended beneficiaries. Meanwhile, Mwanza grapples with concerns about the equitable distribution of private sector investments, which are often concentrated in urban areas, exacerbating rural-urban disparities. These challenges underscore the need for improved consultation, transparency, and coordination among stakeholders to enhance the effectiveness of LED funding across the regions.

The analysis of the funding mechanisms for LED in Tanzania's various regions reveal a complex landscape involving governmental resources, international aid, private investments, NGO involvement, and community contributions. While there are numerous examples of successful initiatives funded through these channels, the reports also highlight the need for better coordination, enhanced financial autonomy for LGAs, and more inclusive stakeholder engagement. The successful implementation of LED initiatives depends on balancing these funding sources and addressing the challenges that undermine the effectiveness and sustainability of local economic development efforts.

4.2. Mechanisms and criteria used to allocate funds to LED initiatives

Analysing the mechanisms and criteria used to allocate funds to LED initiatives across Tanzania reveals diverse and complex systems, each subject to unique regional dynamics. The mechanisms generally involve a combination of direct central government allocations, local government revenues, contributions from private sector partnerships, international aid, and community initiatives. These funding streams are allocated using criteria meant to ensure development goals are met while attempting to address local needs. However, the transparency, efficiency, and equity of these allocation systems vary considerably across regions.

Based on the survey data, we have consolidated a table to present a comprehensive view of the criteria used to allocate funds to LED initiatives across various regions. This consolidated table 4

summarizes the proportion of respondents in each region that indicated “Yes” for the respective criteria used to allocate LED funds. The table highlights the varying criteria used across regions in Tanzania for allocating funds to LED initiatives. Notably, Iringa places a strong emphasis on “Community Needs Assessment” (70%) and “political considerations” (48%) compared to other regions, suggesting a more inclusive and consultative approach to fund allocation. Kilimanjaro also uses multiple criteria, with a notable emphasis on “community needs assessment” (51%) and “expected economic impact” (23%). In contrast, regions such as Dodoma, Kigoma, and Mtwara show almost no use of criteria beyond “project feasibility,” which reflects a limited approach to fund allocation. Overall, the data suggests a disparity in the factors considered for funding across the regions, with some relying heavily on a single criterion while others adopt a more multifaceted approach.

Table 5: What criteria are used to allocate funds to LED initiatives in your council?

Region	Project Feasibility (Yes)	Expected Economic Impact (Yes)	Community Needs Assessment (Yes)	Political Considerations (Yes)	Historical Allocations (Yes)
Dodoma	36%	0%	0%	0%	0%
Dar es Salaam	4%	0%	1%	0%	0%
Mwanza	31%	16%	47%	17%	2%
Kilimanjaro	30%	23%	51%	30%	8%
Iringa	40%	7%	70%	48%	5%
Kigoma	40%	0%	0%	0%	0%
Mtwara	35%	0%	0%	0%	0%
Total	31%	7%	24%	14%	2%

Source: Field Survey (2024) (N =1,400)

4.2.1. Allocation Mechanisms and Criteria

The allocation mechanisms and criteria for LED funding in Tanzania largely depend on the interplay between governmental institutions, NGOs, international donors, and local community contributions. Several major mechanisms are evident across the surveyed regions.

4.2.1.1 Central Government Allocations and Local Revenue

Central Government Allocations

The central government plays a pivotal role in financing LGAs by providing substantial funding through budgetary transfers. These funds are essential for supporting public infrastructure projects and ensuring the provision of vital services at the local level. Allocations are primarily determined based on criteria such as population size and specific development needs. For instance, councils in densely populated areas like Dar es Salaam receive larger budgetary allocations to meet the higher demand for services. Conversely, LGAs in rural regions with developmental priorities, such as agricultural advancement in Mtwara and Iringa, receive funds tailored to those needs. A case in point is Mufindi District Council, which channels significant

funding toward agricultural infrastructure and irrigation systems to boost productivity and address food security challenges. However, these allocations are often marred by challenges related to transparency and efficiency. In Mtwara, bureaucratic delays in the disbursement of funds from the central government have frequently hampered timely project implementation. Such delays not only escalate project costs but also lead to inefficiencies that undermine the intended developmental outcomes and erode public trust in governmental processes.

Local Revenue

LGAs are also tasked with generating their own revenue to supplement central government allocations and to finance local development initiatives autonomously. Sources of local revenue typically include property taxes, business licenses, service fees, and other local levies. However, the capacity of LGAs to raise sufficient local revenue is often hindered by several critical factors. In regions where economic activities are limited—such as rural districts dominated by subsistence agriculture like Mtwara and Iringa—the potential tax base is inherently narrow. This limitation makes it challenging for LGAs to generate adequate funds internally. Additionally, inefficiencies in revenue collection mechanisms, lack of proper assessment procedures, and instances of corruption further diminish the revenue that could be harnessed locally. For example, inadequate administrative capacity and lack of transparency in revenue management can lead to significant leakages and misallocation of funds. The over-reliance on central government transfers consequently undermines local autonomy and the ability to respond effectively to specific community needs. Without sufficient local revenue, LGAs may struggle to maintain infrastructure and public services, leading to deterioration in service delivery and hindering sustainable local development efforts.

4.2.2.2. *International Aid and NGO Contributions*

International agencies and NGOs have become increasingly pivotal in financing LED, especially in areas where local resources are scarce or mismanaged. These external funds are generally allocated through partnership agreements with LGAs or based on community needs assessments. However, the criteria for allocation often prioritize alignment with international development goals over the nuanced and immediate needs of local communities. Projects funded by international donors must conform to broader objectives such as poverty reduction, education enhancement, health improvement, and climate resilience. For instance, in Kigoma, the KOICA's funding for water supply systems was justified by the need to enhance agricultural productivity and reduce waterborne diseases, aligning with global health and agricultural agendas. While such projects bring tangible benefits, the insistence on fitting local initiatives into international frameworks can overshadow pressing local concerns that do not neatly align with these predefined categories. This raises critical questions about whether international aid genuinely serves the interests of the communities or primarily advances the strategic objectives of donor countries and organisations.

Furthermore, while community needs assessments—like those conducted by ActionAid for constructing community-based irrigation systems in Kasulu District—are intended to identify high-impact areas, their effectiveness is often compromised by the underlying requirement to conform to donor priorities. The involvement of NGOs and international donors introduces a level of transparency through rigorous monitoring and evaluation processes. Yet, this procedural rigor does not necessarily translate into efficient or effective use of resources from the perspective of local beneficiaries. The necessity for local projects to align with donor-defined priorities can result in misaligned development goals, directing funding toward initiatives that satisfy donor criteria rather than addressing the most urgent or contextually appropriate needs of the community. This misalignment highlights a fundamental tension in international aid and

NGO contributions: the potential for well-intentioned external interventions to inadvertently sideline local agency and priorities. It suggests a pressing need for a more collaborative and context-sensitive approach to development funding—one that genuinely incorporates local perspectives and allows for flexibility beyond rigid international agendas to ensure that aid is both effective and empowering for the communities it aims to serve.

