

**Development Partners Working Group on  
Local Governance and Decentralisation**

**International Development Partner Harmonisation  
for Enhanced Aid Effectiveness**

**Harmonisation and Alignment Strategies in the field of  
Decentralisation and Local Governance**

**A Review of Country Practices and Experiences**

**Tanzania Case Study**

**Final Report**

**September 2007**

**Susanne Hesselbarth**

**Finn Hansen**

**Hans Olsen**

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### ***List of Abbreviations***

ABP	Area Based Programme
BF	Basket Fund
BMZ	German Development Ministry
CIDA	Canadian International Development Agency
CSRP	Civil Service Reform Programme
Danida	Danish Development Assistance
DED	German Volunteer Service
DFID	Department for International Development
DP	Development Partner
D by D	Decentralisation by Devolution
FY	Financial Year
GBS	General Budget Support
GOT	Government of Tanzania
GPG	General Purpose Grant
GTZ	German Technical Cooperation
IA	Irish Aid
JAS	Joint Assistance Strategy
JICA	Japanese International Cooperation Agency
KfW	German Development Bank
LGA	Local Government Authority
LGCDG	Local Government Capital Development Grant
LGR	Local Government Reform
LGRP	Local Government Reform Programme
LGRT	Local Government Reform Team
NSGRP	National Strategy for Growth and Reduction of Poverty (MKUKUTA in Swahili)
PO-RALG	President's Office – Regional Administration and Local Government
PMO-RALG	Prime Minister's Office – Regional Administration and Local Government
PSRP	Public Service Reform Programme
SDC	Swiss Development Cooperation
SIDA	Swedish International Development Agency
SWAp	Sector-wide Approach
TAS	Tanzania Assistance Strategy
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
ZRT	Zonal Reform Team

# 1. Executive Summary

## Context

From the late 1970s Tanzania experienced a period of difficult relations with Development Partners (DPs) which ended in the mid 1990s. A commission of independent advisors, led by Professor G. Helleiner was asked to develop recommendations on how to improve the aid relationship in Tanzania. The recommendations of the “Helleiner Report” which were jointly adopted by the Government of Tanzania (GOT) and DPs in 1997, promoted GOT ownership and leadership of the development process, along with harmonization of aid by donors. In response to the Helleiner Report the GOT initiated a series of discussions with DPs.

With this new enhanced relationship between Government and donors a process evolved around the Tanzania Assistance Strategy (TAS 2002). The Government advanced the TAS to serve as the medium-term framework for development co-operation, aiming to strengthen aid coordination, harmonisation and alignment as well as national ownership and Government leadership of the development process. Through the TAS, progress in the following four priority areas was made between 2002 and 2005:

- 1) Increasing the predictability of aid flows;
- 2) Integrating external resources into the Government budget and Exchequer system;
- 3) Harmonising and rationalising processes, and
- 4) Improving national capacities for aid coordination and external resource management. In addition, some overlapping and duplicative processes were re-organised and streamlined around the national budget and poverty reduction strategy processes. DP missions were also reduced and so called silent periods introduced.

In the early 1990s GOT in collaboration with a group of likeminded donors (Nordic Countries, UK, the Netherlands) and the World Bank started working on sector reforms as a mechanism for addressing poverty through improved service delivery. Elements of such sector programmes (SWAPs), notably for health, education and roads are the formulation of a policy, a common basket fund implementation arrangement for the policy and a mechanism for discussion and dialogue between GOT and the basket donors on issues of both policy relevance and utilisation of the funds.

Aid to Tanzania is currently at an unprecedented level, more than double its real value in the early 1990s. Considering Tanzania receives aid from over 40 countries, this translates into a multitude of projects, sets of procedures and different conditionalities. The following figures indicate the level of crowdedness experienced by certain sectors and thematic areas in Tanzania. For example, 23 DPs are engaged directly in the health sector, 20 in education, 18 in water, 17 in governance, and 16 in HIV/AIDS. The burden on the GOT of coordinating these activities is high, particularly where different funding modalities are used simultaneously by each DP. The large number and diversity of partners can at times inhibit constructive dialogue, and has prompted GOT and DPs to rationalize both the number of donors per sector, and the number of sectors per donor in view of achieving enhanced development effectiveness.

GOT is committed to more effective division of labour among and between central and line ministries and local government authorities. It intends to define each Government agency's role and responsibilities, in particular with regards to implementing the National Strategy for Growth and Poverty Reduction (NSGRP), and assign lead Government agencies in each

sector or cross-cutting/thematic area to supervise and coordinate the activities of other involved agencies.

## **Findings**

### **Management of the decentralisation process**

The wider policy intensions for reform of the public sector were outlined in the “Policy Paper on Local Government Reform (LGR)” of October 1998, which in rather great detail outlined the vision of a future reformed public service. The paper spelled out how decentralisation of government would include four main policy areas:

- 1) Political devolution: devolution of powers and the setting of the rules for councils and committees, the chairpersons etc.
- 2) Financial decentralisation: based on the definition of principles of financial discretionary powers of local councils, i.e. powers to levy taxes and the obligation of central government to supply local governments with adequate unconditional grants and other forms of grants.
- 3) Administrative decentralisation: involving the de-linking of local authority staff from their respective ministries and procedures for establishment of a local payroll.
- 4) Changed central-local relations: the role of central government vis-à-vis local councils changed into a system of inter-governmental relations with central government having the over-riding powers, but clearly within the framework of the Constitution.

Concurrently with the above, the Local Government Reform Programme (LGRP) was established under the President’s Office - Regional Administration and Local Government (PO-RALG – the MRALG was elevated into the President’s Office to enhance the coordination of the LGR) with a secretariat based in Dar es Salaam and 5 Zonal Reform Teams located in the regions. The LGRP was charged with coordinating the reform process and providing both advisory and technical support to PO-RALG and the LGAs, especially the Council Reform Teams staffed by LGA elected representatives and appointed officials that have been given the task of carrying forward the reforms.

The LGRP has five components: 1) Governance, 2) Restructuring, 3) Finance, 4) Human resources and 5) Legal.

### **DPs coordination mechanism**

Some donors have and will experience some difficulties in moving from a project-oriented assistance situation to a programmatic approach. This entails finding the right niche among the different types of partnerships which are rapidly evolving on the ground. Lead partnerships are the most commonly cited type of partnership in the Joint Assistance Strategy (JAS – followed the TAS) documents. Lead partner arrangements already exist in Tanzania in health and education sector-wide approaches (SWAp), the LGRP “SWAp” (basket fund) and in the Elections Basket and other lead partner arrangements are being developed too. This is also the case with the LGRP where a lead and a co-chair partner has been the practise for many years.

Sector working groups have been established in all priority sectors to address the need for harmonisation of processes at the sector level. Draft terms of reference for these sector working groups include:

- Developing common reporting formats.
- Maintaining a calendar of donor missions.
- Identifying areas for reducing transactions costs at the sector level.

Whereas the sector programmes at times ignore local government processes and procedures, the Area Based Programmes (ABPs) are equally subject to increased questions on their relevance considering the changing policy context in Tanzania. For Tanzania, the discussion was triggered by a series of reports from the work leading up to the start of the Local Government Support Programme (LGSP) which highlighted the problems with a multitude of DP supported ABPs with different funding, reporting and accountability modalities.

Following these reports the GOT issued the - Letter of Agreement between PO-RALG (now PMO-RALG) and development partners regarding harmonisation of ABP support and convergence towards a unified discretionary capital development grant system for Local Governments. The agreement was, that by no later than June 2008, the DPs together with GoT, would harmonise their sector activities directly relating to the introduction and operationalisation of the incentivised and performance based Local Government Capital Development Grant (LGCDG) system.

A strategy for embedding the Decentralisation by Devolution (D-by-D) policy across government has been in place since 2006. Early in 2007 the 4<sup>th</sup> Phase Government took a decision to 'fast-track' D-by-D (the 'Ngurdoto Meeting' of Ministers, Permanent Secretaries and Deputy Permanent Secretaries, Chaired by the President).

The Office of the Chief Secretary is also going to be the apex for reform coordination. The new support will differ from LGRP thus far in that it will not have a LGRT, but will be under PMO-RALG Divisions and with TA integrated on demand into PMORALG. The other major difference will be the inclusion of interventions linked to other Ministries and reform programmes, essential for systemic and operational aspects of devolution.

#### Alignment of DPs to country strategies

In June 2001, a joint Government/Donor Mid Term Review acknowledged the considerable progress made with regard to support for decentralisation, considering the relative 'youth' of the policy. With regards to the LG policy paper, the Review's final conclusion however, was that the policy was not being implemented consistently. The Review identified three 'essential pre-requisites' for effective LGR, which critically categorized major systemic reforms outside the control of the LGRT, being (1) fiscal decentralisation, (2) human resource management autonomy for LGAs and (3) legal harmonisation.

Taking into account the recommendations of the Review, a Medium Term Plan & Budget for the period of July 2002 to June 2005 was prepared. Implementation was envisaged for 9 years from 2002 to 2011, in three phases as follows:

- (i) 2002-2005: LGRP as set out in the Medium Term Plan & Budget;
- (ii) 2005-2008: LGR mainstreamed into PO-RALG supported by GOT; and
- (iii) 2008-2011: Strengthened LGAs proceed with reforms supported by GOT.

The Government developed a more firm policy statement on the issue of alignment in the form of a Letter of Sector Policy, where donors were encouraged to integrate into the agreed common modality for "Capital development Funding" as designed under LGSP (see Annex 2 for the full text) which was issued in 2005. This letter expands on the Government of Tanzania's policy positions on decentralisation with emphases on fiscal decentralisation and approaches to LGA capacity building, and how the LGSP will contribute to the implementation of those policies.

### Modalities of DP support

GOT receives external resources under three modalities, namely General Budget Support (GBS), Basket Funds (BF), and Direct Project Funds. GBS is the preferred form of GoT aid modality and the Ministry of Finance is planning for GBS to reach 55% of total aid in FY07/08. GBS to Tanzania is currently channelled through the Poverty Reduction Budget Support (PRBS) programme. This programme is financed by 11 bilateral DPs in addition to the E.C., World Bank and African Development Bank. The PRBS disbursed approx. USD 370 million ODA during FY 2003/2004.

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

As mentioned above, the World Bank worked on the preparation of the LGSP i 2003/2004 to enhance the fiscal decentralisation part of the LGR. LGSP is assisting the Government of Tanzania to reform the modalities for development funding at local government level – an aspect of decentralisation not included in the LGRP. The LGSP is supported by a multitude of donors and is the main vehicle for consolidating the efforts of creating a unified system of capital investment grants in the local governments.

### **Lessons Learned**

#### Management of Decentralisation Process

The decentralisation process in Tanzania has been characterised by a high level of Government control over the policy setting process and a clear strategic framework for decentralisation by adoption of the Decentralisation by Devolution (D-by-D) policy. The donors moved early on to support this D-by-D policy and established in cooperation with the GOT the LGRP/LGRT as the vehicle to support this process. The policy has evolved from 'local government reform' to 'decentralisation-by-devolution'. This fundamental change in central-local relations has gained increased acceptance and support at the highest levels of Government and administration, as indicated by the personal engagement of the President, the involvement of the Chief Secretary in driving the process forward and the designation of PMO-RALG as a central ministry (like other central ministries like Finance and Public Service Management).

There is broad agreement on the need for a continuing support programme in some form after June 2008 to ensure that D-by-D is taken forward and embedded. If the LGRP is to be fully integrated into PMO-RALG, then some basic conditions would have to be met (according to the DPs supporting LGRP now):

- a focused programme with defined outcomes, activities and costing;
- a core team with specialist expertise to supplement the staff of PMO-RALG and to be placed in other Ministries (e.g. Finance) if required;
- flexibility in operations to allow for the drawing in of expertise, e.g. through Task Forces and consultancies; and
- ring-fenced financing through a basket fund, with appropriate management and oversight structures.

