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Repoa Brief

Financial discretion in LGAs and its effect on delivery of financial services through special funds for women and youth

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Key messages

- The declining own source revenue for LGAs have diminished their ability to provide financial support to the women and youth as required
- Access to market-based financial services for a large majority of poor population have improved but still low
- A large majority of Tanzanians have no more than primary education, making it imperative to complement financial services programmes of LGAs with targeted skills development programmes

Introduction

This brief examines how the process of decentralization by devolution in Tanzania affects outcomes in terms of local government authorities (LGAs) capacity to deliver financial services to the poor. These outcomes depend on the level of administrative autonomy given to LGAs by the central government, their own capacity to execute, and ability of raising financial resources from the own source revenue category.

The underlying study involved review of literature, reports and other secondary data, along with interviews with central government ministries responsible for key services and administration of LGAs, regional secretariats and LGAs carried out in 2017. It also uses some data from the FinScope Survey carried out in 2016 and other studies on the subject.

The key proposition underpinning this brief is that, while decentralization process in Tanzania have gone a long way towards bringing administration of service delivery closer to the people through LGAs, many of them, particularly those in rural areas have not been able to bridge a gap left out by the market in servicing the financial needs of the poor, particularly women and youth.

Findings

The limited financial discretion for LGAs have diminished their ability to provide financial support to the women and youth while the central government through the Ministry of Finance and Planning continues to support economic empowerment initiatives through a variety of targeted funds, the LGA levels supports economic empowerment through two funds under their discretion: The Women Development Fund (WDF) and the Youth Development Fund (YDF). The local authorities are required to contribute 10% in total of their own sources revenue (OSR) towards these two Funds in equal proportions. The Funds outlay is in form of loans to the respective women and youth groups. Hence the borrowing and repayment is through the SACCOS. The management of these Funds at LGAs is entrusted to the Community Development Department in the Council.

Each year the Council must budget for these Funds, and these have to be approved through the normal processes of budgeting at the council, through the ministry responsible for finance, and by the Parliament. The budget is included in the Council's Medium-Term Expenditure Framework (MTEF) and each council has been given budget line item codes by the ministry. In practice, however, the planned targets are not generally met, as the actual allocations depends on the amount of revenues collected from OSR, which have shown a declining trend in recent years. The decline of revenues from own sources started to be a serious problem from the mid-2000s when the government abolished the so called "nuisance taxes", including the development levy which was a main source for the councils, especially those in rural areas. The problem has been exacerbated by the recent abolition of other levies, and the shift of the collection of taxes from the local to central government. This has also reduced own source revenue for urban councils. In addition, the community development department does not receive sufficient budget to execute its functions, including monitoring of group activities, following on repayments and providing advisory support.

Access to market-based financial services for a large majority of poor population have improved but still low.

From the perspectives of most financial service providers, asset ownership is key to accessing credits. The FinScope Survey of Tanzania 2017 conducted by FSDT showed that 37% of Tanzanian adults own the land they live on as sole owners. The difference between men and women is, however, significant. Whereas half of Tanzanian men are sole owners of the piece of land they live on, it is only true to less than a third of Tanzanian women. A further challenge is the lack of documentary proof of ownership, as only 10% of adult Tanzanians reported having any documentation and only 3% have title deeds. While the broader reach of financial services has led to increased financial inclusion in recent years due to ongoing innovations and partnerships between financial services and mobile phone service providers, access to credit for productive uses has remained limited. The FinScope Tanzania 2017 shows that 86% of Tanzanian adults have a financial access point within 5 km radius.

In terms of credit access, most Tanzanians still borrow for smoothing consumption rather than for investment in productive capacities. FinScope finds that of the 44% of adults who reported to have borrowed over the last 12 months, 74% borrowed for smoothing cashflows, and only 26% borrowed for productive investment and asset building. In addition, borrowing from the banks and other formal financial institutions is still very limited. 69% of borrowers obtained credit from family and friends, 14% from saving groups, 4% from mobile money.

These findings suggest that, public resources in the form of revolving funds is still a necessary avenue for supporting women and youth economic activities, particularly in rural areas where market based financial services are limited and often focused on consumption smoothening. The declining OSR and the dependence on central government grants by LGAs is likely to limit their capacity to support these programmes that are necessary in addressing the gap left by market failure.

A large majority of Tanzanians have no more than primary education, making it imperative to complement financial services programmes of LGAs with targeted skills development programmes.

Recent surveys show that a large majority of Tanzanians have hardly more than primary education. The Household Budget Survey, 2012 shows that 19% of Tanzanian have no formal education at all. The corresponding figure for the Integrated Labour Force Survey (ILFS) of 2014 is 17%, which is a marginal improvement from that of HBS, 2012. These two surveys show 78% of all Tanzanians have no more than primary education. Even the more recent survey, FinScope 2017 do not show any improvements from the previous two surveys: 8 in every 10 people have no more than primary education.

A further challenge is related to poverty. Whereas the HBS 2012 reports poverty at 28%, FinScope survey of 2017 shows that 58% fall in the lowest two quintiles, majority of them being in the rural areas. These findings have two implications related to the WDF and YDF at LGAs. First, providing the funds to the target groups requires complementary support for skills development in managing both the funds and the projects to ensure better outcomes. Second, community development officers at LGAs needs closer supervision of the women and youth groups to ensure productive use of credits and to guarantee repayment, otherwise most of the funds are likely to be directed in consumption smoothening and less to income generating activities.

However, findings from the study indicates that many LGAs are unable to monitor these groups on a regular basis mainly due to financial and human resource constraints.

Conclusion and recommendations

This brief has identified several factors limiting women and youth to accessing local government funds for undertaking productive investments. We observe that, LGAs have limited funding from their own source revenue category to enable then to cover operational costs and contribute to youth and women fund. Low education levels and higher poverty rates also presents major challenges on entrepreneurial skills but also on the likelihood of using borrowed funds for consumption smoothing than productive investment.

To address these challenges, investment in developing entrepreneurial skills for the youth and women groups at local level is important. This requires efforts to strengthen community development offices in LGAs by providing adequate staffing and financial resources.

It is equally important to consider alternative financing for the two Funds, as the revenue from own sources shrink either by abolishing different taxes and levies or by shifting the mandate of collection to the central government.

This could include increasing the levels of discretionary grants from the central government, tied to the principle of the 10% allocation to these funds.

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