4.2.2.3 Local Revenue and Community Contributions

Local Revenue

Local revenue collection serves as a pivotal mechanism in the allocation of resources for Local Economic Development (LED). Local Government Authorities (LGAs) generate funds through local taxes, levies, and fees, which are then allocated to various LED projects based on established criteria. These criteria often revolve around the LGAs' priorities within their local budgets, such as road construction, education infrastructure, or market development. For instance, in Dodoma City Council, funds amassed from local taxes and levies have been strategically invested to improve infrastructure like roads and public market facilities, thereby supporting small and SMEs and traders. While this approach allows LGAs to address immediate local needs and stimulate economic growth, it also presents certain challenges. Reliance on locally generated revenue can exacerbate inequalities between wealthier and poorer regions; affluent areas can raise more funds for development projects, leaving less prosperous communities behind. Moreover, the process of determining priorities may not always align with the most urgent needs of the populace due to potential political influences or mismanagement, leading to inefficient allocation of scarce resources. This highlights a critical need for transparent and equitable decision-making processes within LGAs to ensure that local revenue is utilized effectively and benefits all segments of the community.

Community Contributions

Community contributions represent another significant yet complex mechanism for funding LED initiatives. In some councils, communities actively participate in financing projects that directly benefit them, exemplified by initiatives like those in Moshi Municipality where community members have contributed to building water infrastructure through local savings groups. This grassroots approach ensures that projects are tailored to address the specific needs and desires of the community, fostering a sense of ownership and engagement among local populations. For example, community-driven infrastructure projects in Moshi Municipality one member noted that:

"In our village, we came together through our local savings group to contribute to the construction of a water pipeline. Everyone participated by giving what they could, and now we have better access to water for our farms and households. This has improved our lives, but it also shows that when we work together, we can achieve a lot." — Participant from Moshi Municipality, FGD, Kilimanjaro.

However, this mechanism is not without its criticisms as noted by a participant from Mwanza:

"While we try to contribute to projects like building schools or fixing roads, it's not easy for everyone. Some families can't afford it, and it creates tension. Also, there's no clear guidance on how these funds are managed, so sometimes we feel like our efforts don't bring the results we hoped for." — Participant from Misungwi District, KII, Mwanza.

These quotes highlight both the empowering potential and the challenges of community contributions, underscoring the importance of balancing grassroots engagement with structured coordination and equitable support.

The voluntary nature of community contributions can lead to inefficiencies and inequities; resource-poor communities may struggle to mobilize sufficient funds, resulting in uneven service delivery and potentially widening the gap between different areas. Moreover, over-reliance on community funding can place undue financial burdens on individuals who may already be facing economic hardships. The lack of coordination and oversight in these community-initiated projects might also result in fragmented efforts that do not align with broader strategic development plans. Consequently, while community contributions can be a valuable tool in ensuring that development projects are responsive to local needs, they must be integrated into a well-coordinated framework that promotes efficiency and equity to truly enhance LED outcomes.

4.2.2. Assessment of Transparency, Efficiency, and Equity

4.2.2.1 Transparency

Table 6 reflects the perceptions of transparency in the fund allocation process for LED initiatives from regions surveyed, showing significant regional variation. Dodoma stands out positively, with the majority (61%) perceiving the process as transparent, indicating relatively good governance and openness in fund allocation. In contrast, Mwanza and Kilimanjaro display a mixed response, with high percentages indicating the process is either "very non-transparent" or "non-transparent" (35% and 29%, respectively). This suggests significant distrust in these regions. Iringa and Kigoma lean towards moderate perceptions, with over half of respondents in both regions viewing the process as neutral. Dar es Salaam shows an unusual trend, with a high percentage of respondents preferring not to say (39%), which may indicate uncertainty or reluctance to express opinions on transparency. Mtwara also reflects a considerable proportion of both non-transparency and transparency, showing inconsistent views on governance practices. Overall, while some regions perceive the allocation process as moderately transparent, others highlight significant issues of opacity, suggesting disparities in the governance and accountability of LED fund allocation across Tanzania.

Table 6: How transparent do you consider the fund allocation process for LED initiatives in your council?

Region	Very Non-Trans-parent	Non-Trans-parent	Moderate/Neutral	Transparent	Very Trans-parent	Prefer Not to Say	Total
Dodoma	7%	3%	29%	61%	0%	1%	100%
Dar es Salaam	5%	2%	40%	14%	1%	39%	100%
Mwanza	35%	13%	19%	8%	21%	4%	100%
Kiliman-jaro	18%	29%	32%	7%	5%	10%	100%
Iringa	9%	20%	60%	9%	3%	1%	100%
Kigoma	9%	9%	58%	14%	0%	11%	100%
Mtwara	24%	11%	34%	27%	1%	3%	100%
Total	15%	12%	39%	20%	4%	9%	100%

Source: Field Survey (2024) (N =1,400)

The findings above highlight that transparency in the allocation of funds for LED is a persistent challenge across regions, largely due to bureaucratic procedures and central government control that restrict visibility over fund usage. In regions like Mtwara, the findings from FGDs and KIIs with key stakeholders show that this phenomenon has manifested in delays in project implementation, with communities often lacking information on how funds are allocated or spent. Conversely, best practices from international donors such as KOICA and JICA offer a pathway for improvement. For instance, in Kigoma, KOICA's emphasis on community involvement in monitoring and independent audits has contributed to more transparent fund allocation processes, providing a useful model for enhancing governance and accountability in LED initiatives.

4.2.2.2. Efficiency

Table 7 reveals considerable variation in perceptions of the efficiency of fund allocation for LED in the regions surveyed. Dodoma stands out with a majority (74%) considering the mechanisms as moderate or neutral, which may suggest a functioning system with room for improvement. In contrast, Dar es Salaam has a highly negative assessment, with 65% rating the mechanisms as very inefficient, indicating significant challenges. Mwanza, Kilimanjaro, Kigoma, and Mtwara all have relatively high percentages of respondents rating the mechanisms as either very inefficient or inefficient, reflecting a common dissatisfaction with the effectiveness of fund allocation in these areas. Meanwhile, Iringa presents a more balanced view, with a majority (53%) expressing neutrality and a smaller percentage indicating efficiency.

Table 7: How would you rate the efficiency of the fund allocation mechanisms?

Region	Very Inefficient	Inefficient	Moderate/Neutral	Efficient	Very Efficient	Prefer Not to Say	Total
Dodoma	5%	19%	74%	2%	0%	0%	100%
Dar es Sa-laam	65%	22%	5%	8%	1%	0%	100%
Mwanza	38%	20%	17%	8%	17%	0%	100%
Kilimanjaro	19%	38%	30%	9%	5%	0%	100%
Iringa	8%	27%	53%	10%	3%	1%	100%
Kigoma	42%	32%	14%	10%	3%	0%	100%
Mtwara	36%	29%	22%	7%	7%	0%	100%
Total	30%	27%	31%	7%	5%	0%	100%

Source: Field Survey (2024) (N =1,400)

Overall, the data suggests that across the regions, efficiency in fund allocation is generally low, with a significant portion of respondents expressing dissatisfaction, highlighting the need for reforms to enhance the efficiency and effectiveness of LED funding mechanisms.

The findings from FGDs and KIIs further highlight both strengths and weaknesses in the efficiency of fund allocation mechanisms for LED. In regions like Dodoma, partnerships between LGAs and the private sector, such as the collaboration with EFTA to provide loans for agricultural enterprises, have contributed to improving efficiency by streamlining resource allocation towards high-impact projects. This approach has allowed for more targeted and effective use of funds, particularly in sectors crucial to local economic growth. However, the table also underscores significant inefficiencies across other regions, as reflected in Dar es Salaam, Kilimanjaro, and others, where a high proportion of respondents view the mechanisms as inefficient. For instance, in Iringa, bureaucratic delays caused by multi-layered administrative processes continue to hinder timely fund disbursement, limiting the effectiveness of resource use and impacting the successful implementation of LED initiatives.