### DPs Coordination Mechanism

Tanzania is seen as having a good DP coordination setting in general. This process is also supported by Government. The formulation of the LGRP was seen as an attempt by various donors to support a national programme versus individual area based programmes which was the feature of the 80's and 90's (supported by the development agencies of the Dutch, Irish, Swedish, Germans, etc). DPs that participate in the LGRP basket have the coordination mechanism but donors outside say they are informed of developments in the reform process but information is hampered by the enormous task of coordinating such a huge reform area. Many donors expressed the need for better coordination between the large on-going reforms within the public sector (PSM, LGRP, Legal etc) and the for the Government to move from the rhetoric of the JAS statements to action on better coordination from their side in relation to these on-going reforms.

### Alignment of DPs to Country Strategies

Donors supporting the LGRP see themselves as aligned to the country strategy on decentralisation by devolution (D-by-D) but the question is if others are also promoting the same line, and if some donors are not pursuing other agendas by supporting sectors and still relying on targeted TA outside the LGRP set-up to PMO-RALG. However, PMO-RALG does not internally coordinate sufficiently the many donor initiatives in sectors and continues to approve individual projects/initiatives under different departments of PMO-RALG.

Alignment is seen as improving and will be more the focus of the coming support to the decentralisation reform after 2008 (post-LGRP). The concern of some donors outside of the LGRP today is how this will be done and the need for better coordination with sector reforms and the influence of D-by-D on sectors.

### Modalities of DP Support

Many DPs are using a mix of aid modalities when supporting decentralisation and local governance in Tanzania. Basically all donors expressed the need for a mix of aid modalities for support to decentralisation and especially local governance. This mix ensures that overall national budget concerns are supported through GBS, the LGR (both generic and fiscal) is supported by BFs (or sector budget support), and that the issues of poor service delivery and local governance are addressed through direct project funding of LGAs, NGOs and CSOs at local levels.

Many DPs want to remain with this mix of aid modalities but also increasingly express concern with the GBS support modality in relation to reforms such as LGR as issues such as: i) lack of accountability of disbursement of funds, ii) problems with inter-governmental fiscal transfer (not sufficient, not timely), iii) still no control of human resources by the districts as this is still centrally driven. This puts the onus on the LGR and D-by-D policy to deliver the goods in terms of increased service delivery at local levels and increasing local governance as well as accountability performance. The DPs currently supporting the LGRP/LGSP see the need for a basket fund arrangement with PMO-RALG after the termination of the LGRP in June 2008 because the support to the reform is needed also in future within PMO-RALG and since the latest PEFAR review showed that problems in inter-governmental fiscal transfers persist.



## 2. Country Background

### Introduction

This report has been prepared as part of a study on the **International Development Partner (DP) Harmonisation for Enhanced Aid Effectiveness** in four countries, as follows: Tanzania, Benin (Africa), Nepal (Asia) and Nicaragua. The study, conducted by the Development Partners Informal Working Group on Local Governance and Decentralization, has been sponsored by the German Development Bank (KfW) and the Danish International Development Agency (Danida).

The study focuses on four issues: i) **Management of the Decentralisation Process:** the progress made in local governance and decentralisation, including an institutional framework and national policies; ii) **Coordination Mechanisms:** effectiveness and performance regarding coordination mechanisms among DPs and between these and the government in the field of decentralisation; iii) **Alignment of DPs support to country strategies:** extent of alignment of DPs with country strategies, especially as concerns decentralisation; iv) **Modalities of DP support:** the way in which DPs approach their support to good local governance and decentralisation strengthens or weakens national decentralisation reforms.

The Mission to Tanzania was carried out from 18-29 June 2007. The Mission held meetings with a number of donors supporting the Local Government Reform Programme (LGRP) (the Dutch Embassy, the Irish Aid, NORAD, FINNIDA, EC/Europeaid, the World Bank) and a few supporting local governance and decentralisation either through general budget support (DFID) or through sector programmes and projects (Danida, JICA, SDC). The Mission could not hold meetings with representatives of the German development assistance system (BMZ, GTZ, KfW, DED or InWent) as the German Governance Coordinator was not present in Tanzania at the time of the Mission. Furthermore, meetings were held with representatives of the Local Government Reform Team (LGRT) and Prime Minister's Office – Regional Administration and Local Government (PMO-RALG).

### Background

From the time of independence Tanzania has mainly undergone three periods distinguished in terms of economic and political changes: (a) the rise and fall of the socialist state, from independence till the late 1970s with attention to ideology, including nation building, but also for poverty reduction *and* the social sectors, notably health and education; (b) the period of the 1980s of economic crisis, fall in development aid and, after 1985 till early 1990s, the start of economic reform; and (c) the period since the mid-1990s up to present, that is characterised by economic and public sector reforms guided by an emerging, and increasingly coherent policy framework, backed up by increasing volumes of foreign aid.

Whereas poverty alleviation was a clear objective of the post-independence government, the crises of the 1980s, characterised by reduced development aid and a reduction in public expenditure, meant that during the period 1980-95 no explicit poverty reduction strategy existed. The poverty focused policy framework that started to emerge during the second half of the 1990s, started off with the issuing of the *Tanzania Development Vision 2025*. Shortly after the Vision 2025, the *Poverty Reduction Strategy Paper* (PRSP) was published (October 2000).

From the late 1970s Tanzania experienced a period of difficult relations with DPs which ended in the mid 1990s. A commission of independent advisors, led by Professor G. Helleiner was asked to develop recommendations on how to improve the aid relationship in Tanzania. The recommendations of the "Helleiner Report" which were jointly adopted by the

Government and Donors in 1997, promoted GOT ownership and leadership of the development process, along with harmonization of aid by donors. In response to the Helleiner Report the GOT initiated a series of discussions with DPs.

With this new enhanced relationship between Government and donors a process evolved around the Tanzania Assistance Strategy (TAS 2002). The TAS served as the medium-term framework for development co-operation, aiming to strengthen aid coordination, harmonisation and alignment as well as national ownership and Government leadership of the development process. Through the TAS, progress in the following four priority areas was made between 2002 and 2005:

- Increasing the predictability of aid flows
- Integrating external resources into the Government budget and Exchequer system
- Harmonising and rationalising processes, and
- Improving national capacities for aid coordination and external resource management. In addition, some overlapping and duplicative processes were re-organised and streamlined around the national budget and poverty reduction strategy processes. DP missions were also reduced and so called silent periods introduced.

In line with GOT efforts and its own commitments to the on-going international harmonization agenda the Joint Assistance Strategy (JAS), a new harmonised development financing response to Tanzania's Poverty Reduction Strategy has been initiated by GOT and supported by donors. In February 2005, GoT approved the National Strategy for Growth and Reduction of Poverty (NSGRP – known as MKUKUTA in Swahili). This is the second national organizing framework for putting the focus on poverty reduction high on the country's development agenda. The JAS has moved the TAS process to a higher stage by consolidating national ownership and leadership in the development process, and reducing transaction costs by further enhancing harmonization, and alignment to national priorities and national systems.

As the MKUKUTA is an accountability framework between the GOT and its people, likewise, the proposed JAS is an agreement between GOT and donors, whereby donors untie aid in exchange for best governance practices, a fully transparent financial management system and increased GOT accountability. The JAS has no legal status and as such has no binding implications for donors though it will be a binding national strategy. It is expected DPs will develop their own bilateral arrangements in line with the JAS to be used as a legal basis for disbursements.

Because of the comprehensive nature of the JAS approach, the process is taking longer than expected. The JAS is characterized by strong GOT leadership and widespread DP support. There are provisions in the JAS for regular GOT and DPs monitoring and evaluation of their performance relative to the jointly agreed indicators, targets and actions outlined in the JAS monitoring matrix, and the JAS Action Plan. JAS indicators, targets and actions will be drawn from six broad monitoring categories and also reflect the internationally agreed Paris Declaration indicators as adapted to the Tanzanian context.

DPs support the JAS principle of channelling aid through the Tanzanian national procurement and auditing systems, but some DPs' have regulations which might hinder or preclude effective participation in this system and generally speaking most donors are concerned with the state of procurement and auditing systems in Tanzania as studies have highlighted significant shortcomings in the GOT financial management systems<sup>1</sup>.

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<sup>1</sup> See e.g. Local Government Fiduciary Assessment, Joint Evaluation Report, Tanzania November 2006, PEFAR

## Public Sector Reforms

The Civil Service Reform Programme (CSRP) that helped to redefine the role of the state in Tanzania started effective implementation 1993. The fundamental objective of the Reform Programme has been to attain efficiency and effectiveness in the delivery of public goods and services. The specific objectives of the first phase of the programme were identified as:

- to reduce the scope of Government operations to affordable levels;
- to rationalise the machinery of Government to improve organisational efficiency and effectiveness;
- to develop an open, objective and competitive pay structure;
- to decentralise executive responsibilities to local governments; and
- to improve the quality, capacity, productivity and performance of civil servants through strengthening the systems and procedures for personnel recruitment, deployment, grading and promotions, as well as personnel training and discipline.

The outcome of the first phase of the CSRP was less than expected and a number of lessons were drawn. These were among others; (i) unaffordable levels of public expenditures, (ii) weak local ownership in ministries and departments, (iii) significant levels of capacity deficiency, (iv) corruption and (v) low performance due to low pay.

On the basis of the above, the second phase, now the *Public Service Reform Programme* (PSRP), was developed with a broader scope of reform covering three phases over a period up to 2011. Some of the key elements included a wider participation, identifying the strategic links with other public sector reforms and recognition that there is scope to involve the private sector in the delivery of public services. It was further noted that improving public services would also depend significantly on progress being made in other parallel public sector reforms.

In the early 1990s, GOT in collaboration with a group of likeminded donors (Nordic Countries, DfID, the Netherlands) and the World Bank started working on sector reforms as a mechanism for addressing poverty through improved service delivery. Elements of such sector programmes (SWAps), notably for health, education and roads were the formulation of a policy, a common basket fund implementation of the policy and a mechanism for discussion and dialogue between GOT and the basket donors on issues of both policy relevance and utilisation of the funds.

The sector development programmes are gradually becoming part of the inter-governmental transfer system, in that funds are made available to LGAs for implementation of sector activities. The Primary Education Development Programme, the Health Basket grant and the grant under the Agricultural Sector Development Programme are such examples that now have a nation-wide coverage. Modalities in the way the various sector programmes operate differ, in terms of allocation of funds, and approval and implementation procedures. Also the formal level of discretion<sup>2</sup> of LGAs over the allocation of funds differs.

What is important to note, however, is that as a result of the increase in sector programmes funding streams to LGAs, the traditional Area Based Programmes (ABPs) have gradually lost ground in the late 90s and early 2000s as the main sources of discretionary development funding at local levels.

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<sup>2</sup> I.e. level of freedom and authority to make decisions. A discretionary grant to LGs is a grant for which the LGA can make decisions on allocations as it deems fit, provided it accepts set accountability obligations.

Aid to Tanzania is currently at an unprecedented level, more than double its real value in the early 1990s. Considering Tanzania receives aid from over 40 countries, this translates into a multitude of projects, sets of procedures, and different conditionalities. The following figures indicate the level of crowdedness experienced by certain sectors and thematic areas in Tanzania. For example, 23 DPs are engaged directly in the health sector, 20 in education, 18 in water, 17 in governance, and 16 in HIV/AIDS. The burden on the GOT of coordinating these activities is high, particularly where different funding modalities are used simultaneously by each DP. The large number and diversity of partners can at times inhibit constructive dialogue, and has prompted GOT and DPs to rationalize both the number of donors per sector, and the number of sectors per donor in view of achieving enhanced development effectiveness.

GOT is committed to more effective division of labour among and between central and line ministries and local government authorities. It intends to define each Government agency's role and responsibilities, in particular with regards to implementing the NSGRP, and assign lead Government agencies in each sector or cross-cutting/thematic area to supervise and coordinate the activities of other involved agencies.

