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Repoa Brief

Intergovernmental fiscal relations in Tanzania: Guidelines or directives?

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Key messages

- As a unitary state, Tanzania has relied on intergovernmental fiscal regime to ensure that all LGAs equitably receive funding for execution of its mandates and responsibilities.
- Uncertainty in resource mobilization has hampered effective implementation of fiscal transfers to the LGAs.
- Intergovernmental fiscal resources are ring-fenced and leave limited discretion to LGAs to reallocate resources based on prevailing demands
- Improvement in intergovernmental fiscal relations requires putting in place more effective mechanisms for allocating and disbursing resources between the central government and the LGAs.
- Decision making relating to intergovernmental fiscal allocation to LGAs often excludes the participation of LGAs.

Introduction

Literature on political economy of decentralization underscores the importance of intergovernmental transfers as a vehicle for achieving national social, economic and political policy goals when administrative and financial powers are devolved to lower levels of government. Decentralization left without considering the capacity of authorities to raise enough resources and address needs, will enhance inequity in services consumed and development pursued.

Under decentralization, lower level (sub-national) governments assume significant responsibility for providing public services or goods in areas of health, education, agriculture, water, and local infrastructure etc. To cope with these huge responsibilities, decentralized authorities may pursue different fiscal policies in respect of revenue raising (setting tax bases and tax rates) and spending programmes. Authorities with higher than average tax bases will be able to raise more revenues at given tax rates than other authorities. Besides, the differences in revenue

–raising capacity will be higher the more decentralized is revenue raising. Therefore, the quantum of- and quality of public services rendered will ultimately be influenced by the volume of resources mobilized, thus creating serious inequities among the lower level authorities.

Any country that has a vision for good national values and development, and therefore cherishes the redistribution of resources as a national objective, will ensure provision of comparable levels of public services throughout the country.

It is also a fact that central governments might assume the responsibility for collecting most of the broad-based taxes simply because of both administrative and efficiency gains. This implies that the resources collected have to be allocated and transferred to the levels where public services are delivered.

The literature also points out that, intergovernmental transfers can come in a variety of forms. They can be equalizing transfers aimed at countering the tendency for decentralization of public services provision and taxes to cause disparities in need and fiscal capacity. They can also be conditioned transfers, which are used to provide an incentive – carrot and/or stick – for local authorities to design their public service programs to abide by national standards.

Finally, apart from redistributive roles, transfers can be used to enhance the efficiency of the central economy. For example, matching grants can be used to provide an incentive for authorities to choose their expenditure programs in a way that takes account of any spillover benefits to residents in other authorities.

Intergovernmental transfers can be defined as funding received by the LGAs from other levels of government, namely the central government. The transfers are made out of budgets approved by the Parliament. The principal institution for making the transfers is the Treasury who is the custodian of the General Budget. Other Ministries are sometimes charged with responsibility to manage funds earmarked for a particular intervention (e.g. education, health, agriculture development), especially those contributed by donating agencies, and which are created as 'pooled fund' or 'basket fund'. Intergovernmental transfers funds roughly 90% of all local government spending.

The underlying study involved review of literature, reports and other secondary data, along with interviews with sectoral ministries (MDAs) responsible for key social and economic services and the administration of local government Authorities (LGAs), the regional secretariats (RS) and LGAs, carried out in 2017. The Brief also draws some ideas from other studies undertaken on the subject matter pertaining to decentralisation by devolution in Tanzania.

The key proposition underpinning this brief is that while the central government has committed itself to providing most of the resources required under decentralisation by devolution, the execution has suffered from unclear intergovernmental fiscal relations and uncertainty in the disbursement of resources to the LGAs thus undermining local autonomy.

Findings

Policies, laws and guideline underline intergovernmental fiscal relations?

The government has always been concerned with the issue of regional or geographical imbalance in development. Historically, the colonial government implemented decentralization by devolution, but did not address the issue of imbalance in resource endowment among the councils and regions. Even after independence, the same pattern of development continued for about a decade. It is only in the early 1970s that the government abandoned devolved decentralization and moved into de-concentrated decentralization whereby the central government implemented development interventions right to the grassroots. The deconcentrated approach lasted for another 10 years, after which the government went back to devolved decentralization, but with quite a different approach in the way the councils were managed and financed.