4.2.2.3. Equity

Table 8 reflects significant regional disparities in perceptions of equity regarding fund allocation for LED. In Iringa, a majority (52%) view the allocation as very inequitable, suggesting significant dissatisfaction with how resources are distributed. Similarly, Dar es Salaam and Mwanza also show high levels of perceived inequity, with a combined majority rating the process as either very inequitable or inequitable. In contrast, Dodoma displays a more moderate outlook, with 46% of respondents rating equity as neutral and a smaller percentage considering it equitable. The presence of responses indicating “very equitable” is notably low across all regions, indicating that very few perceive the fund allocation as fair. Overall, the data highlights a widespread belief that fund allocation mechanisms lack fairness, with only a minority perceiving them as equitable, underscoring the need for more balanced and transparent allocation practices to address regional disparities.

Table 8: Do you believe the allocation of funds is equitable across different regions and projects?

Region	Very Inequitable	Inequitable	Moderate/Neutral	Equitable	Very Equitable	Total
Dodoma	3%	43%	46%	8%	0%	100%
Dar es Salaam	43%	24%	26%	6%	1%	100%
Mwanza	38%	25%	14%	8%	15%	100%
Kilimanjaro	26%	38%	23%	8%	6%	100%
Iringa	52%	22%	19%	5%	3%	100%
Kigoma	27%	42%	16%	9%	6%	100%
Mtwara	27%	32%	22%	10%	10%	100%
Total	31%	32%	24%	8%	6%	100%

Source : Field Survey (2024) (N =1,400)

The FGDs and KIIs align with the table’s indication of significant regional disparities in fund allocation for LED. A key challenge is the inequitable distribution of resources, particularly between urban and rural communities. In Mwanza Region, private sector investments are predominantly focused on urban areas, leaving rural regions underfunded and deepening existing inequalities. Conversely, successful practices such as participatory planning in Moshi Municipality have

contributed to more equitable resource allocation. Community involvement in decision-making has ensured that marginalized groups have a voice, helping to align development projects with the needs of the entire population and thus enhancing fairness in resource distribution.

4.2.3. Practical Examples from the Field

The Chamwino District Council's development of market facilities in Viwandani Ward, financed through locally collected revenues, offers a tangible illustration of targeted resource allocation aimed at enhancing local economic conditions. This initiative sought to bolster the efforts of traders and small-scale entrepreneurs by improving market infrastructure and accessibility for consumers. Despite the efficient implementation and the clear focus on economically impactful areas, notable challenges related to inclusivity persisted. Specifically, rural wards were disadvantaged compared to urban ones, reflecting broader systemic biases that favour urban development. This uneven allocation ultimately limits the growth potential of underserved rural communities.

By contrast, Mufindi District in Iringa Region presents an example of a successful community-driven funding model through the construction of an agricultural storage facility. This project, funded by local community contributions and council-generated revenue, exemplifies how leveraging local resources can effectively meet community needs. Completed within the projected timeline, the facility significantly benefited local farmers by allowing them to store produce, thus avoiding forced sales at low prices during peak harvest times. However, such reliance on local funding brings into focus critical questions regarding the scalability of similar projects, particularly in regions with limited revenue-generating capacity. This scenario underscores the disparities between well-resourced and resource-poor communities, which may face challenges in replicating the success seen in Mufindi.

Furthermore, the construction of a health facility in Mikindani District, funded by international aid through the United Nations Development Programme (UNDP), underscores the role of external funding in addressing critical local needs. The project, grounded in an extensive needs assessment that identified healthcare as a top community priority, was well-targeted and included transparency measures from the donor. Nevertheless, the project experienced substantial delays due to inefficiencies in fund release, which compromised its timely completion. This issue highlights the potential drawbacks of relying heavily on international aid, where unpredictable funding flows can undermine otherwise effective development initiatives. Thus, while international funding remains vital, enhancing the predictability and efficiency of disbursement processes is crucial to ensuring that essential services reach the intended beneficiaries without undue delay.

The analysis of the funding allocation mechanisms for LED in Tanzania reveals a complex system where various actors—government, NGOs, international donors, the private sector, and local communities—play distinct roles. While transparency, efficiency, and equity are evident in some instances, significant challenges remain. The bureaucratic inefficiencies and centralized control often hinder fund flow, thereby affecting the timely implementation of LED initiatives. Transparency can be enhanced by adopting the practices of international donors, such as community involvement in project monitoring, while ensuring equitable resource distribution requires targeted interventions to address the needs of marginalized groups in both rural and urban settings. Practical examples from Dodoma, Iringa, Mtwara, and other regions illustrate both the successes and challenges in the current allocation systems, providing insights into how these processes might be improved for more impactful LED outcomes.

4.3. Effectiveness of Funding Systems in Supporting and Sustaining LED Initiatives

The effectiveness of the funding systems for Local Economic Development (LED) in Tanzania, as drawn from the analysis of various regional reports, presents a mixed picture, marked by successes in some areas and persistent challenges in others. This evaluation involves examining practical case studies of both successful and unsuccessful LED projects across different regions—Dodoma, Iringa, Mtwara, Kilimanjaro, Kigoma, Dar es Salaam, and Mwanza—to identify the factors contributing to their outcomes.

Table 9 provides an overview of perceptions regarding the effectiveness of funding systems in supporting local economic initiatives across several regions. Dodoma stands out with the highest proportion of respondents perceiving the systems as “Ineffective” (48%) and a significant “Neutral” stance (43%), suggesting scepticism or mixed experiences. Conversely, Dar es Salaam shows a stark contrast, with the highest percentage deeming the systems “Very Ineffective” (36%), reflecting pronounced dissatisfaction. Mwanza demonstrates the most optimism, as nearly a quarter (24%) rated the systems “Very Effective,” a sentiment not mirrored elsewhere. Kilimanjaro, Iringa, and Kigoma display relatively balanced perceptions, albeit leaning toward “Ineffective” and “Neutral” ratings, with minimal support for the “Effective” and “Very Effective” categories. Mtwara, like Dar es Salaam, reveals high levels of criticism, with 28% calling the systems “Very Ineffective.” Overall, the aggregated data shows a dominant trend of dissatisfaction (56% combining “Very Ineffective” and “Ineffective”), suggesting systemic challenges, while the lower ratings of “Effective” and “Very Effective” (15% combined) highlight limited perceived success across regions. This pattern indicates widespread discontent with current funding mechanisms, with some regional nuances in optimism or neutrality.

Table 9: How effective are the current funding systems in supporting local economic initiatives Crosstabulation

Region	Very Ineffective	Ineffective	Neutral	Effective	Very Effective	Total
Dodoma	3%	48%	43%	6%	0%	100%
Dar es Salaam	36%	33%	24%	4%	2%	100%
Mwanza	23%	23%	18%	11%	24%	100%
Kilimanjaro	18%	34%	33%	8%	8%	100%
Iringa	25%	31%	32%	6%	6%	100%
Kigoma	24%	36%	27%	8%	6%	100%
Mtwara	28%	31%	25%	11%	4%	100%
Total	22%	34%	29%	8%	7%	100%

Source : Field Survey (2024) (N =1,400)

These findings highlight a widespread perception that current funding systems are not sufficiently supporting local economic initiatives, indicating a need for reforms to enhance their effectiveness and impact across the regions.