### 3. Practice of aid harmonisation and effectiveness

#### 3.1 Management of the decentralisation process

##### The Decentralisation Process

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

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

The decentralisation process was first really enhanced with the elements of support to decentralisation included in the CSR in 1994. The wider policy intentions were outlined in the "Policy Paper on Local Government Reform (LGR)" of October 1998, which in rather great detail outlined the vision of a future reformed public service. The paper spelled out how decentralisation of government would include four main policy areas:

- 1) Political devolution: devolution of powers and the setting of the rules for councils and committees, the chairpersons etc. Political decentralisation will include the integration of previously centralised or de-concentrated service sectors into a holistic local government system installing councils as the most important local political body within its jurisdiction. Political decentralisation implies the creation of real multi-functional governments at the local level within national legislation.
- 2) Financial decentralisation: based on the definition of principles of financial discretionary powers of local councils, i.e. powers to levy taxes and the obligation of central government to supply local governments with adequate unconditional grants and other forms of grants. The principle also allows local councils to pass their own budgets reflecting their own priorities, as well as mandatory expenditure required for attainment of national standards.
- 3) Administrative decentralisation: this principle involves the de-linking of local authority staff from their respective ministries and procedures for establishment of a local payroll. Local governments should thus have and recruit their own personnel, organised in a way decided by the respective councils in order to improve service delivery. Administrative decentralisation makes local government staff accountable to local councils.
- 4) Changed central-local relations: the role of central government vis-à-vis local councils changed into a system of inter-governmental relations with central government having the over-riding powers, but within the framework of the Constitution. Line ministries change their role and functions into becoming: (I) policy making bodies, (II) supportive and capacity building bodies, (III) monitoring and quality assurance bodies within the

local government legislation framework and (IV) regulating bodies (legal control and audit).

Immediately after the Policy of 1998 some legal amendments were made (1999 and 2000) to the Local Government Act that abolished the concept of “proper officer” at regional level that otherwise previously had to approve LGA budgets. More general statements were also inserted that reflected upon the principles and objectives of reformed LGAs, such as the rights of people to participate in the management of local affairs through LGAs, the need for democratisation, increased autonomy and deepening transparency and accountability at the local level.

### Local Government Reform

The LGR gained prominence in 1996 when a National Conference endorsed the move “Towards a Shared Vision for Local Governments in Tanzania.” The LGR Agenda summarised the main challenges facing LGs to effectively deliver services as follows:

- Absence of an institutional and legal framework that clearly and unambiguously regulates the relations between central and local government.
- The limited capacity of relevant central government institutions to design and implement policies that will enhance – rather than undermine – a strong local government system.
- Inadequate definition of roles, functions and structures of LGAs themselves, whereby it was noticed that the previous systems (of structure and functions) for all LGAs resulted in a mismatch between local needs and available capacity.
- Governance issues especially with regard to the weak – if not antagonistic – relationships between the councils and civil society organisations on one hand, and between political leaders and the council’s staff on the other.
- Weak human resource capacity and management capacity within LGAs combined with the fact that most council staff felt attached to their Ministry of origin.

During 1997, after discussion with a number of DPs, the LGRP was approved and initiated. As with the CSRP, the LGRP was initially located and managed within the Prime Minister’s office. In 1998, however, a full Ministry of Regional Administration and Local Government was established. The LGRP, that was based on the LGR Policy Paper and meant to implement the LGR Agenda, only became effective in 1999. While the process of the LGR was initiated in 1996 the role of the Regional Secretariats was simultaneously redefined. The regions had played a powerful role as an extended arm of the Central Government, but in light of the decentralisation by devolution (D-by-D) that role was changed to advisory and supervisory. The restructuring of the role of the Regional Administration was enforced by Act 19 of 1997.

Hence, the Regions were assigned new functions and their role was reduced to providing technical advice, offering policy interpretation, monitoring sector policies and carrying out capacity building for local governments. Following implementation of the Regional Administrative Act a serious constraint for the Regional Secretariats was the lack of qualified staff to execute the anticipated functions in support of the LGAs which required comprehensive skills in the legal and financial areas.

### **Local Government Reform Programme**

Concurrently with the above, the LGRP was established under the President’s Office - Regional Administration and Local Government (PO-RALG – the MRALG was elevated into

the President's Office to enhance the coordination of the LGR) with a secretariat based in Dar es Salaam and 5 Zonal Reform Teams located in the regions. The LGRP was charged with coordinating the reform process and providing both advisory and technical support to PO-RALG and the LGAs, especially the Council Reform Teams staffed by LGA elected representatives and appointed officials that have been given the task of carrying forward the reforms.

At inception, the LGRP had five components:

- a) *Governance*: The Governance Component of the LGRP has two distinct objectives. The first is to establish broad-based community awareness of and participation in the reform process. The second is to promote principles of democracy, transparency and accountability. Concretely, much of this work relates to increasing accountability within LGAs and improving and increasing the efficiency of the ways in which councils go about their business.
- b) *Restructuring*: The Restructuring Component is concerned primarily with enhancing the effectiveness, efficiency and sustainability of service-delivery. The core reform here is a concrete and thoroughgoing restructuring of each local authority in respect of service-delivery arrangements (e.g. through contracting out, PPPs and so on), the internal institutional structure and organisation of the LGA, redeployment and reorientation of staffing and the development of a new budget structure.
- c) *Finance*: The main objectives of the Finance Component are to increase the overall resources available to local authorities and increase the efficiency of their usage through changing the incentive structure of the existing intergovernmental fiscal system. The chief activity here is the restructuring of the conditional grants which fund most local expenditures to reduce conditionality (i.e. the introduction of "block grants".) The other main reforms include increasing the proportions of shared revenues going to local government, introducing supplementary intergovernmental transfers, improving local revenue collections, improving local financial management through rolling out the Integrated Financial Management/Accounting system (Platinum) and training local officials.
- d) *Human resources*: The main objective of this component is to improve accountability and efficiency of human resource use at the local level. The broad intention here is to give local authorities full control over their human resource inputs through allowing them authority over the size of their establishments, appointments and promotions, management issues, and – in the long term – conditions of service. Other key activities relate to improving the internal management capacity and procedures of local authorities (through the production of various guidelines and regulations) and capacitating and training of local staff.
- e) *Legal*: The objective of the legal component is to establish the enabling legislation for effective implementation of the local government reforms. The key activity here is the codification – in law and regulation – of LGRP policy and institutional changes as these are introduced.

These systemic reforms can be said to comprise four core areas of change:

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

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

### **3.2 DP coordination mechanism**

Various initiatives have been promoted to improve the DP coordination mechanisms in Tanzania.

Lead partnerships are the most commonly cited type of partnership in the JAS draft documents. Under these arrangements, several DPs appoint another to speak on behalf of the DP group as a single focal point for policy dialogue with GOT. These arrangements might include pooling of DP funds, either bilaterally between two partners, or in a larger basket. Many DPs, encouraged by GOT, are leading the process of rationalizing the division of labour between themselves. This should translate into an assessment of the donors and their comparative and competitive advantage in the different sectors. Some donors will experience difficulties in moving from a project-oriented assistance situation to a programmatic approach. This entails finding the right niche among the different types of partnerships which are rapidly evolving on the ground.

In cases where project-based funding prevails, lead partner arrangements tend to be less viable, since project dialogue is usually still required on a bilateral basis. Lead partner arrangements already exist in Tanzania in health and education sector-wide approaches (SWAp), the LGRP “SWAp” (basket fund) and in the Elections Basket and other lead partner arrangements are being developed too.

In these cases the lead donor negotiates and discusses priorities and issues with the donor and the silent partnership arrangements, whereby one or more partners agree to remain silent, thereby delegate authority to another agency to speak partly or entirely on its behalf. In a way, the LGRP could also be seen as a SWAp, although decentralisation is not a sector as such, but the activities are funded through a common basket fund (sector budget support), donors of which join the GOT in a committee to oversee and review direction and progress of the programme.

Various sectors have these lead and silent partnership arrangements, namely the Health sector where Denmark, Germany, Ireland, the Netherlands, Switzerland, and the World Bank support a SWAp under the Health Sector Development Program (HSDP). These donors are undertaking joint procurement, financial management and disbursement assessment for multi-donor pooling of funds for the HSDP. In the education sector under the Primary Education Development Program, Canada, EC, Ireland, the Netherlands, Norway and Sweden provide pooled funding, while Sweden and the WB provide direct budget support. A SWAp has been established in agriculture with EC, Japan, Ireland and the WB as donors. Nine bilateral agencies and the EC have adopted a common Performance Assessment Framework with focus on results, improved public expenditure management, and capacity building.



Sector working groups have been established in all priority sectors to address the need for harmonisation of processes at the sector level. Draft terms of reference for these sector working groups include:

- Developing common reporting formats.
- Maintaining a calendar of donor missions.
- Identifying areas for reducing transactions costs at the sector level.

Other factors to be taken into account by GOT as selection criteria for DPs sectors or thematic areas of support are:

- DP agency capacity;
- the appropriate total number of DPs in a sector or thematic area, taking into account the size, nature, needs and capacity of the sector or thematic area of concern;
- established relationships with Government, DPs and other stakeholders;
- DP willingness to cooperate with each other in a particular sector or thematic area;
- DP headquarter mandate;
- decentralised authority enabling field offices to make decisions; and
- willingness to sustain support and invest in the agency's competencies in the long-term.

Whereas the sector programmes at times ignore local government processes and procedures, the ABPs are equally subject to increased questions on their relevance considering the changing policy context in Tanzania. For Tanzania, the discussion was triggered by a series of reports from the work leading up to the start of the LGSP which highlighted the problems with a multitude of DP supported ABPs with different funding, reporting and accountability modalities. Furthermore, PORALG and the DPs issued a report "Area based programme support to Local Government Reform in Tanzania – An overview of the five major programmes"<sup>3</sup>, which highlighted the wide variance in 'rules of the game' with regard to access to funding (large differences in the amounts for investment per capita, while LGAs without ABP have very little but also with regards to menu of investment (eligible activities), fund access conditions, fund management, and planning and reporting requirements. Basically, as the report showed, most ABPs were based on parallel systems whereby donor requirements and donor policies - when in place - substitute national policies. The study related to the design of the LGSP further explored the size of funds available to each LGA and found large variations without relations to needs and capacity to absorb.

Following this process GOT issued the - Letter of Agreement<sup>4</sup> between PO-RALG (now PMO-RALG) and DPs regarding harmonisation of ABP<sup>5</sup> support and convergence towards a unified discretionary capital development grant system for local governments. The DPs who at that time were involved in supporting LGAs (or planning to support in future) through ABPs (Austrian Development Cooperation, Belgium Embassy, CIDA, Irish Aid, European Commission, Embassy of Finland, Netherlands Embassy, SIDA, UNDP / UNCDF – covering

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<sup>3</sup> Per Tidemand: Area based programme support to Local Government Reform in Tanzania – An overview of the five major programmes, PORALG/LGRP, 2004.

<sup>4</sup> See Annex 1 of this report for the full text.

<sup>5</sup> That many initiatives for local governance and decentralisation still exist as project support to LGAs within various sectors can be seen from the table included in Annex 3 of this report. The table was compiled as part of a 2005 report on Study of Support to Implementation of Reform Activities at District and Community Level by Donor and Sector by LGRP/REPOA.

roughly 1/3 of all LGAs) agreed to support the Government's initiative to have a unified intergovernmental allocation and fiscal transfer system by the fiscal year 2008/9.

The agreement was that by June 2008 latest, the DPs together with GoT, would harmonise activities directly relating to the introduction and operationalisation of the incentivised and performance based Local Government Capital Development Grant (LGCDG) system. The main drive behind the initiative was to have a harmonised system of fiscal transfer to all LGAs, with shared lessons from existing ABPs (e.g. on participatory planning, community empowerment etc), and contribute towards improving governance at the local level with the ultimate goal of reducing poverty.