The desire to create local government authorities is enshrined in the constitution (1977 edition), but without any details on how such authorities would be financed. This was left open for the government in place to decide on the modalities, which would be defined in laws to be enacted. The need for equitable development among regions and councils, has been underlined in many national and sectoral policies, development programmes such as national strategy for growth and poverty reduction, the Vision 2025, the medium to long term plans and the ruling party (CCM) manifestos. Likewise, the various LGA laws of 1982, especially No. 9 on finances, have elaborated on how LGAs would mobilize their resources but without going into details of the modalities for intergovernmental transfers. This vagueness has some repercussion on issues of discretion on LGAs.

The undermining of local discretion in financing is also very evident in some national laws enacted after 1982. Much powers have been put in the mandate of the Ministry responsible for Finance. Using the powers vested to her through the Constitution, the Public Finance Act 2001, the Budget Act 2015 and the Presidential Instruments, the MoF is duly responsible for collecting all major forms of taxes and other levies in the country. Likewise, it is also responsible for managing expenditure and financing. For example, S (1) of the Public Finance Act 2001 states that:

It shall be the duty of the Minister-

a) To develop and implement a macroeconomic and fiscal policy framework for the United Republic and shall, for that purpose- (i) supervise and monitor the finances of the United Republic; (ii) coordinate international and inter-governmental financial and fiscal relations;

b) To advise the Government on the total of resources to be allocated to the public sector, and the appropriate level of resources to be allocated to individual programmes within that sector.

c) On budgetary management issues, the Act S. 5 (3) states that 'for the purposes of the full exercise of supervision over the finances of the United Republic, the Minister shall, subject to this Act and to any other written law, have the management of the Consolidated Fund and the supervision, control and direction of all matters relating to the financial affairs of the United Republic.'

The recently enacted Budget Act, 2015, has reinforced further the powers of Minister responsible for Finance and and the technocrats. S.10 (a) empowers the Minister to prepare estimates of the revenues and expenditures and financing requirements for the Government of the United Republic. The Minister is responsible for preparation, execution and monitoring of the budget, including any adjustments to the budget.

Some clauses relating specifically to LGAs also help to reinforce the powers of the Minister. In particular, S. 60 (1) states that the Minister shall oversee the budgetary and financial management of LGAs, and secondly, S.S (2) the drafts and approved budgets of the LGAs to be submitted to the Minister and Minister responsible for LGAs, and Subsection (30) states that the 'establishment and management of extra budgetary and specific funds of LGAs shall require approval of the Minister upon consultation with the Minister responsible for LGAs.

The use of formulas to determine inter-governmental fiscal transfers and achieve equity in resource allocation

For purposes of ushering in equity in the allocation of resources among the councils, the government introduced the concept of formulas applied to allocate financial resources and manpower. Each sector has its own formula for allocating resources among the councils. By extension, each council uses the same formulas to allocate resources to grassroots level. At outlet level, the government also provides a formula to use in spending on different categories of expenditure items. These formulas are well articulated in the 'planning and budgeting guidelines' prepared in each year to guide all government agencies. The use of formulas has been in place for almost two decades. Hence there are formulas for recurrent block grants, capital development grants, basket funds for each sector, special development pool funds for each sector etc. Sometimes, the government has put a condition of passing minimum access conditions before an LGA can be allocated development funds. A process of assessing the LGAs each year is in place.

The major challenge with the use of formula is availability of reliable data at national level. Data are collected from the LGAs and aggregated at national level, and yet, there are many complaints concerning unreliability of data from LGAs as was unveiled by the study. It is possible that some LGAs could massage the data in different sectors e.g. school enrolment, to give them some advantage in financial resource allocation.

Examples of formulas in use:

1. ***General purpose grant:***

Formula:

- Fixed lump sum: 10%
- Total number of villages: 10%
- Total population: 50%
- Rural population: 30%

2. ***Health sector block grants***

Formula:

- 70% of the pool is distributed to local governments in proportion to population.
- 10% of the pool is distributed in proportion to the estimated number of poor residents in a council area.
- 10% of the pool is distributed in proportion to the length of the official medical vehicle route in a council area.
- 10% of the pool is distributed in proportion to the estimated morbidity count in each LGA.

3. ***Primary school block grant:***

Formula:

The allocation on the education block grant between LGAs is 100% based on the number of school-aged children in each council (based on census figures).