4.3.1. Successful LED Projects and Effective Funding Systems

Successful LED Projects and Effective Funding Systems

LED initiatives are instrumental in fostering sustainable growth and enhancing the quality of life within communities. Effective funding systems are vital to support these initiatives, ensuring that resources are strategically allocated to projects that yield tangible benefits. An examination of responses to Question No. 28 of the survey, which sought examples of successful LED projects supported by existing funding mechanisms, reveals several recurring themes that highlight the priorities and successes across different regions.

A significant number of respondents pointed to investments in health and education facilities, such as the construction of health centres (*“zahanati na shule”*) and classrooms (*“ujenzi wa madarasa”*). These projects underscore a focused effort to strengthen social infrastructure, which is foundational for local development. By improving access to quality healthcare and education, these initiatives contribute to the development of human capital, reduce inequalities, and empower individuals to participate more effectively in the economy. Enhanced health and education services not only improve the well-being of community members but also attract businesses and investors looking for skilled and healthy workforces.

Road Construction and Transportation Infrastructure

Investments in transportation infrastructure, particularly road construction, were also highlighted as successful LED projects. Improved roads facilitate the efficient movement of goods and people, which is critical for stimulating local economic activities and enhancing market accessibility. By connecting rural areas with urban centres, these projects open up new opportunities for trade, reduce transportation costs, and enable producers to access wider markets. Enhanced transportation networks can lead to increased economic diversification and attract further investment, thereby creating a positive cycle of economic growth and development.

Social Welfare Projects Supporting Vulnerable Populations

Another recurring theme in the responses was the implementation of social welfare projects aimed at supporting vulnerable groups, such as orphans and individuals living in marginalized conditions (*“kuhudumia watoto yatima”*). These initiatives play a crucial role in promoting social inclusion and equity within communities. By providing care and support to the most vulnerable, these projects contribute to the overall well-being and social stability of the community. Moreover, by fostering a healthier and more educated population, they indirectly support economic growth by expanding the potential workforce and enhancing its capabilities.

The examples of successful LED projects supported by effective funding systems highlight the multifaceted approach needed for sustainable local development. Investments in health and education infrastructure lay the groundwork for a skilled and healthy population, road construction enhances connectivity and economic activity, and social welfare projects ensure that vulnerable populations are not left behind. These recurring themes demonstrate the importance of aligning funding mechanisms with local needs and priorities. By doing so, communities can implement projects that not only address immediate challenges but also build a strong foundation for long-term economic prosperity and social well-being. The following sections summarize some successful and unsuccessful LED projects from the regions surveyed.

4.3.1.1. Kilimanjaro Region: Rombo District's Water Supply System

- **Project Overview:** In Rombo District, Kilimanjaro Region, the construction of a new water supply system was funded through a partnership involving local community contributions, Kilimanjaro Council revenues, and international support from KOICA.
- **Factors for Success:**
 - **Community Participation:** Community members contributed in terms of labour and financial resources. This inclusion helped align project objectives with community needs, ensuring greater buy-in and sustainability.
 - **Partnership and Coordination:** The successful collaboration between the community, LGAs, and KOICA ensured that the project was well-resourced and efficiently implemented.

- **Effective Monitoring and Accountability:** The involvement of KOICA provided strong oversight through routine audits and evaluations, ensuring transparency and accountability throughout the project cycle.
- **Outcome:** The water supply system improved agricultural productivity and access to clean drinking water, leading to enhanced health and economic conditions in the district. The reduction in time spent fetching water allowed women to engage more actively in economic activities, contributing to local economic growth.

4.3.1.2. Mtwara Region: Masasi District's Agricultural Processing Plant

- **Project Overview:** In Masasi District, a community-driven agricultural processing plant for cashew nuts was set up with funding from local government revenues, community contributions, and the World Bank.
- **Factors for Success:**
 - **Local Ownership and Empowerment:** The plant was largely community-owned, with local cooperative societies taking a lead role in managing the facility, thereby fostering local ownership.
 - **Effective Training and Capacity Building:** The World Bank provided technical and managerial training to the cooperative society members, enabling them to operate and maintain the plant effectively.
- **Outcome:** This project significantly enhanced the value addition of local agricultural produce, which improved the income of local farmers. By processing cashew nuts locally, the plant helped increase household incomes and provided employment opportunities for community members, leading to economic empowerment and sustainable development.

4.3.1.3. Dodoma Region: Chamwino District's Sunflower Oil Processing Initiative

- **Project Overview:** In Chamwino District, Dodoma Region, EFTA partnered with LGAs to establish a sunflower oil processing facility. Funding came from a mixture of local revenues and private loans.
- **Factors for Success:**
 - **Private Sector Involvement:** The partnership with EFTA introduced a commercial angle that ensured the project was market-driven. The private sector's interest in seeing returns on investment motivated efficient and effective project implementation.
 - **Accessibility to Finance:** Providing loans at favourable terms allowed local investors to contribute effectively to the sunflower oil processing facility, which increased their stake in the project and ensured its success.
- **Outcome:** The facility added value to sunflower produce, increasing farmers' income. It also created employment opportunities, especially for women, contributing to overall local economic development. Furthermore, the project's commercial nature helped guarantee sustainability beyond initial donor funding.

4.3.2. Unsuccessful LED Projects and the Underlying Challenges

Notwithstanding the success of recent LED initiatives, there have been multiple failures largely driven by insufficient funding mechanisms, bureaucratic inefficiencies, and other systemic issues.

4.3.2.1. Kigoma Region: Failed Market Infrastructure Project in Kasulu District

- **Project Overview:** In Kasulu District, an attempt was made to establish a local market to serve as a hub for agricultural products, particularly maize and beans. Funding was

allocated from LGA revenues, with a contribution from ActionAid.

□ Factors Contributing to Failure:

- Bureaucratic Delays: There were significant delays in fund disbursement from central government allocations to the local council. This hindered the timely commencement and completion of the project, ultimately leading to an increase in costs and eventual abandonment.
- Inadequate Community Engagement: Unlike other successful projects, there was minimal involvement of local community members in decision-making processes. This lack of engagement led to limited buy-in, resulting in poor community support and eventual disinterest.
- Misalignment of Priorities: The project objectives did not align well with the immediate needs of the community, which focused more on small-scale irrigation rather than an agricultural market.

- Outcome: The project failed to take off as planned, and the partially constructed market remains incomplete and largely unused. This has been a loss of public resources and a setback for the intended beneficiaries, demonstrating the importance of effective coordination and alignment of priorities.

4.3.2.2. Iringa Region: Underutilized Agricultural Storage Facility in Mufindi

- Project Overview: In Mufindi District, an agricultural storage facility was constructed with funding from local government revenues and a contribution from an international donor. It was intended to help local farmers store their produce and thus avoid price volatility during peak harvest seasons.

□ Factors Contributing to Ineffectiveness:

- Limited Capacity Utilization: The facility remained underutilized due to a lack of awareness and poor coordination between the local government and farming groups regarding its purpose and usage. Many farmers were unaware of the facility or did not have the logistical means to transport their produce to the storage centre.
- Insufficient Local Consultation: There was limited consultation with farmers during the planning phase, resulting in a facility that was poorly situated and lacked essential infrastructure such as transport links.
- Lack of Operational Funds: Although the facility was constructed, there was insufficient funding to maintain and operate it effectively. Funds were not allocated for staffing or managing the facility, leading to its rapid decline.