A strategy for embedding the D-by-D policy across government has been in place since 2006. Early in 2007 the 4<sup>th</sup> Phase Government took a decision to 'fast-track' D-by-D (the 'Ngurdoto Meeting' of Ministers, Permanent Secretaries and Deputy Permanent Secretaries, Chaired by the President).

Since then the Chief Secretary has taken the issue forward and, together with Permanent Secretaries and senior officials, has held meetings and taken further decisions to give practical effect to the GOT decision. This has included setting time bound targets for implementing the D-by-D policy across MDAs, through legal, budgetary and other means. The Office of the Chief Secretary is also going to be the apex for reform coordination.

Joint reviews of the LGRP have been held in both 2001 and 2004, which have led to several changes and alterations in the programme design and implementation. These joint reviews have, therefore, been helpful in securing a degree of partnership in the overall implementation process. A Joint Government – Development Partner Evaluation of LGRP was then again mobilised in February – March 2007. The evaluation exercise was conceived of in two parts, assessment and formulation. The work in Feb-March 2007 was to evaluate the impact of the LGRP at local government level and in PMO-RALG and Regional Secretariats. The intention was that results and key issues would be identified and would inform the final year of MTP II and the formulation of a future programme. However, the APB July 2007 – June 2008 (final year of MTP II) has been agreed and the formulation of a new programme of support to devolution in GOT is under preparation.

The new support will differ from LGRP as it will not have an LGRT, but will be under PMO-RALG Divisions. The other major difference will be the inclusion of interventions linked to other ministries and reform programmes, essential for systemic and operational aspects of devolution.

### ***3.3 Alignment of DP support to country strategies***

In June 2001, a joint Government/Donor Mid Term Review acknowledged the considerable progress made with regard to support for decentralisation, considering the relative 'youth' of the policy. With regards to the LG Policy Paper, the Review's final conclusion however, was that the policy was not being implemented consistently. The Review identified three 'essential pre-requisites' for effective LGR, which critically categorized major systemic reforms outside the control of the LGRT, being (1) fiscal decentralisation, (2) human resource management autonomy for LGAs and (3) legal harmonisation.

Taking into account the recommendations of the Review, a Medium Term Plan & Budget for the period of July 2002 to June 2005 was prepared. As the original phasing plan (Action Plan and Budget 1999-2004) was, in retrospect, considered over-ambitious and with an unrealistic time horizon, the revised programme of action was adjusted along the lines of the PSRP. Implementation was envisaged for 9 years from 2002 to 2011, in three phases as follows:

- (iv) 2002-2005: LGRP as set out in the Medium Term Plan & Budget;
- (v) 2005-2008: LGR mainstreamed into PO-RALG supported by GOT; and
- (vi) 2008-2011: Strengthened LGAs proceed with reforms supported by GOT.

The second Joint Review was conducted during October and November 2004. The Review Report again endorsed the policies and strategies of the reform programme and complimented progress in a number of areas, e.g. fiscal decentralisation as a LGCDG system was about to become operational. This would, and does currently, provide a unified and performance based system for LGAs to get significant discretionary resources for capital development and capacity building. Since it started more sector funds have been brought into line with the LGCDG. LGRP provided a temporary funding avenue for the LGCDG and the mechanism was intended to become a full GOT system by financial year 2008-09.

The 2004 Review was generally satisfied with progress at local government level. However, it noted the lack of progress on the key systemic reforms in the HR and Legal areas, two of the pillars of D-by-D. The way forward included developing another Medium Term Plan, with increased emphasis on D-by-D and the external environment, and a shift of responsibility for implementing D-by-D from PMO-RALG alone to the central and sector ministries. In addition the Review Report recommended that the reforms be mainstreamed in PMO-RALG. The Report was endorsed, with some reservations on implementation issues. The MTP July 2005 – June 2008 (MTP II) took on board the agreed aspects of the Review Report, including the vision that MTP II would see the ‘mainstreaming’ of the reform programme into the parent Ministry, as PMO-RALG is the Ministry responsible for championing D-by-D. There was also ongoing recognition that the reforms were a long term undertaking and a new phase would be needed, succeeding the LGRP. This is envisioned to be within PMO-RALG itself, and not an external implementation unit, and be linked to other key Ministries and reform programmes. This approach seems to be more in line with GOT policy of minimising the use of external management units.

The Government developed in 2005 a more firm policy statement on the issue of alignment in the form of a Letter of Sector Policy where donors were encouraged to integrate into the agreed common modality for “Capital development Funding” as designed under LGSP (see Annex 2 for the full text). It is also recognised that substantial capacity building is required for LGAs to fully play their role as envisaged in the strategy for the reduction of poverty. This letter expands on the GOT’s policy positions on decentralisation with emphases on fiscal decentralisation and approaches to LGA capacity building, and how the LGSP will contribute to the implementation of those policies. Looking at the basket fund for LGRP the below table illustrates the number of donors currently participating in financing the LGRP/LGSP which is no less than 9 donors at the moment.

**Table 1: LGRP expected funding for the year July 2007 – June 2008 (in TZS billions) as at 09/05/07**

Partner	Expected Contribution	Comment
EU	0	LGCDG only – 18.9 b
Belgium	0	LGCDG only – 5.1 b
DFID	0	Not contributing
Finland	5.2	(assuming full Euro 3 million available) LGCDG also – 4.3 b
Germany	1.7	(Euro 1.0 m) LGCDG also – 6.9 b
Ireland	3.5	(Euros 2.2 m. Overall 4.8 m. - split to be confirmed)

		LGCDG also – 4.0 b
Netherlands	0	No funding confirmed
Norway	4.3	(NOK 20 m.)
Sweden	0.9	(SEK 5 m)
Tanzania	0.6	(LGAs are contributing through the co-funding requirements)
Total	16.2	
LGRP carry-over	2.2	Assuming German disbursement of Euro 1m by June 2007, under existing contract.
Working Totals	18.4	This is the amount that will be available to the Programme for the period
<i>APB 1<sup>st</sup> draft Budget</i>	<i>26.5</i>	<i>This is a first draft figure and is being worked on currently. See below for details.</i>

Note: this is an example and a first draft of the proposed LGRP funding for 2007/08. It should be noted that the Netherlands is one of the major donors to the LGRP and it is only missing its contribution here as the amount was not available for this first draft. The table is included here as an example of the donors participating under the LGRP/LGSP and their relative contributions.

The original timetable as enclosed in the LGSP design report<sup>6</sup> is outlined below.

Table 2: Timing of Fiscal Reform Initiatives (Development Funding)

	04/05	05/06	06/07	07/08	08/09
Capital Development Grants (CDG)					
1. CDG Programme introduction and consolidation	Initially 47 LGAs		Gradual Expansion to all LGAs pending Review Results and funding availability (ABP etc)		
2. GoT Formula Based Allocation of CDG	Initially 1% of budget				
3. ABP Harmonization of PAIMs	Pending outcome of ongoing Reviews and lessons sharing LGSP – ABP				
4. Merging of all ABP and non-sector development funding through CGP	Initial 5 LGAs?		Gradual Expansion to all LGAs pending Review Results etc		100%
5. Harmonizing SWAPs, TASAF etc with CDG.	Harmonizing Planning, allocation, and implementation procedures				Merge funding

Subsequent to completion of the design of the grant system (LGSP component 1) the Dutch Embassy and the Irish Embassy committed funding to the programme during the (March 2004) pre-appraisal. The two DPs furthermore took a lead in consultations with the Government and World Bank on further integration of ABPs, which at that time indicated a very substantial budget far in excess of USD 100 million over the foreseen four-year programme period (2005-2008). Hence, the process moved faster than expected at the time for the original design.

In February 2004, Cabinet decided to move towards a formula-based system of sectoral block grants, where the level of grants that each local government authority receives for the various sectors is based on a number of transparent and objective criteria. In accordance

<sup>6</sup> Design of Capital Grant Programme and Capacity Building Programme for LGSP, Final Report Volume Two: Final Design Report, December, 2003

with the Cabinet decision, formula-based grants were introduced for primary education and local health services as part of the FY 2004/05 budget year. Similar formula based grant schemes for water, agriculture and roads were introduced in the FY 2005/6 budget year.

The Local Government Compensation Grant was introduced in 2003 to compensate for the abolition of development levy and other nuisance taxes. This grant has been renamed the General Purpose Grant (GPG), and in 2005/06 it was allocated according to a formula that reflects the size of the population (70%), land area (10%) and poverty count (20%). Proposals have been developed to combine the current GPG with the Local Administration Grant into a single, unconditional, equalizing, formula-based General-Purpose Grant scheme in 2006/7.

The introduction of a full formula based block grant system is expected to take several years to implement due to the fact that no council is supposed to be worse off because of its introduction and the varying levels of service provision (and fixed level of infrastructure) already in place. Other grants and transfers, partly or completely funded by DPs include the Health Basket Fund, the Primary Education Development Plan which is further subdivided into a capitation grant and a development grant. There are also a multitude of other donor funded projects including the Participatory Agricultural Development and Empowerment Project and the Rural Water Supply and Sanitation Project. This illustrates the relative complexity of the on-going alignment and reform process for sectors and donor supported ABPs to a single inter-governmental fiscal transfer system.

### **3.4 Modalities of DPs support<sup>7</sup>**

GOT receives external resources under three modalities, namely General Budget Support (GBS), Basket Funds (BF), and Direct Project Funds. From the early 90's until now Tanzania has seen a dramatic increase in the level foreign donor assistance and this now makes up about 50% of the national budget. GBS is the preferred form of GOT aid modality and Ministry of Finance is planning for GBS to reach 55% of total aid in FY 2007/2008. GBS to Tanzania is currently channelled through the Poverty Reduction Budget Support (PRBS) programme. Financed by 11 bilateral development partners in addition to the E.C., World Bank and African Development Bank, the PRBS disbursed approx. USD 370 million ODA during FY 2003/2004. Together with HIPC relief, GBS contributes 20% of public expenditure.

There is a structured process of dialogue linked to the provision of the GBS funds which is described in the Partnership Framework for PRBS/ PRSC. It focuses on the implementation of the actions and measures agreed between GOT and DPs supporting GBS and involves an annual review. An additional concern is to introduce a mechanism for periodic dialogue at the political level, rather than just the technical level.

Programme aid is substantially greater than it has ever been in the past and accounts for 50% of all external aid. The education and health sectors provide the only clear-cut examples in Tanzania of a decisive shift away from project funding and a move towards programme funding. Most other sectors are still characterised by the perverse incentives typically associated with high levels of external project funding. Without a decisive shift in aid modalities, these perverse incentives are likely to persist<sup>8</sup>.

The GBS study of April 2005 found that there were five wider lessons emerging from the evaluation which have important implications for the future design of budget support: (i) Domestic political considerations have a dominant influence on reform and development

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<sup>7</sup> The following is based on information from: Joint Evaluation of General Budget Support, Tanzania 1995-2004, Revised Final Report, April 2005; websites: [www.tzdpq.go.tz](http://www.tzdpq.go.tz) and [www.tanzania.go.tz](http://www.tanzania.go.tz).

<sup>8</sup> See Joint Evaluation Report of GBS, April 2005, p.12.

processes; (ii) Increased discretionary resources would appear to be the main contribution of GBS; (iii) GBS can contribute significantly to reduced transaction costs; (iv) Re-enforced internal accountability through GBS is not automatic; (v) the link to poverty reduction is indirect and necessarily long-term.

Large amounts of money in Global Funds and presidential initiatives which are earmarked for purposes and modalities that do not fit into the policy or planning framework pose a challenge. GOT considers that these initiatives are not geared towards the specific country and country systems; do not take much account GOT's demand, sector strategies, or modes of government/donor dialogue as they are highlighted in the JAS. These global initiatives may also in some cases contradict donor policies in the field.