4. ***Agriculture: (District Agriculture Development Grant - DADG)***

Formula:

The DADG, the A-CBG and the recurrent element of the Agricultural Sector Development Program – (ASDP) is allocated using same formula as the Agriculture Recurrent Block Grant:

- Number of Villages 80%
- Rural Population 10%
- Rainfall Index 10%

5. ***Primary Education development grant (PEDG):***

Formula:

- Number of school-aged children in each district 80%.
- Classroom shortage (the gap between the

number of classrooms required and the actual number of classrooms, as determined by MOEVT).

Indicative projections on intergovernmental transfers communicated and used in the preparation of LGA annual plans and budgets

LGAs are provided with indicative planning figures through the planning and budgeting guidelines with allocated amount predetermined. The LGAs plan for such figures depending on their priorities and they use a planning programme (PLANREP) developed for such purpose. Although the plans and budgets are approved by the appropriate organs including the full Council, changes can occur at central government level depending on updated projected information on resource envelop. And for that reason, plans and budgets prepared by LGAs remain uncertain all the way to the execution stage. This is evidently clear from the revelations of the Ministry of Finance officials that, at the end of the day, what is shared is what is actually collected, and not what was planned.

Decision making for inter-government fiscal allocation and transfers exclude the LGAs

LGAs complain about not been engaged enough when intergovernmental fiscal allocations are decided. They also complain of the central government officials not been conversant enough with the business of the LGAs and therefore the allocations not been reflective of their needs and priorities. A further scrutiny of actions of the central government also revealed that:

a) Foremost, many desk officers processing LGA issues had not worked in LGAs. Hence the whole concept of decentralization by devolution was not clear in their minds.

b) Secondly, committees formed to establish which taxes could be collected efficiently by LGAs did not include directly officials from LGAs. Hence, as it happened with the property tax, the LGAs were judged to be inefficient in collecting such a tax and it was moved to central government (TRA). Also, the committee that determines allocation of resources collected by central government did not include officials or representatives from the LGAs. And in view of the fact that the LGAs's share in the total budget is not legally fixed, this could lead to the LGAs getting meagre funds.

Budgeted amounts are not received fully and affects service delivery in the LGAs

There are problems in LGAs realizing the budget approved by the Parliament. Funds are not released to LGAs in line with the budget. The problem covers both the recurrent grants and the development grants. In some cases, less than 50% of the budgeted amount is received by the LGAs. Examples from the sampled Moshi District Council demonstrate this.

- Primary education outturn ranges from 50% to 75%.
- For secondary school outturn ranges from 62% to 87.4%
- For Health, it ranges from 46% to 84.6% (for recurrent costs
- Again, for Health development, it ranges from 40% to 100%.
- For agriculture, the outturn for recurrent costs it ranges from 19.7% to 88.1%.
- Again, for Agriculture, the outturn for development costs ranges from 16.4% to 64.6% for the years when funds were supplied.

(Figures are for the financial years 2013/2014 to 2016/17)

The explanation by CG for the underperformance is that what is actually collected is what is released to the spending agencies. For them, there is no easy way to remedy the situation. However, as pointed above, the question remains on whether what is collected is equitably distributed between the centre and the LGAs.

Conclusion and recommendation

The LGAs depend almost wholly on intergovernmental transfers to carry out their mandates. However, there is much uncertainty on intergovernmental transfers.

Hence there is a need to improved mechanisms for determining allocation and release of inter-government transfers.

From a theoretical point of view, the necessity for LGAs to exist and carry out functions, which are best decided at that level cannot be underrated. If it is considered that it is economically efficient to have communities implement their programmes, then the central government has a duty to ensure resources are available. And it is even more urgent given the fact that, CG is responsible for collecting nearly all the domestic revenues, mobilizing foreign grants, and approving loans to LGAs. Hence a good level of certainty in the flow of funds to the LGAs has to be guaranteed.

It is recommended that first, there should be a platform for the LGAs to participate in the allocation and distribution of the financial resources.

Second, legally determined share of the financial resources for the LGAs should be established through the constitution or other public finance laws. The Kenyan model can be emulated. The National Assembly allocates resources for the Counties in line with the constitution, and then the Senate is fully responsible for allocating financial resources to the Counties.

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