- Outcome: The facility has not provided the intended economic relief for farmers. Instead, it stands largely empty, serving as a testament to the need for holistic planning that includes both infrastructure creation and operational sustainability measures.

4.3.3. Factors Contributing to the Outcomes of LED Projects

The success or failure of LED projects in Tanzania can be attributed to a combination of factors that either foster effective implementation or create obstacles that lead to inefficiencies:

4.3.3.1. Community Engagement and Ownership

Successful projects, such as those in Kilimanjaro and Mtwara, demonstrate the importance of community engagement and ownership. Community engagement fosters a sense of ownership

and responsibility among local stakeholders, leading to increased participation and commitment to project goals. This involvement can include local residents in decision-making processes, project planning, and implementation, ensuring that LED initiatives align with community needs and aspirations. Moreover, when communities feel invested in the projects, they are more likely to contribute resources, both in terms of labour and local knowledge, which can significantly enhance the sustainability and long-term success of LED initiatives in Tanzania. Where communities contribute directly, either through labour or funds, and have a say in project planning and management, projects are more likely to succeed. Conversely, the failure in Kasulu is partly attributable to the lack of community involvement, which led to misalignment with local needs.

4.3.3.2. Coordination and Partnerships

The effectiveness of LED funding systems is often determined by the quality of partnerships and coordination among stakeholders. In successful projects, such as the sunflower oil processing facility in Dodoma, effective partnerships with private sector entities brought in commercial incentives that ensured efficiency and accountability. Collaborative efforts between local government authorities, community organisations, and businesses can create synergies that enhance the impact of LED initiatives. These partnerships can leverage diverse expertise, resources, and networks to address complex socio-economic challenges more effectively. Furthermore, establishing clear communication channels and regular coordination meetings among stakeholders can help align objectives, streamline processes, and quickly resolve any issues that arise during project implementation. On the other hand, the absence of strong coordination mechanisms, as seen in Kasulu's market project, often leads to inefficiencies and the failure of development initiatives.

4.3.3.3. Capacity Building and Technical Support

The agricultural processing plant in Masasi benefited significantly from capacity building provided by international donors, which empowered local cooperatives to manage and sustain the project effectively. This capacity building included training programs on technical aspects of plant operations, financial management, and cooperative governance. The empowerment of local cooperatives through these initiatives may have fostered a sense of ownership and increased community engagement in the project. Additionally, the technical support provided encompassed ongoing guidance and troubleshooting assistance, ensuring the plant's continued smooth operation and adaptability to evolving challenges. By contrast, the Mufindi storage facility lacked similar support, resulting in ineffective usage. Training and ongoing technical support are essential for sustainability, particularly for projects involving sophisticated infrastructure or equipment.

4.3.3.4. Fund Allocation Efficiency and Bureaucracy

Timely allocation and disbursement of funds are critical for project success. Delays in fund disbursement can disrupt project timelines, leading to cost overruns or project abandonment, as observed in Kasulu. Bureaucratic hurdles and complex approval processes often contribute to these delays, creating bottlenecks in fund allocation. Streamlining administrative procedures and implementing digital systems for fund management could significantly improve efficiency and reduce the risk of project failures. Additionally, establishing clear communication channels between funding agencies and project implementers can help address issues promptly and ensure smoother fund flow throughout the project lifecycle. Moreover, centralized bureaucratic controls that require funds to pass through multiple layers of administration contribute significantly to inefficiencies.

4.3.3.5. Alignment of Projects with Local Needs

Aligning LED projects with the immediate needs and economic conditions of local communities

is crucial. The successful initiatives in Mtwara and Kilimanjaro were those that responded directly to community priorities—clean water supply, agricultural processing, and value addition. This alignment ensures that LED projects have a tangible impact on the lives of community members and address their most pressing concerns. By focusing on locally relevant initiatives, such as improving access to clean water or enhancing agricultural productivity, LED projects can gain greater community support and participation. Furthermore, tailoring projects to local economic conditions can help create sustainable solutions that have the potential for long-term growth and development within the community. In contrast, projects that were not seen as immediate priorities by the communities, such as the Kasulu market, faced challenges in gaining support and sustaining operations.

4.4. Financial management practices of Councils for LED Funding

Financial management practices play a critical role in determining the effectiveness and sustainability of LED initiatives. The findings from different regions of Tanzania reveal varied financial management practices by LGAs, encompassing budgeting, accounting, and auditing processes. This analysis provides an overview of these practices and identifies the strengths, weaknesses, and potential areas for improvement to enhance transparency, accountability, and efficiency.

4.4.1. Financial Management Practices in LED Funding

4.4.1.1. Budgeting Practices

Budgeting practices for LED initiatives in Tanzania exhibit significant regional disparities, primarily due to varying levels of stakeholder involvement and access to accurate financial data. In regions such as Dodoma and Mtwara, participatory budgeting approaches have been effectively implemented. For example, the Dodoma City Council actively incorporates inputs from Ward Development Committees (WDCs) during the budgeting process, ensuring that budget allocations align with community needs. This inclusive approach has not only fostered a sense of ownership among community members but also enhanced transparency in resource allocation, leading to more effective LED projects.

In contrast, regions like Kigoma demonstrate less inclusive budgeting practices, with minimal direct input from the community. This lack of participation has led to discrepancies between budget allocations and the actual needs of the population, undermining the effectiveness of LED initiatives. A case in point is the Kasulu District, where funds were allocated for market construction without reflecting the priorities identified by local residents, resulting in a misallocation of resources. These shortcomings highlight the critical importance of participatory budgeting in aligning LED initiatives with community priorities and ensuring the efficient use of funds.

Additionally, some regions like Iringa have adopted aspects of zero-based budgeting for some LED projects. This approach involves starting from a zero base and justifying each expense, rather than relying on historical budget allocations. In Mufindi District, zero-based budgeting was effectively employed for the construction of a storage facility, ensuring that funds were allocated based on actual need and potential economic return. This method has allowed councils to better align LED funding with current economic priorities, promoting more efficient use of resources.

However, various challenges in budgeting practices persist across regions. Delayed allocations are a significant issue, often stemming from centralized controls where local councils depend on the central government's release of funds. For example, in Mtwara Region, such delays hindered timely project implementation, adversely affecting the effectiveness of LED initiatives. Additionally, the lack of budget flexibility has been problematic in regions like Kilimanjaro.

Funds are frequently tied to specific line items, making it difficult to reallocate resources to address emerging community needs. This rigidity prevents projects from adapting to changing economic circumstances, leading to inefficiencies and missed opportunities for development.

4.4.1.2. Accounting Practices

Accounting practices for LED funding in Tanzania are crucial for tracking income, expenditures, and resource utilization to ensure projects deliver expected benefits. In regions like Dar es Salaam, councils have implemented standardized accounting templates for documenting financial transactions related to LED initiatives. This standardization promotes consistency in reporting and enhances transparency by maintaining clear records of resource flows. Additionally, some councils such as those in Dodoma have adopted digital accounting systems to improve efficiency and reduce discrepancies in financial reporting. The use of digital systems facilitates timely monitoring and adjustments in project spending, thereby benefiting LED projects. However, the majority of LGAs still rely on cash-based accounting methods, recording transactions only when cash is received or paid. While this approach is straightforward, it fails to provide a comprehensive picture of financial health, especially for projects with long-term commitments. For instance, in Iringa Region, cash-based accounting led to unaccounted liabilities in an agricultural processing project, adversely affecting its sustainability.