Partially as a response to the lack of devolution of the development budget raised by the 2001 Review of the LGRP, the Government (as mentioned earlier), with the assistance of the World Bank, prepared in 2003/2004 the documentation for the LGSP, which has the following main components:

- Infrastructure investments and capacity building funds to local authorities through a Capacity Building Programme and Capital Grant Programme;
- (a) Informal Settlement Upgrading Programme for Dar es Salaam's urban poor; and (b) Local Revenue Enhancement in Dar es Salaam; and
- Capacity building to PO-RALG and Regional Secretariats to administer monitor and support the LGAs generally and more specifically to implement the LGSP.

The LGRP Basket Fund financed the formulation of the consultancy work for design of component 1 and 3, whereas the consultancy work for Component 2 was funded out of the budget of an existing WB programme.

The most interesting aspect of the LGSP is component 1 (and 3) which will assist the Government of Tanzania to reform the modalities for development funding at local government level – an aspect of decentralisation not included in the LGRP. The formulation of component 1 of LGSP thus assisted the Government of Tanzania in developing the design of a discretionary capital development grant (LGCDG) by defining:

- The appropriate size of the grant (average of 1.5 USD per capita per year),
- A formula for distribution of funding (horizontally) among LGAs,
- A menu of eligible investments within which the LGAs can spend the grant without prior approval,
- A system of annual assessments of LGAs whereby LGAs have to fulfil some basic minimum conditions (satisfactory annual audits etc) before they can receive grants and an annual adjustment of the grant according to the performance of LGAs whereby well performing LGAs are given higher allocations and poorly performing LGAs lower allocations. This is at the core of the design of the grant system and is intended to provide incentives to LGAs to improve their performance and to make the local citizens more interested in the management of LGAs and in this manner enhance local accountability.

Modalities for involvement of lower level local governments (village governments, wards etc and communities) by introducing indicative planning figures etc, which should encourage wider public participation in LGA affairs and thus ensure greater downwards accountability, have also been elaborated.

The LGSP also introduced a discretionary grant to LGAs for capacity building purposes (Capacity Building Grant – CBG). This grant is in principle available to all LGAs and should

enable them to fulfil the minimum conditions and gradually improve their performance. This grant is like the Capital Development Grant also intended to be a permanent feature of the fiscal transfer system (or at least a feature of the grant system in a foreseeable future after the LGSP programme period of four years).

An interesting situation is that LGSP was integrated into PO-RALG from the beginning. The Ministry was made responsible for the day to day management of the management of project implementation activities including overall project planning, financial management, monitoring and reporting.

## 4. Lessons Learned and Perspectives

### Lessons Learned

#### 1) Management of the Decentralisation Process

The decentralisation process in Tanzania has been characterised by a high level of Government control over the policy setting process and a clear strategic framework for decentralisation by adoption of the D-by-D policy. The donors moved early on to support this D-by-D policy and established, in cooperation with the GOT, the LGRP/LGRT. The policy has evolved from 'local government reform' to 'decentralisation-by-devolution'. This fundamental change in central-local relations has gained increased acceptance and support at the highest levels of Government and administration, as indicated by the personal engagement of the President, the involvement of the Chief Secretary in driving the process forward and the designation of PMO-RALG as a central ministry (like other central ministries like Finance, P&E and PSM).

However, the D-by-D policy is not yet adequately embedded in either law or practice, thus could be frustrated if not reversed. Neither are the implications of changed central-local relations fully accepted by sector ministries. On the positive side, the LGAs have gained a higher profile and recognition of their key role (e.g. in NSGRP/Mkukuta), as well as showing improved performance. This can be attributed to a large extent to the analytical, systems and capacity building work carried out in conjunction with LGRP.

PMO-RALG is the Ministry with responsibility for promoting and supporting D-by-D. It has been restructured in recent years and staff numbers have doubled. Some components of the LGRP have already been mainstreamed into PMO-RALG. There has already been substantial integration into the Ministry and on current plans this mainstreaming process is to be completed by June 2008.

One of the reasons for this push to integrate into the ministry proper is the criticism from some quarters levelled at the LGRP/LGRT for having been a relatively international TA heavy programme. The LGRP has had 5-6 international as well as 8-10 national professional staff over the past 7-8 years, making it relatively expensive in administrative overhead costs. Besides, the LGRP holds a separate office in Dar es Salaam which opened up for the discussion of the Programme not being properly integrated into the Ministry and in many ways heavily donor driven.

There is broad agreement on the need for a continuing support programme in some form after June 2008 to ensure that D-by-D is taken forward and embedded. If the Programme is to be fully integrated into PMO-RALG, then some basic conditions would have to be met:

- a focused programme with defined outcomes, activities and costing;
- a core team with specialist expertise to supplement the staff of PMO-RALG and to be placed in other Ministries (e.g. Finance) if required;
- flexibility in operations to allow for the drawing in of expertise, e.g. through Task Forces and consultancies; and
- ring-fenced financing through a basket fund, with appropriate management and oversight structures.

#### 2) DP coordination mechanism

Tanzania is seen as having a good DP coordination setting in general. This process is also supported by Government. The formulation of the LGRP was seen as an attempt by various



donors to support a national programme versus individual area based programmes which was the feature of the 80's and 90's (ABPs were especially support by the development agencies of the Dutch, the Irish, the Swedes, the Germans, etc). DPs that participate in the LGRP basket have the coordination mechanism but donors outside say they lack information of the on-going activities under the LGRP. Many donors expressed the need for better coordination between the large on-going reforms within the public sector (PSM, LGRP, Legal etc) and the for the Government to move from the rhetoric of the JAS statements to action on better coordination from their side in relation to these on-going reforms.

The LGRP was able to convince the World Bank when they wanted to commenced with the LGSP that the programme should be under the overall guidance of the PMO-RALG and be integrated into the management structure of the LGRP with close coordination mechanisms and programming. This is seen as one of the positive aspects of donor harmonisation in Tanzania.

“Lead” and “silent” partner arrangements have already been initiated in most sectors. Over time, GoT and Development Partners have agreed to continue jointly reassessing the adequacy of existing division of labour arrangements, taking into account and adjusting to possible changes in DPs’ comparative/competitive advantages or changing Government needs.

### 3) Alignment of DP support to country strategies

Donors supporting the LGRP see themselves as aligned to the country strategy on decentralisation (D-by-D) but the question is if this goes for all DPs, and whether some donors are pursuing other agendas by supporting sectors and still relying on targeted TA outside the LGRP set-up to PMO-RALG. However, PMO-RALG does not internally coordinate sufficiently the many donor initiatives in sectors and seem to still approve individual projects/initiatives under different departments of PMO-RALG. This indicates a lack of capacity for internal coordination within PMO-RALG (or lack of will?).

The process of forming the basket for the LGCDG system is seen as an example of how the LGRP/LGSP donors were able to convince a few donors like BTC and EU/Europeaid not to establish new ABPs in 2003/4 but to participate in the basket for LGCDG and thereby align themselves to a Government proposed transfer system for development grants to the districts. This meant that a substantial number of donors lined up to follow the proposals as outlined in the Letter of Agreement (Annex 1) and the Letter of Sector Policy (Annex 2). All GOT sector ministries have signed up to the letter of sector policy as well as most donors. The fact that DPs agree to not support ABPs and that in principle all sector programmes should be aligned to one fiscal transfer system (read the LGCDG) is quite unique in Africa let alone the rest of the developing world.

Alignment is seen as improving and will be more the focus of the coming support to the decentralisation reform after 2008 (post-LGRP). The concern of some donors outside of the current LGRP arrangement is how this will be done in practice and how the need for better coordination with sector reforms and the influence of D-by-D on sectors will be handled. The LGRP has been successful in advocating for minimisation of the extra costs associated with a multitude of donor induced demands for separate planning, capacity building, financial management and report in various ABPs. However, the LGRP/LGSP has not quite been able to fully reduce the multitude of uncoordinated capacity building efforts seen in most sector programmes. Separate financial management training is e.g. being carried by the Health Sector Basket for LGA staff at the same time that training is being carried out under the LGCDG by LGAs themselves. Therefore, it might be argued that while the LGRP/LGSP has been instrumental in reducing the fragmented approach of the ABPs they have not yet been able to harmonise capacity building approaches sufficiently.

#### 4) Modalities of DPs support

Many DPs are using a mix of aid modalities when supporting decentralisation and local governance in Tanzania. Basically all donors who the Mission met expressed the need for a mix of aid modalities for support to decentralisation and especially local governance. This mix ensures that overall national budget concerns are supported through GBS, the LGR (both generic and fiscal) is supported by BFs, and that the issues of poor service delivery and local governance are addressed through direct project funding of LGAs, NGOs and CSOs at local levels. Many DPs want to remain with this mix of aid modalities but also increasingly express concern with the GBS support modality in relation to reforms such as LGR as issues such as: i) lack of accountability of disbursement of funds, ii) problems with inter-governmental fiscal transfer (not sufficient, not timely), iii) still no control of human resources by the districts as this is still centrally driven.

This puts the onus on the LGR and D-by-D policy to deliver the goods in terms of increased service delivery at local levels and increasing local governance as well as accountability performance. The DPs currently supporting the LGRP/LGSP see the need for a basket fund arrangement with PMO-RALG after the termination of the LGRP in June 2008 because the support to the reform is needed also in future within PMO-RALG and since the latest PEFAR review showed that problems in inter-governmental fiscal transfers persist.

The DPs have provided virtually all of the funding for the LGRP, mostly coordinated through a basket. The number of donors has fallen from 10 to 5, not because of dissatisfaction but as a result of changes in aid modalities (switch to general budget support) and donor harmonisation (involvement in fewer sectors). Expenditure in the latest phase is running at a level over 50% higher than in the previous phase. DPs have indicated a continuing commitment to support LGR and recognition that earmarked funding may be required for some time to ensure that the reforms are embedded. They would wish to see a consistent commitment to effective devolution on the part of GOT, as evidenced by clear mandates and local control over resources.

The sector budget support or basket funding for the LGRP has been instrumental in driving the process of harmonisation and alignment in the context of decentralisation and local governance in Tanzania. Especially the decentralisation process – as highlighted throughout the report – has benefitted from this pooled assistance.

Under the LGSP, and based on the LGCDG performance assessment conducted in June 2006, 62 out of 121 (51%) councils met the minimum conditions for accessing the capital development grant.<sup>9</sup> All 121 councils qualified for the Capacity Development Grant but only 50 (40%) qualified to receive the District Agriculture Development Grant. There were 10 councils which qualified for a bonus, allowing them 20% more than the current IPF (indicative planning figure) amounts. The latest performance assessment for FY 2007/08 results suggest that there has been a marked improvement in performance assessment results from the previous year, with possibly all but 11 councils qualifying for the capital development grant for FY 2007/08. Whether this is truly an expression of the virtual improvement in the state of affairs in LGAs or disbursement pressures from GOT and DPs has yet to be seen.

The LGCDG system has incorporated sector grant windows – but practical experiences are only months old; thus it is too early to measure the possible impact. But positive impacts are

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<sup>9</sup> See PMO-RALG, “Local Government Capital Development Grant System: Annual Assessment of Local Government Authorities, 2006” (May 2006).

expected which should allow the capital grant system to consolidate into a more unified performance based transfer system.

### Perspectives

The JAS process as promoted by Government and DPs offers an opportunity to further harmonize aid efforts. The JAS provides opportunities to:

- ✓ strengthen country ownership and government leadership;
- ✓ enhance support of Tanzania's NSGRP/Mkukuta process;
- ✓ augment the overall coherence of poverty reduction policies; and
- ✓ foster greater national development management capacity.

GOT at national, sector and local level and DPs at country and headquarter levels face institutional and operational risks in implementing the JAS, as the strategy is highly demanding of both GOT and DP capacity. It requires substantial changes in the way things are done including improvements in individual, organisational and institutional capacity and the incentive structure that motivates people and organisations. JAS also requires that DP agencies change their practices as well as their attitude toward the GOT and development co-operation, adopt a flexible approach to their development operations and accept that doing business in Tanzania may differ from other countries.

