

REPOA Brief



Strengthening Transparency and Accountability in the Decentralized Funding Systems to Enhance Local Economic Development Contributions in Tanzania

By Ambrose T. Kessy and Jamal Msami

Key Messages

Ineffective financial management and low transparency in fund allocation undermine the success of LED projects. Improved accountability mechanisms are essential for ensuring that funds are allocated and used in line with community needs and development priorities.

Many LGAs lack trained financial staff and the technical systems necessary to efficiently manage LED funds. Building capacity in financial oversight and modern accounting practices is crucial for sustaining economic development efforts.

Delays in disbursing funds from the central government to local councils significantly affect the timely implementation of LED projects. Streamlining fund approval and disbursement processes is needed to avoid project delays and cost overruns.

Introduction

Local Economic Development (LED) in Tanzania is a critical component of the country's strategy for fostering sustainable growth and reducing poverty. Through decentralised governance, LED provides a platform for Local Government Authorities (LGAs) to address the unique socio-economic challenges within their jurisdictions. This framework allows local governments to tailor development initiatives to the specific needs of their communities, promoting inclusive and equitable growth. However, the success of LED is heavily dependent on the availability, allocation, and management of financial resources—a persistent challenge in Tanzania's decentralised system.

Despite its potential, Tanzania's LED framework faces significant financial management hurdles that undermine its effectiveness. Weak financial oversight, limited transparency, and delays in fund disbursements are common across LGAs, leading to inefficiencies and the misallocation of resources. Bureaucratic bottlenecks and reliance on manual accounting systems exacerbate these issues, creating an environment where LED initiatives are often delayed, underfunded, or unable to achieve their intended outcomes. Furthermore, the capacity deficits

within LGAs—particularly the lack of skilled financial personnel and modern accounting systems—highlight systemic gaps that hinder the proper implementation of LED projects.

Strengthening financial management for LED is not merely an administrative improvement; it is a necessity for ensuring that development funds translate into tangible benefits for communities. Enhanced transparency, accountability, and efficiency in managing resources can significantly improve the impact of LED projects, allowing them to align better with local priorities and drive sustainable economic transformation. This policy brief explores these critical challenges, emphasizing the need for strategic interventions to improve financial management systems at the local level. It advocates for a multi-pronged approach, including adopting digital financial systems, building local capacity, and streamlining bureaucratic processes, to create a robust and transparent financial ecosystem for LED in Tanzania.

The recommendations provided in this policy brief aim to guide policymakers, local government officials, and development stakeholders in addressing the financial bottlenecks that limit the potential of LED

By institutionalising effective financial management practices, Tanzania can enhance the efficacy of decentralised development initiatives, fostering a more inclusive and sustainable economic landscape. This aligns with the broader objectives outlined in the Tanzania Development Vision 2025, which underscores the importance of decentralised governance in achieving national development goals.

Methodology

The study applied a mixed-methods study combining both quantitative and qualitative data collection. Surveys were conducted with 1,708 respondents from seven diverse Tanzanian regions: Kilimanjaro, Dar es Salaam, Mwanza, Kigoma, Iringa, Dodoma, and Mtwara. The respondents included local government officials, community leaders, private sector stakeholders, and representatives from NGOs. Key Informant Interviews (KIIs) were conducted with finance officers, regional administrators, and private investors to gain deeper insights into funding challenges and potential solutions for LED. Moreover, Focus Group Discussions (FGDs) were held in each region to gather perspectives from community members on the effectiveness of funding mechanisms and opportunities for improvement.

The regions studied were purposefully selected to include both urban and rural districts, providing a broad understanding of how socio-economic contexts influence LED funding dynamics. Data analysis incorporated descriptive statistics for quantitative insights and thematic analysis for qualitative findings, ensuring a nuanced exploration of barriers and opportunities in LED funding.

Findings

- 1. Weak Financial Management Systems:** In Kigoma and Mwanza, financial systems were found to be largely manual, leading to frequent errors, misappropriations, and inefficiencies. This has led to resource wastage and compromised project outcomes.
- 2. Delayed Fund Disbursements:** In Mtwara, delays in receiving funds from the central government have stalled project implementation, thereby

diminishing the effectiveness of LED initiatives. These delays often result from centralized financial controls and bureaucratic bottlenecks.

- 3. Capacity Deficits:** Local governments in Iringa and Mwanza were struggling with a lack of adequately trained accountants and financial officers. This results in poor financial oversight, making it difficult to track and manage the resources allocated to LED projects effectively.

Best Practices and Opportunities for Improvement

- Adoption of Digital Accounting Systems:** Dar es Salaam and Dodoma regions have successfully introduced digital accounting systems, which have improved financial reporting and allowed for real-time tracking of expenditures. Expanding the use of digital systems across LGAs will increase transparency and reduce errors in financial management.
- Participatory Budgeting:** In Dodoma region, participatory budgeting has enabled community involvement in the financial planning process, ensuring that resource allocation reflects local development needs and priorities. This practice should be institutionalised across all LGAs.

Implications for Policy and Practice

- 1. Improving Transparency and Accountability:** There is an urgent need to introduce regular financial audits and make public disclosures of financial records mandatory for all LED projects. This would foster transparency in fund allocation and usage, strengthening accountability.
- 2. Capacity Building for Financial Management:** Targeted training programmes for local government accountants and financial officers should be introduced to improve financial literacy and accounting practices. This would include modern budgeting techniques, digital financial reporting systems, and fund tracking mechanisms.

3. **Streamlining Bureaucratic Processes:** The central government should decentralise more authority over LED funding, allowing LGAs to manage and disburse funds more autonomously. This would reduce delays in project implementation and ensure that funds are available when needed.

Recommendations

- **Strengthening Financial Accountability:** Introduce transparent and participatory budgeting processes, ensuring communities are involved in decision-making. Mandatory audits and the public disclosure of financial records for LED projects will enhance accountability and reduce the risk of misallocation.
- **Capacity Building Initiatives:** Implement comprehensive training programmes for local government financial officers on modern financial management practices, including the adoption of digital accounting systems.
- **Decentralising Fund Disbursement:** Streamline the disbursement of funds from the central government to local authorities, reducing delays and ensuring timely implementation of LED projects.

Conclusion

The success of LED in Tanzania is closely linked to the effectiveness of financial management systems at the local level. Improving transparency, building financial management capacity, and decentralising fund disbursement are critical for ensuring that LED initiatives are sustainable and aligned with community development needs. By addressing these challenges, Tanzania can enhance the impact of decentralised economic development and move closer to achieving its broader economic transformation goals.

This policy brief is intended to guide policymakers, local government officials, and stakeholders involved in local economic development in Tanzania. Implementing the recommended strategies will strengthen financial management practices and contribute to more efficient and transparent governance of LED initiatives across the country.

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REPOA HQs

157 Migombani/REPOA streets,
Regent Estate, PO Box 33223,
Dar es Salaam, Tanzania.
Tel: +255 (22) 2700083
Cell: +255 78 455 5655
Website: <https://www.repoa.or.tz>
Email: repoa@repoa.or.tz

Branch Office

2nd Floor Kilimo Kwanza Building 41105,
Makole East, Kisasa,
Dodoma, Tanzania

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