Despite these advancements, significant challenges persist in the accounting practices of LGAs. In regions like Kigoma, accounting is largely manual, leading to frequent errors, misappropriations, and inefficiencies. This manual approach hampers proper tracking of expenditures, contributing to resource wastage and a lack of accountability. Furthermore, limited capacity and expertise among accounting personnel are critical issues across regions such as Mwanza. Councils often lack adequately trained accountants, resulting in errors in financial records and insufficient management of complex LED financial activities. Infrequent training opportunities further exacerbate this problem, limiting the ability of financial staff to effectively oversee LED initiatives. These challenges underscore the need for improved accounting practices, including capacity building and the adoption of modern accounting systems, to ensure the effective management of LED funds.

4.4.1.3. Auditing Practices

Auditing plays a critical role in ensuring that funds are used appropriately and that projects achieve their intended outcomes. Audits, whether internal or external, provide an objective assessment of financial activities, helping to identify inefficiencies, fraud, or areas for improvement.

□ Internal Audits:

- Frequency and Scope: In Mtwara Region, internal audits are conducted annually, focusing on assessing the financial compliance of LED projects with established rules and regulations. These audits have helped uncover cases of financial mismanagement, particularly related to procurement in LED initiatives. However, the audits are often constrained by limited human resources and tend to focus more on compliance than on assessing value-for-money.

□ External Audits:

- Oversight by the National Audit Office: In Dodoma Region, LED funding is subject to scrutiny by the National Audit Office (NAO), which audits council financial statements annually. These audits have been instrumental in identifying discrepancies and areas of financial mismanagement. For example, an audit of the Chamwino District revealed unapproved expenditures in a road construction project, leading to corrective measures being taken.

- Weaknesses in Enforcement: However, in regions like Kigoma, audit findings are not always acted upon. The lack of follow-up on audit recommendations means that financial mismanagement issues often persist year after year without resolution. This weakens the effectiveness of audits as tools for improving financial management and accountability.

□ Challenges in Auditing:

- Limited Capacity for In-Depth Audits: The depth and scope of audits are often limited by the financial and human resource capacities of LGAs. For instance, in Iringa, audits are mostly restricted to checking compliance with existing financial laws rather than evaluating the impact and efficiency of expenditures. This limits the councils' ability to learn from past mistakes and make necessary adjustments to improve LED project outcomes.
- Delayed Audits: In Mwanza Region, delays in conducting external audits have undermined their effectiveness. By the time audit findings are reported, the fiscal year is often long over, making it difficult to take timely corrective actions.

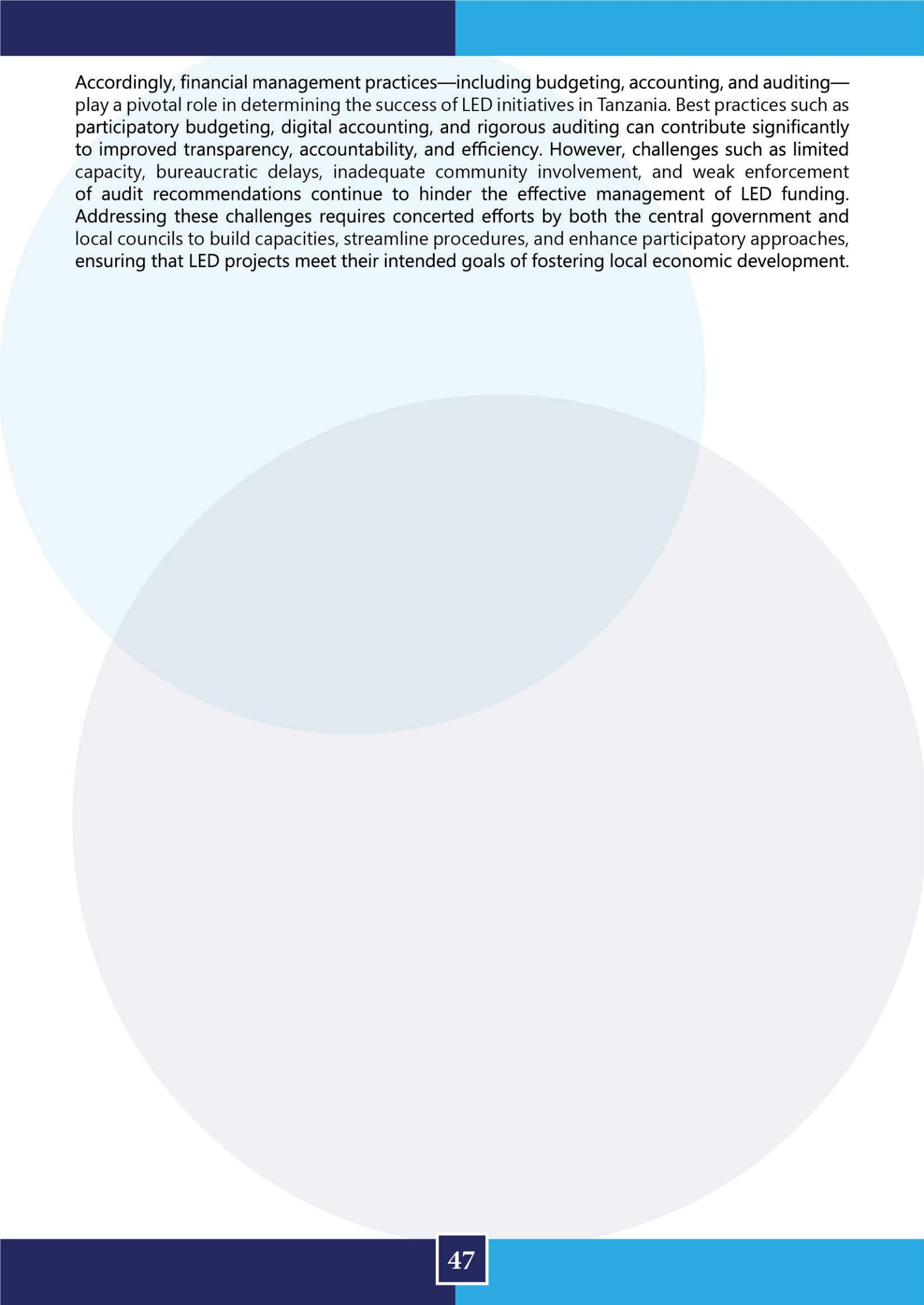
4.4.2. Best Practices and Areas for Improvement

4.4.2.1 Best Practices

- Participatory Budgeting: The practice of involving community members in the budgeting process, as seen in Dodoma, is effective for ensuring that funds are allocated based on actual local needs. This practice also fosters community ownership of projects and enhances transparency.
- Digital Accounting Systems: Adopting digital accounting systems, as seen in Dodoma, has improved the efficiency and accuracy of financial reporting. It is a best practice that could be replicated in other regions to reduce manual errors and improve financial oversight.
- Regular and Transparent Auditing: The role of the National Audit Office (NAO) in Dodoma provides an example of external auditing that promotes accountability. This type of external review helps detect discrepancies and misappropriations and ensures corrective action.