Fiduciary risk arises from public expenditures: (i) not being properly accounted for, (ii) not being used for its intended purposes, and (iii) not representing value for money. Fiduciary risk covers the budgetary process, effectiveness of the financial and legal system and other areas. GOT proposes to take ownership over fiduciary risk assessment and establish or strengthen appropriate systems for this purpose as weaknesses in GOT systems are likely to limit DPs' readiness to increase GBS commitments in the short and medium term. This whole area is being closely monitored by the PEFAR process.

GOT's leadership in the ongoing JAS process, coupled with DPs commitment to fulfil their obligations under the Paris Convention bodes well for the future implementation of NSGRP/Mkukuta. However, the comprehensive nature of the JAS approach in Tanzania is requiring more time than initially expected to resolve issues at the various levels of discussion: DPs to GOT; DP to DP; and within DP institutions.

Many donors are considering looking closely at their operations to develop a strategy to become full JAS players. Key issues to be addressed include:

- I. An assessment of how the JAS will influence/impact on current operations in Tanzania by the donor;
- II. How to become more selective in its areas of intervention;
- III. Measures needed to develop a comparative and/or competitive advantage relative to other donors;
- IV. Delegating more authority to country offices to empower decentralised decision making based on local priorities.

A new phase of donor support to the LGR is being prepared at the moment. The key points which should be stressed here in terms of the formulation process for the new programme are:

- 1) The desire to press on with D by D throughout not only the central level ministries but also at regional and local levels will require this to be embedded in the future support in PMO-RALG, Regions and LGAs, and those central and sector Ministries which have a bearing on the D by D process. This will require EXTENSIVE dialogue and negotiation with some of those key institutions and a level of uncertainty, which can

have serious repercussions on the future programme and is outside the control of PMO-RALG.

- 2) Furthermore, a number of DPs are actively supporting the reform process as well as funding other sector activities directly at LGA level, thereby complicating the scope and interaction between various necessary activities such as capacity building, and capital investments, which have to be more harmonised in future. The new programme phase will have to take into account the efforts and management arrangements of the Ministries concerned, related reform programmes, and existing systems, e.g. National Poverty Monitoring System. In the case of PMO-RALG the support programme will be part of core PMO-RALG business, as provided for in its Medium Term Strategic Plan. For PMO-RALG the formulation of a new support programme will incorporate other support programmes that are based in or linked to PMO-RALG, Regions and LGAs. Examples are those funded by Danida, UNICEF, and JICA, InWent, UNCDF/UNDP, the World Bank (TASAF), etc. NGO support programmes will also need to be factored in.

**Table 3: Summary key harmonisation and alignment issues**

	Tanzania
Decentralisation policy and reform processes	Decentralisation was introduced already in 1982 after the failed attempt of President Nyerere to introduce Ujamaa (concentration of all development at village level). The 1982 reform was mostly a purely administrative reform without proper fiscal reforms. Therefore, the decentralisation policy didn't materialise before late 1990s when the Government decided in principle to introduce the Local Government Reform (Decentralisation-by-Devolution Policy). The LGR and the LGRP were formulated and initiated in 1998-99 and have been the basis for considerable reform of regional and district levels in terms of human, financial and administrative reforms.
Management of the decentralisation process	Previously the Ministry of Local Government was responsible. In 1999 the Ministry was included under the President's Office. In 2005 PO-RALG was integrated into the Prime Minister's Office and became PMO-RALG.
DP cooperation mechanisms	There are two basket funds for support to the LGR. One for the LGRP and one for the LGSP (World Bank support programme for development funding for districts).
Alignment of DP support with country strategies	High degree of alignment through the LGR process and the development of the LGRP. Further alignment has taken place through the fiscal decentralisation process supported under the LGSP focusing on discretionary performance based capital development grants to LGAs.  JAS process leading to increased focus on lead partnerships and silent partnerships  Letter of Sector Policy on fiscal devolution of the budget and local government capacity building  Letter of Agreement between PMO-RALG and development partners regarding harmonisation of ABP support and convergence towards a unified discretionary capital development grant system for Local Governments
Harmonisation of modalities of DP support	Increased use of GBS  Widespread use of basket funding for sectors and decentralisation  Still considerable project support for service delivery in sectors in districts
Examples of best practices	Basket funding for LGR with comprehensive reform programme  Support for a unified recurrent and development budget funding modality to LGAs.  Attempts to strengthen the capacity building support to LGAs.
Perspectives for aid harmonisation and alignment	The future seems relatively bright. GOT has taken the lead on the harmonisation and alignment discussion and many donors are participating in the JAS process and considerable progress has been made in terms of lead donors, reduced number of focus sectors per donor, silent partnerships among donors, rotating leadership of SWAps/Baskets.

This will be one of the most challenging and vital aspects of the LGR process – how to ensure that the new support programme is inclusive enough to accommodate as many as possible donor supported interventions that have a bearing on the D-by-D process and which are often at the moment funded outside the framework of the LGRP.

## **Annex 1: Letter of Agreement**

### **Letter of Agreement between PO-RALG and development partners regarding harmonisation of ABP support and convergence towards a unified discretionary capital development grant system for Local Governments**

#### **1. Preamble**

The Government of the United Republic of Tanzania has embarked upon a decentralisation policy through which political, administrative and financial decision making powers are being devolved to the Local Government Authorities (LGAs). The goal is to reduce poverty through improved service delivery at the local level and is overall linked to the Vision 2025 and the Poverty Reductions Strategy. The Government recognises that in order for the LGAs to provide the mandated services in a transparent, accountable and equitable manner substantial improvements are required in terms of institutional and fiscal capacity at the local level.

The Local Government Reform Programme (LGRP) has spearheaded the implementation of the decentralisation process under the overall responsibility of the President's Office, Regional Administration and Local Government (PO-RALG). The efforts of the LGRP are to be complimented with an incentivised and performance based capital development grant system. The basis for the system was designed under the Local Government Support Programme (LGSP)<sup>10</sup> with support from the LGRP. This design now forms the basis for a unified Local Government Capital Development Grant (LGCDG) system, which will be financed by a World Bank loan, grants from various other development partners and will also include the Government's development grant.

The Government recognises that the majority of development funding for the local level is at present provided through Area Based Programmes (ABPs) and sector funding. ABPs are defined as development partner supported programmes that provide discretionary funding to specific LGAs.<sup>11</sup> The target is to have a unified intergovernmental fiscal transfer system, which brings together all the different funding modalities under a single institutional structure no later than by the FY 2008/09. The vision for achieving this is elaborated in the Letter of Sector Policy on "Fiscal devolution of the Budget and Local Government Capacity Building".<sup>12</sup>

#### **2. Principles**

- 2.1 The development partners currently involved in ABPs, upcoming ABPs or recently concluded direct support to councils include among others:
- Austrian Development Cooperation
  - Belgium Embassy
  - CIDA
  - DCI

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<sup>10</sup> LGSP is a World Bank programme which includes 3 components: 1) The Local Government Development Grant, 2) Dar es Salaam Upgrading and institutional strengthening and 3) Management and Institutional Development. What is referred to in here is component 1, but component 3 is also of relevance for this LoA.

<sup>11</sup> This definition is from the Draft Letter of Sector Policy on Fiscal Devolution prepared as a requirement for the LGSP.

<sup>12</sup> Latest draft of 14<sup>th</sup> September 2004. , as agreed at, and attached to the Minutes of, the Local Government Support Programme negotiations with the World Bank

- European Commission
- Embassy of Finland
- Netherlands Embassy
- SIDA
- UNDP / UNCDF

The LGAs involved in the above compose more than one third of all the councils in the country.

- 2.2 These development partners<sup>13</sup> support the Government's initiative to have a unified intergovernmental allocation and fiscal transfer system by the year 2008/9. As a part of this, between now and June 2008 latest, the development partners, together with GoT, seek to harmonise activities directly relating to the introduction and operationalisation of the incentivised and performance based capital development grant system. Harmonisation of individual development partners' support to LGAs is seen as the road to reach this point of convergence.
- 2.3 The importance of following national policies and initiatives is argued from experiences and the recent evaluation of ABPs which have shown that ABPs approaches are often overtaken and experiences lost unless integrated with national policies and programmes. It is essential to understand that the harmonised approach suggested under this Letter of Agreement (LoA) follows national policies and will support the GoT in establishing the LGCDG, share lessons from existing ABPs (e.g. on participatory planning, community empowerment etc) and contribute towards improving governance at the local level with the ultimate goal of reducing poverty.
- 2.4 A step by step approach for the harmonisation of support to LGAs is anticipated allowing development partners to honour existing commitments and support to civil society and the private sector will not be influenced by this LoA. Overall a time frame is envisaged during which the FY 2004/05 is considered a bridging period in which development partners can sign up to the LoA and prepare for the implementation of the essential elements as outlined below.
- 2.5 The timeframe mentioned in 2.2 notwithstanding, the support mentioned in 1.2 provides the basic input for rolling out a harmonised system for discretionary capital development grants for LGAs - the LGCDG - and allows a larger number of councils to benefit from this system at an earlier stage. Hence, the different funding streams, which for practical purposes are required as explained in section 6, will support one *national system*, the LGCDG system.

### **3. Purpose**

- 3.1 The purpose of this LoA is to set forth the basic principles for a harmonized approach for on-going and new ABPs in order to synchronise activities during the convergence towards the LGCDG system. Under the overall subscription to the Letter of Sector Policy the LoA covers three main issues:
- Technical Areas of support for harmonization
  - Institutional arrangements
  - Funding modalities and timing

### **4. Technical Areas of support for Harmonisation**

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<sup>13</sup> PO-RALG has requested the Austrian Development Cooperation and the UNDP / UNCDF to express their position towards the Letter of Sector Policy. Positions will be expressed at a later stage.

- 4.1 In order to operationalise this harmonisation, development partners agree to contribute funding on the following principles:
- Undertake an annual performance assessment for each LGA using the same criteria as developed through the LGSP.
  - Provide capacity building grants to LGAs of USD 35,000 per annum to address identified capacity gaps arising from the assessment, following the LGSP modalities (using training manuals and accredited service providers which are to be developed in collaboration with LGRP);
  - Provide capital funds to LGAs on the basis of the outcome of the assessment of defined minimum grant access conditions, and following the agreed allocation formula taking into account population, land area and poverty criteria. The amount of the capital funds is expected to average US\$ 1.50 per capita, as in the LGSP design.
- 4.2 In order to determine the size and allocation of the capital development grant development partners agree to comply with the LGSP guidelines for the determination of the total grant amount. PO-RALG will ensure that allocation and utilisation of the capital development grant by LGAs complies with LGSP guidelines, especially with regard to (i) investment menu, (ii) sharing of resources between the various LGA levels; and (iii) local contribution.
- 4.3 In addition to supporting this system, individual development partners, in association with appropriate or relevant counterparts (Local Governments, Civil Society and Private Sector Organisations), are at liberty to support, fund and implement, additional activities as follows:
- 4.4 *Support to local governance systems (including forging linkages with other local partners) and institutional development;*
- 4.4.1 Any additional support to LGAs for LG systems development will be under clear guidance and coordination by LGRP/PO-RALG. LGRP/PO-RALG will ensure that wherever relevant national systems have been decided upon these will be made known to the development partners for rolling out in the particular LGAs. LGRP / PO-RALG will also identify technical subjects where piloting is required to learn further lessons that are of relevance for all LGAs. Regular updates and briefings will be organised by LGRP/PO-RALG (see 5.14 and 5.15 below).
- 4.4.2 Further, the development partners commit that additional support and activities for institutional development is with the aim of improving local governance processes and in support of LGAs generic performance to meet access criteria for the capital development grants.
- 4.5 *Support to Civil Society and support to the Private sector and support forging linkages between Civil Society, Private Sector and Local Governments;*
- 4.5.1 Support in these areas will be at the discretion of the development partners and the partner organisations at national and local levels and therefore are not covered by this LoA.

## **5. Institutional Arrangements**

- 5.1 In section 5.2 – 5.13 the institutional arrangement for the LGCDG is outlined, Section 5.14 – 5.15 addresses the institutional arrangement for the additional support to LGAs capacity for systems development.
- 5.2 Overseeing the funding of the LGCDG system is the responsibility of the GoT whereas PO-RALG is responsible for its implementation. The development of the



system, as mentioned above, is supported partly by the LGSP and partly by development partners under this LoA. In order to ensure coherence and consistency between the various players and funding partners the following institutional arrangement to oversee the LGCDG system is suggested:<sup>14</sup>

5.3 **A Local Government Capital Development Grant System Technical Committee** (*LGCDG System Technical Committee*) composed of the following members:

- DPS PO-RALG (chair);
- Director for Local Government (secretariat), with initial support from LGRP if needed.
- Appropriate Heads of Department from MoF, PO-Planning and Privatisation, the 5 sector ministries (i.e. MoWLD, MoH, MoEC, MoW, MoAFS) and MLHSD;
- Management team PO-RALG, LGRP Programme Manager and relevant Outcome managers;
- ALAT;
- NEMC;
- Selected LGA representatives;
- Contributing donor representatives.

The Technical Committee will have meetings with a broad representation of its members and strive to reach consensus regarding the recommendations to be made to the PS PO-RALG. The Technical Committee meets at least quarterly and performs the following functions:

- share experiences on the LGCDG system design and make relevant recommendations on the assessment manual, the assessment processes, allocation formulae, menu, etc. and make recommendations to PS PO-RALG or through PS PO-RALG to the Steering Committee as appropriate.
- review work-plans, budgets and progress reports for the LGCDG system (including the Capital and Capacity Building Grants), as well as annual assessment reports, and make recommendations on the basis of the benchmarks as defined for the system to PS PO-RALG or through PS PO-RALG to the Steering Committee, as appropriate.

5.4 **A Local Government Capital Development Grant system Steering Committee** (*LGCDG System Steering Committee*), with the following members:

- PS PMO, chair;
- PS PO-PP;
- PS MoF;
- PSs of five sector ministries (i.e. MoWLD, MoH, MoEC, MoW, MoAFS); and
- PS LHSD
- PS of any other Ministry if deemed necessary;
- PS PO-RALG (secretariat).

The Steering Committee takes decision following established GoT practice. The Steering Committee is to meet at least quarterly and carry the following responsibilities and, on the basis of recommendations from the LGCDG Technical Committee, will:

- Discuss and approve any changes in the allocation formulae, procedures, etc.;
- Approve the assessment reports, identifying LGAs that meet grant access criteria;
- Make final administrative decisions on cases of appeal;

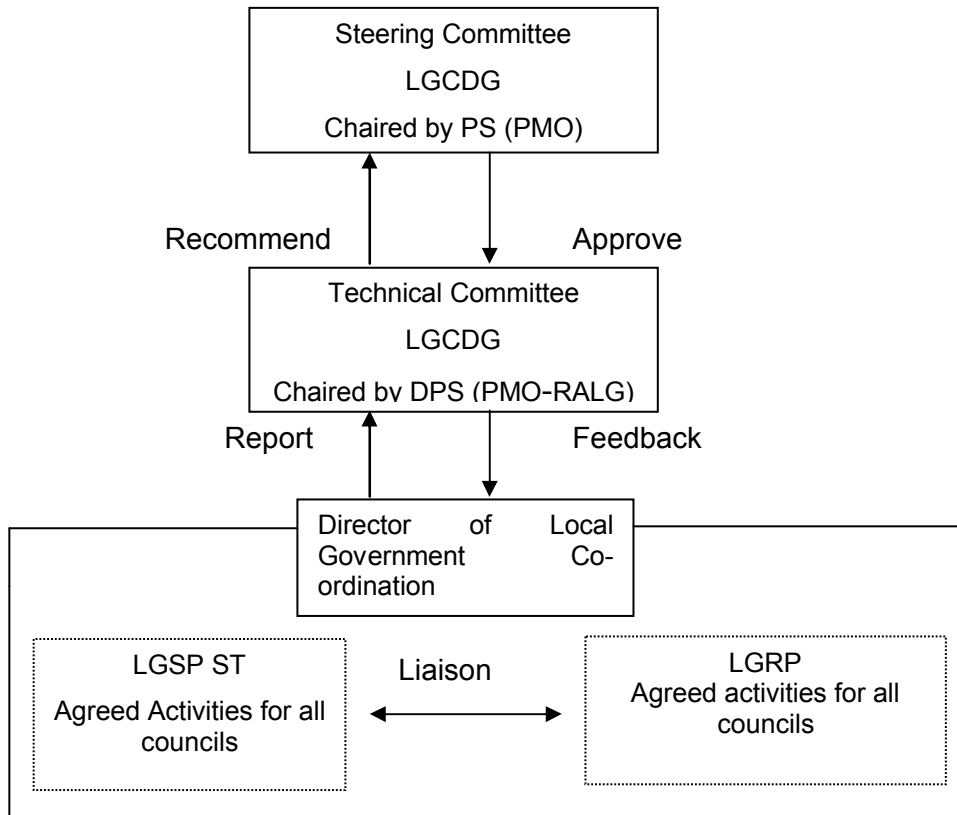
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<sup>14</sup> The suggested set-up builds upon and accommodates the LGSP institutional arrangement, as set out in the LGSP Development Credit Agreement and confirmed by the Minutes of Negotiation of 1<sup>st</sup> October 2004, and hence should be acceptable to all parties.

- Approve the LGA grant allocations; and
  - Approve changes in the Assessment Manual.
- 5.5 A **LG Capacity Building Consultative Group** will be established by PO-RALG, with a membership that embraces the major stakeholders in central and local government, with the function of discussing issues pertaining to the management of the Capacity Building market, especially with regard to:
- LGA capacity needs;
  - Standardisation of training materials;
  - Mechanisms of quality assurance; and
  - Coordination.
- 5.6 As this LoA supports development of a system that over time will become the LGCDG system, the implementation of the LoA will be done through mainstreamed modalities under PO-RALG, through the Director of Local Government Co-ordination (DLG).
- 5.7 Provision is made for supporting DLG and strengthening its capacity. DLG will be responsible for overseeing and supporting implementation of the assessment, providing capacity building grants and capital development grants.
- 5.8 PO-RALG is in the process of restructuring and a larger capacity building programme is to be implemented. While awaiting the approval of the restructuring and the required capacity building of PO-RALG including the DLG there will be a bridging arrangement in which LGRP will be involved in the management of the capital development grant system. Specifically, LGRP will update the MTP Finance Outcome to include an output that encompasses the introduction of the capital development grant system.
- 5.9 A division of responsibilities between the LGRP and the LGSP Support Team (ST) in support of DLG will be determined by PO-RALG optimising the use of existing capacities. While the allocation of tasks to implement and manage the LGCDG between PO-RALG divisions / sections, the LGSP ST and the LGRP will vary over time, the principle for allocation of responsibilities will be by activities rather than by grouping of councils.
- 5.10 In addition, it is the intention of the LGRP to undertake the assessment and provide capacity building grants to the remaining councils from 2005/06.
- 5.11 At the LGRP programme level the existing Common Basket Fund Steering Committee will oversee implementation, provide guidance and have same role and responsibilities as is currently executed for the whole Reform Programme. The Common Basket Fund Steering Committee will be advised by the LGCDG Technical Committee. The higher-level coordination has been outlined above.
- 5.12 The linkages between the various committees and secretariats for management purposes are depicted below.<sup>15</sup> The funding streams are outlined in section 6.

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<sup>15</sup> Experiences from other financing arrangements in Tanzania (notably the Public Service Reform, Public Financial Management Reform and the Tax Modernisation Programme) indicate that the World Bank is able to join common funding and decision-making arrangements with other development partners.

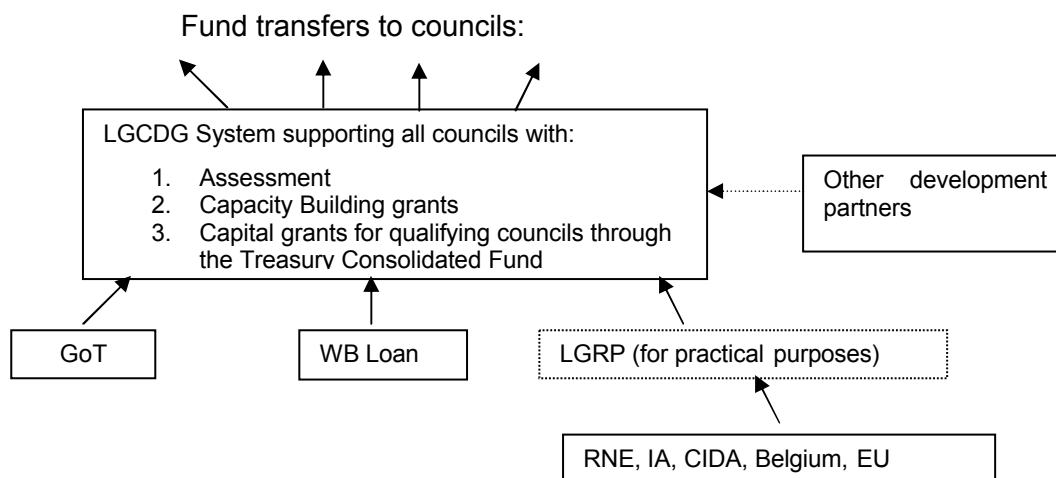


- 5.13 The above bridging arrangement involving LGRP is only foreseen to be in place for a maximum of two years. After two years the management of the LGSP councils and the councils supported under this LoA will be merged and constitute the LGCDG under the full responsibility of the relevant PO-RALG division.
- 5.14 LGRP / PO-RALG will also provide guidance on the additional capacity building for LGAs, roll out of national systems and systems development. Quarterly technical briefing will be organised by LGRP/PO-RALG where development partners and other stakeholder will be informed on these systems, if there is a need for piloting etc. The quarterly briefings will also serve to provide feedback to LGRP/PO-RALG on experiences from the various districts. Additional technical briefings may be organised if found necessary.
- 5.15 Consultations on utilisation (possibly shared) of existing technical advice can take place either on bilateral basis (development partners and LGAs in between) or under the overall LGRP / PO-RALG guidance. The above quarterly briefings can initially serve as a discussion forum. If need be, coordinating mechanisms can be developed under the appropriate PO-RALG divisions and sections.

## 6. Funding modalities and timing

Funds for implementation of this LGCDG, - specifically the performance assessment, provision of capacity building grants, capital development grants and the capacity building of PO-RALG will be provided by the development partners through various modalities. The important aspect is that regardless of the funding modality, all funds will contribute to the implementation of one common system for LGCDG.

The funding streams can be depicted as follows:



For those partners already contributing to the LGRP basket, additional funding can be made available (general or earmarked). For those not contributing to the LGRP basket other funding arrangements can be drawn up (either via LGRP or directly to the Treasury Consolidated Fund).

However, above all, the development partners signing the LoA subscribe to its principles and note that during the FY 2004/05 assessment of the LGAs will take place in October / November.

From the Financial year 2005/06 the following activities will take place:

- Capital development grants for qualifying councils will be made available from July 2005
- Capacity building grants will be disbursed from July 2005
- Second assessment will take place September / October 2005

It should be noted that for the development partners signing this LoA, no additional discretionary funding outside the principles outlined in this LoA will be made available to the LGAs.

Hence, the year July 2004 to June 2005 is a bridging period where ongoing programme commitments can be honoured while PO-RALG inform LGAs on this new LGCDG modality.