4.4.2.2. Areas for Improvement

- Training and Capacity Building: Across regions like Mwanza and Kigoma, there is a clear need to train accounting and auditing personnel to improve their ability to manage and scrutinize LED funds. LGAs should prioritize continuous professional development to build capacity in these crucial areas.
- Timely Budget Disbursement: The central government must improve the timeliness of fund disbursements to LGAs. Delays, as noted in Mtwara, hamper the implementation of LED projects and lead to inefficiencies. Streamlining the budget approval and release processes could help address this issue.
- Enhanced Community Involvement: Increasing community participation in both budgeting and financial monitoring would improve accountability and ensure that allocated funds directly address community needs. The lack of such involvement in Kigoma highlights the importance of more inclusive processes.
- Enforcement of Audit Recommendations: Weak enforcement of audit recommendations remains a problem in many regions, such as Kigoma. Councils must be held accountable for implementing these recommendations to address financial mismanagement effectively.



Accordingly, financial management practices—including budgeting, accounting, and auditing—play a pivotal role in determining the success of LED initiatives in Tanzania. Best practices such as participatory budgeting, digital accounting, and rigorous auditing can contribute significantly to improved transparency, accountability, and efficiency. However, challenges such as limited capacity, bureaucratic delays, inadequate community involvement, and weak enforcement of audit recommendations continue to hinder the effective management of LED funding. Addressing these challenges requires concerted efforts by both the central government and local councils to build capacities, streamline procedures, and enhance participatory approaches, ensuring that LED projects meet their intended goals of fostering local economic development.

5.0.CONCLUSION

The analysis of funding systems for LED in Tanzania reveals significant disparities across regions, underlining both the potential and the challenges that decentralized governance brings to the promotion of local economic growth. The research highlights that while decentralization through the LGAs theoretically provides an opportunity to align development efforts with local needs, the realities of funding systems complicate this aim. Various factors such as over-reliance on government transfers, limited diversification of funding sources, weak financial management practices, and low levels of community involvement continue to constrain the effectiveness of LED initiatives. Additionally, the uneven capacities of councils to manage resources, coupled with external bureaucratic controls and donor-driven priorities, frequently lead to inefficiencies, project delays, and, in some cases, the failure of key LED projects.

Regions such as Iringa, Kilimanjaro, and Dodoma have had relative success, primarily due to diversified funding sources, participatory budgeting processes, and effective private sector engagement. These regions have shown that when councils are empowered with both financial autonomy and capacity-building, LED projects can align more closely with local priorities and deliver tangible benefits such as improved infrastructure, health, education, and agricultural development. However, even in these cases, challenges remain in ensuring long-term sustainability, equity, and full community ownership of projects.

In contrast, regions like Kigoma, Mtwara, and Mwanza have experienced significant setbacks, including failed projects, inefficient fund allocation, and a lack of coordination between stakeholders. The bureaucratic and central government delays in fund disbursement, compounded by weak local financial management practices, have often hampered the effectiveness of LED projects. These regions underscore the need for urgent reform in both the financial management and governance systems that oversee LED funding.

This study also emphasizes the importance of transparency, equity, and efficiency in LED funding allocation mechanisms. The lack of transparent procedures and the dominance of political considerations over community needs in some regions have undermined the legitimacy of LED initiatives. Furthermore, inefficiencies in fund allocation mechanisms—particularly in regions heavily reliant on external donors and centralized controls—raise questions about the long-term sustainability of these initiatives.

Overall, while there are examples of success and innovation in Tanzania's LED efforts, substantial systemic reforms are needed to fully realize the potential of decentralized economic development. Without addressing the underlying governance, capacity, and financial management issues, local governments will struggle to meet the ambitious development goals outlined in Tanzania's Development Vision 2025.

6.0. RECOMMENDATIONS

A. Diversify Funding Sources and Strengthen Local Revenue Generation

- Councils need to reduce their reliance on central government transfers and donor funding by expanding local revenue-generation capabilities. This can be achieved by encouraging private sector investments, fostering partnerships with NGOs and international agencies, and promoting community-based funding mechanisms such as VICOBAs. Tax reforms at the local level could also ensure more efficient collection and allocation of revenues, especially in regions with untapped revenue potential, such as Kilimanjaro and Mwanza.

B. Enhance Financial Management Capacity

- Investment in capacity-building for local government finance officers is critical. Training in modern accounting practices, budget management, and auditing will enhance the financial management of LED funds, reduce inefficiencies, and prevent resource misallocation. Regions such as Kigoma and Mtwara, where manual accounting systems have led to frequent errors, should prioritize the adoption of digital financial systems. National institutions could assist in developing standardized financial management systems that streamline processes and improve accountability across all councils.

C. Improve Transparency and Equity in Fund Allocation

- To ensure more equitable and effective distribution of resources, councils should adopt more transparent and inclusive budgeting processes. Participatory budgeting, which has proven effective in regions like Dodoma, should be institutionalized across all regions. This would ensure that community voices are reflected in funding decisions, aligning resource allocation with local priorities. Councils should also introduce monitoring and evaluation mechanisms, with independent audits conducted regularly to assess how funds are being utilized. Such practices can help to restore trust among stakeholders and ensure that LED initiatives are delivering intended benefits.

D. Address Bureaucratic Inefficiencies and Improve Fund Disbursement

- Delays in fund disbursement from the central government have been a recurrent issue, particularly in regions like Mtwara and Kigoma. To address this, the central government should streamline its financial approval and disbursement processes, potentially decentralizing more authority to LGAs to ensure they have timely access to funds. Improved coordination between different tiers of government and donors is also essential for reducing project delays and ensuring the efficient use of funds.

E. Foster Public-Private Partnerships (PPPs) for Sustainable LED

- PPPs should be expanded, especially in sectors such as agriculture, infrastructure, and tourism, where local governments lack the necessary capital to undertake large-scale development projects. Lessons from successful PPP initiatives, like sunflower processing in Chamwino District, demonstrate that strategic private investments can significantly boost local economies, create employment, and generate higher-value products. This model should be replicated in other regions with similar potential.

F. Encourage Community Ownership and Participation

- Successful LED initiatives often feature high levels of community involvement and ownership. Governments should facilitate stronger community participation in the planning and implementation of projects, ensuring that local populations benefit directly from development initiatives. Moreover, councils should support the formation of cooperatives and community-driven economic projects, particularly in rural areas where collective action can significantly enhance agricultural productivity, as seen in Mufindi District.

G. Develop Clear Criteria for Fund Allocation and Monitoring

- The allocation of LED funds should be based on clear and objective criteria, such as project feasibility, community needs, and expected economic impact, rather than political considerations. A formalized set of guidelines should be developed to ensure consistency in fund allocation across all councils, ensuring that resources are directed to projects that offer the most potential for economic and social returns. Additionally, ongoing monitoring and evaluation frameworks should be implemented to measure the effectiveness of these allocations in achieving LED goals.

H. Align LED Initiatives with Broader Economic and Development Goals

- Local LED projects should not operate in isolation but be integrated into broader national development strategies, such as the Tanzania Development Vision 2025 and the Five-Year Development Plans. This alignment will ensure that local efforts contribute to national goals and that resources are allocated to projects that support key sectors like agriculture, infrastructure, and education.

7.1. Appendix 1: KEY INFORMANT INTERVIEWS (KIIs) GUIDE

Purpose: To explore the perspectives of key stakeholders on the impact of decentralization policies on local economic development (LED).

Participants: Key personnel in PO-RALG and sector ministries, local government officials, community leaders, business owners, farmers, tourism operators, and other relevant stakeholders.

Interview Guide:

Introduction:

- Introduce yourself and the research project.
- Explain the purpose of the interview and obtain consent.
- Ensure confidentiality and explain how the data will be used.

Background Information:

1. Can you tell me about your role and responsibilities in your organisation?
2. How long have you been in this position?

Funding and Resources:

3. Can you describe the primary sources of funding for LED activities in your council? How have these sources evolved over time?
4. What mechanisms are in place for the allocation of funds to LED initiatives? How are these mechanisms designed to ensure transparency, efficiency, and equity?
5. How effective do you believe the current funding systems are in supporting and sustaining local economic initiatives? Can you provide specific examples to illustrate their effectiveness or lack thereof?
6. What are the main challenges associated with the financial management of LED funds in your council?
7. How are budgeting, accounting, and auditing practices implemented to ensure the proper use of LED funds?
8. Can you share any best practices or lessons learned regarding the financial management of LED funds?
9. What policy or structural changes would you recommend to enhance the effectiveness and efficiency of funding systems for LED?

Conclusion:

10. Is there anything else you would like to add that we haven't discussed?
11. Can you suggest any other individuals or organisations that we should speak to for this research?

7.2. Appendix 2: SURVEY QUESTIONNAIRE

Purpose: To collect quantitative data on the impact of decentralization policies on local economic development (LED) from residents, business owners, and local government officials.

Participants: Residents, business owners, local government officials.

SURVEY SECTIONS

A. DEMOGRAPHIC INFORMATION:

1. Age:

- a) Under 18
- b) 18-24
- c) 25-34
- d) 35-44
- e) 45-54
- f) 55-64
- g) 65 and above

2. Gender:

- a) Male
- b) Female
- c) Other (please specify) ____
- d) Prefer not to say

3. Occupation:

- a) Student
- b) Farmer
- c) Trader
- d) Government Employee
- e) Private Sector Employee
- f) Self-employed
- g) Retired
- h) Unemployed
- i) Other (please specify) ____

4. Education Level:

- a) No formal education
- b) Primary education
- c) Secondary education
- d) Vocational training
- e) Diploma
- f) Bachelor's degree
- g) Master's degree
- h) PhD or higher
- i) Other (please specify) ____

5. Region:

- a) Dodoma
- b) Dar es Salaam
- c) Mwanza
- d) Kilimanjaro
- e) Iringa
- f) Kigoma
- g) Mtwara

6. Council:

- a) Dodoma City Council (CC)
- b) Chamwino District Council (DC)
- c) Temeke Municipal Council (MC)
- d) Ubungo Municipal Council (MC)
- e) Nyamagana Municipal Council (MC)
- f) Misungwi District Council (DC)
- g) Moshi Municipal Council (MC)
- h) Rombo District Council (DC)
- i) Mbeya City Council (CC)
- j) Kyela District Council (DC)
- k) Kigoma Municipal Council (MC)
- l) Kasulu District Council (DC)
- m) Mtwara Municipal Council (MC)

n) Masasi District Council (DC)

7. Ward: _____

B. Economic Development Initiatives:

8. Are there any local economic development initiatives in your area?

- a) Yes
- b) No

9. If yes, please describe the initiatives: ____

10. 13. How effective do you think these initiatives are in promoting economic growth?

- a) Very Effective
- b) Effective
- c) Neutral
- d) Ineffective
- e) Very Ineffective

C. FUNDING AND RESOURCES:

11. How adequate do you think the funding for LED initiatives is?

- a) Very Adequate
- b) Adequate
- c) Neutral
- d) Inadequate
- e) Very Inadequate

12. What are the primary sources of funding for LED activities in your council?

- a) Government grants
- b) International aid
- c) Private sector investments
- d) Non-governmental organisations (NGOs)
- e) Community contributions
- f) Other (please specify) _____

13. Which of these funding sources do you consider the most significant in terms of their contribution to LED initiatives?

- a) Government grants
- b) International aid

- c) Private sector investments
 - d) NGOs
 - e) Community contributions
 - f) Other (please specify)
14. How stable and reliable are these funding sources? (Rate on a scale of 1-5, with 1 being very unstable and 5 being very stable) _____
15. Have there been any recent changes in the funding sources for LED in your council?
- a) Yes
 - b) No
- If yes, please describe.
16. What criteria are used to allocate funds to LED initiatives in your council?
- a) Project feasibility
 - b) Expected economic impact
 - c) Community needs assessment
 - d) Political considerations
 - e) Historical allocations
 - f) Other (please specify)
17. How transparent do you consider the fund allocation process for LED initiatives in your council? (Rate on a scale of 1-5, with 1 being very non-transparent and 5 being very transparent) ____
18. How would you rate the efficiency of the fund allocation mechanisms? (Rate on a scale of 1-5, with 1 being very inefficient and 5 being very efficient) _____
19. Do you believe the allocation of funds is equitable across different regions and projects? (Rate on a scale of 1-5, with 1 being very inequitable and 5 being very equitable) _____
20. How effective are the current funding systems in supporting local economic initiatives? (Rate on a scale of 1-5, with 1 being very ineffective and 5 being very effective) _____
21. Can you provide examples of successful LED projects supported by these funding systems? _____
22. Can you provide examples of LED projects that were unsuccessful despite receiving funding? What factors contributed to their lack of success?
23. What improvements would you suggest to enhance the effectiveness of the funding systems for LED? _____
24. How would you rate the financial management practices in your council regarding LED funding? (Rate on a scale of 1-5, with 1 being very poor and 5 being excellent) ____

25. How transparent are the budgeting processes for LED funds? (Rate on a scale of 1-5, with 1 being very non-transparent and 5 being very transparent) _____
26. How effective are the accounting practices in ensuring proper use of LED funds? (Rate on a scale of 1-5, with 1 being very ineffective and 5 being very effective) _____
27. How regularly are LED funds audited in your council?
- a) Annually
 - b) Bi-annually
 - c) Quarterly
 - d) Not regularly
 - e) Other (please specify)

7.3. Appendix 3: FOCUS GROUP DISCUSSION (FGD) GUIDE

Purpose: To gather in-depth insights from community members and sector-specific stakeholders about the impact of decentralization policies on LED.

Participants: Community members, sector-specific stakeholders (e.g., farmers, traders, miners), representatives from local institutions.

Facilitation Tips:

- Encourage all participants to speak and share their views.
- Use probing questions to elicit detailed responses.
- Ensure the discussion stays on topic and covers all the key areas.
- Summarize key points at the end of each topic to ensure clarity and agreement.

FGD Guide

Introduction:

- Welcome participants and introduce the research project.
- Explain the purpose of the discussion and obtain consent.
- Set ground rules for the discussion (e.g., respect for opinions, confidentiality).

Discussion Topics:

A. Funding and Resources:

1. How are LED initiatives funded in your community?
2. Do you think the current funding mechanisms are sufficient to support LED?

F. Challenges and Opportunities:

3. What are the main challenges to effective LED in your community?
4. What opportunities do you see for enhancing LED through decentralization?

G. Policy Recommendations:

5. What policy changes would you recommend to improve the impact of decentralization on LED?

Conclusion: Is there anything else you would like to add?

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Repoa HQs

157 Migombani/ REPOA Streets, Regent Estate,
P.O. BOX 33223 Dar es Salaam, Tanzania
Tel: +255 (22) 270 0083 Cell: +255 (0) 784 555 688
Website: <https://www.repoa.or.tz>
Email: repoa@repoa.or.tz

Branch Office

12nd Floor Kilimokwanza Building
41105 Makole East. Kisasa,
Dodoma, Tanzania