## 7. Conclusion

The partners to this LoA agree to co-operate full with each other on its implementation. The partners further agree that as soon as the LGCDG system is developed with institutional and oversight arrangements agreeable to all partners, the commitments under this LoA will be subsumed into the national system.

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PERMANENT SECRETARY

President's Office, Regional Administration and Local Government

For the Government of Tanzania

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For the Government of .....

## **Annex 2: Letter of Sector Policy**

### **LETTER OF SECTOR POLICY ON FISCAL DEVOLUTION OF THE BUDGET AND LOCAL GOVERNMENT CAPACITY BUILDING**

#### **1. BACKGROUND**

The Government of Tanzania (GoT) promulgated the Tanzania Development Vision 2025 in 1999 and this document defined the national development objectives and the policy framework within which they would be achieved. High amongst those objectives was to be “free from abject poverty” and a critical policy within the implementation framework was to “decentralise the political administration and the fiscal structure, roles and responsibilities”. This is in conformity with the 1998 Policy Paper on Local Government Reform which envisaged four main policy areas for reform:

- Political Decentralisation
- Financial Decentralisation
- Administrative Decentralisation
- Changed Central-Local Relations

Tanzania’s Poverty Reduction Strategy (PRS 2000) provides guidance for the achievement of freedom from abject poverty through the various GoT interventions for poverty reduction, including local government reform and strategies for fiscal decentralisation. Seven areas - Primary Education, Roads, Water and Sanitation, Judiciary, Health, Agriculture and HIV/AIDS – are identified as key priority areas for poverty reduction. These key areas have been prioritised through the annual budgets and the PER/MTEF process.

The PRS emphasises investments that target the poor, specifically in social infrastructure that falls under the responsibility of the local government authorities (LGAs). The PRS therefore recognises the importance of local government reforms for successful implementation of improved service delivery levels. Increasing amounts of funds have been, and will further be, channelled through Local Government Authorities (LGAs) using the recurrent and development transfer systems.

However, the vast majority of development expenditures are at present still expended at local level through various project modalities and sector funding rather than more unconditional intergovernmental fiscal transfers to LGAs. It is also recognised that substantial capacity building is required for LGAs to fully play their role as envisaged in the strategy for the reduction of poverty.

This letter expands on the Government of Tanzania’s policy positions on decentralisation with emphases on fiscal decentralisation and approaches to LGA capacity building, and how the Local Government Support Project (LGSP) will contribute to the implementation of those policies. The LGSP will include three components, which are:

- Component 1: Support for Local Government Capital Development Grant System
- Component 2: Community Infrastructure Upgrading and Local Revenue Enhancement/ Operations and Maintenance Programs
- Component 3: Support to PO-RALG

#### **2. THE GOVERNMENT’S OVERALL DECENTRALISATION POLICY**

- 2.1 The Government's vision and policy for the future decentralised local government system are summarized in the Policy Paper on the Local Government Reform, 1998.
- 2.2 The Government's intention is to devolve substantial political, administrative and financial powers to LGAs. The Government intends to create a system that will enable LGAs to provide their mandated services to the citizens in a transparent, accountable, accessible, equitable and efficient manner. This requires devolution of powers to make policy and operational decisions, and elected and accountable political leaders. It also requires capable, decentralised, administrative staff, as well as effective mechanisms for the participation of stakeholders (particularly the poor and other marginalized groups) in decision-making. It is understood, moreover, that possession of sufficient and reliable resources to implement the plans and budgets is critical to the success of the decentralisation policy.
- 2.3 The Government recognises, that unless there is substantial improvement in institutional and fiscal capacity at the local level, effective and sustainable service delivery will not materialise. Its basic strategy to bring about institutional and fiscal improvements is decentralisation, coupled with extensive capacity building, and institutional performance based incentive structures. This strategy is being implemented primarily through the Local Government Reform Programme (LGRP) in the President's Office, Regional Administration and Local Government (PO-RALG).

### **3. FISCAL DECENTRALISATION POLICY**

- 3.1 The Government is in the process of developing a strategy for fiscal decentralisation in conformity with the 1998 Policy Paper on Local Government Reforms, which envisages reforms of the present fiscal system that will improve:
- a. Revenue generation;
  - b. Efficient use of resources for service delivery at all levels of Government;
  - c. Equity in access to services, through more equitable allocation of resources;
  - d. Transparency and fairness in allocation.
- 3.2 Based on the Policy and work to date, the long-term vision for intergovernmental fiscal transfers to LGAs can be summarized as follows:
- The vision is of a unified transfer system, which brings together programmes and grants, recurrent and development funding, donor and government funding into one process. Parallel funding to LGAs shall, wherever practical, be merged into the Government grant system over the next five years, in order to maximise equity, transparency and efficiency in the use of resources.
  - The transfer of resources to LGAs shall be based on transparent formula based allocations.
  - Transfers to LGAs shall be made in a manner that provides incentives for LGAs to improve their administrative performance. Thus increased discretion at LGA level in the use of transfers shall be contingent upon LGAs meeting agreed performance criteria. Efforts shall further be made to provide incentives to LGAs for improvements in their own source revenue collection.
  - It is Government's policy that, in line with the Tanzania Assistance Strategy, there shall be no earmarking of funding; however, some conditionalities within the grant system cannot be avoided in order to ensure that special needs are addressed, but the conditionalities will not overly constrain LGA discretion. Initially the Government will ensure greater discretion within sector allocations of the

recurrent grant transfer, whereas discretion across sectors will be given immediate priority for development grant transfers.

- 3.3 Devolution of the development budget is an important element in this strategy. Hitherto, only a very small part of the funds for development have been transferred from central government to LGAs and, in addition, the Government is aware that the present allocation of development funding is spatially skewed and the principles for the allocation not transparent.
- 3.4 In order to address this, the Government will initiate a gradual, but systematic, devolution of a significant share of the development budget over the next 2-4 years, providing non-sector specific development funding for LGA investments according to locally identified priorities. These funds will be distributed through a needs based, transparent and objective formula.
- 3.5 As a first step towards this process the Government has implemented the new formula based allocation of the GoT funded development grant with effect from FY 2004/05. It is envisaged that also in 2004/05 will start the expansion of the non-sectoral discretionary development transfers, both in nominal terms and in relation to the sector grants and the Area Based Programs (ABPs) currently funded by various donors, to provide sufficient autonomy and efficiency in the resource allocation. Area Based Programmes are for the purpose of this document defined as development partner supported programmes that provide discretionary development funding to specific LGAs.
- 3.6 The present LGA development funds come from several sources each using individual allocation, disbursement, and accountability procedures. The Government will over the next 4-5 years bring all these various development grants under one operational "window", using common modalities for planning, budgeting, accounting, reporting and auditing. LGSP (Components 1 and 3) will, together with the development partners participating in a basket arrangement, commence the implementation of this strategy through the Local Government Capital Development Grant (LGCDG) system.
- 3.7 The LGCDG system will be implemented from 2004/05 and will initially comprise the current Development Grant from GoT own sources and the Capital Development Grant (CG) and Capacity Building Grant (CBG). The same allocation formulae and access criteria will be used in what will be one unified system, managed by PO-RALG, though financing may come from various sources.
- 3.8 Over four to five years, the LGCDG system will be established as the main modality through which funds for capital investment are transferred from central government and donors to LGAs. Ultimately the LGCDG system procedures and modalities will be the vehicle for the transfer of all development funds to LGAs, including sectoral programmes.
- 3.9 Under the current Tanzania Assistance Strategy (TAS) the Government and its development partners identified budget support as the most appropriate method of co-operation. The use of Area Based Programmes and Basket Funds are recognised as temporary arrangements that will in time be converted into budget support. The Government believes that the LGCDG system now being implemented, which LGSP and the development partners' basket fund support, provides the appropriate modality for effecting this strategy, and over four to five years parallel mechanisms will be made consistent with the LGCDG system.



- 3.10 As part of the process of converting ABP and basket funds into budget support, the Government will initially work with the development partners at present operating Area Based Programmes to fold their support into the LGCDG system. The development partners have generally demonstrated their support for the LGCDG system and a basket funding arrangement is being prepared to channel their funds into the system.
- 3.11 The Government will also work to bring nationally applicable sectoral and discretionary development grant programmes into the LGCDG system over four to five years.
- 3.12 The Government's intention is that a significant proportion of the LGCDG funds will flow to the Village/Mtaa level though initially this will only be in the form of indicative planning figures. These will be allocated to the wards through a formula based on population and other objective and transparent factors, then passed on to the Villages/Mitaa through an objective allocation process. It is expected that from 2005/06 onwards however that recurrent and capital funds will be passed to the Villages/Mitaa, but only where they are able to demonstrate adequate capacity to manage the funds by meeting minimum access criteria.
- 3.13 The large size of the Districts in Tanzania makes the role of the Ward Development Committee critical as the facilitator of the plans and budgets prepared by the Villages/Mitaa, ensuring their compliance with guidelines, reconciling intra ward issues and processing plans and budgets to the District/Town/Municipal/City Council. While the Ward Development Committee is recognised under the Local Government Laws as an Administrative Unit of the Local Government Authority, it is democratically accountable as its members are the elected Village and Mtaa Council Chairs and it is chaired by the Councillor for the Ward.
- 3.14 The work completed and in process for development grants is mirrored in the area of recurrent grants where a formula based allocation system has been designed and has been implemented in respect of the conditional grants for Education and Health from 2004/05. This will be extended to the remaining conditional grants in respect of Roads, Water, Agriculture and Administration in 2005/06. While there were some problems in the implementation of the formulae for Health and Education the Government's commitment to the formula based allocation system remains strong and this has been confirmed at the highest level.
- 3.15 Whereas the previous systems transferred funds to LGAs rather routinely and automatically, the future strategy is to provide development funds and autonomy against the performance of LGAs within key functional areas, especially performance in planning, financial management and good governance to provide stronger incentives to comply with legal requirement and ensure an efficient administration. LGAs will be assisted to improve their performance through capacity building support.
- 3.16 Work is at present underway to define the appropriate institutional structures through which the Government's fiscal transfer system will operate. These will be derived from the fiscal decentralization strategy being developed and will embrace all the transfer processes including recurrent and development grants as well as sectoral and other programmes.
- 3.17 The Government recognises that fiscal decentralisation not only requires an appropriate fiscal transfer system but also buoyant and adequate local revenue sources that will encourage local accountability and provide for the operation and maintenance of investments in infrastructure. The abolition of regressive and

nuisance taxes, and the reforms to the business licence system, were aimed at the removal of bad taxes and the rationalisation of the tax burden and not the reduction of LGA fiscal autonomy.

- 3.18 The Government has commissioned a study which will examine the financing of Local Government and make recommendations as to local revenue sources that will replace those that have been abolished, and will be equitable and consistent with the promotion of economic activity. This work will include the development of an Equalisation Grant system that will support those councils with inadequate revenue bases to fund operation and maintenance costs.
- 3.19 Notwithstanding this, the LGAs have not maximised their collection of existing revenue sources and the Government is supporting LGAs in the improvement of their performance through the efforts made in the municipalities resulting in a steady increase in the collection of property tax, and the recently commenced revenue enhancement training in all LGAs through the LGRP. The Government has moreover recently intervened to provide legal assistance to the Dar es Salaam Municipalities to recover long outstanding debts through the courts, and LGAs will be encouraged and assisted to make use of all the recourses available to them under the law.
- 3.20 In concluding this section it is important to note that Government has made substantial steps in meeting its objectives of fiscal decentralisation including the development and implementation of formulae for recurrent and development grants, the rationalisation and harmonisation of local revenue sources, the provision of unconditional grants as compensation for lost revenues, the commissioning of studies for the identification of financing strategies for LGAs and the development of a holistic institutional framework for transfers to local government. The introduction of the LGCDG system will mark a further considerable step on that road.

#### **4. LGA PLANNING FOR POVERTY REDUCTION**

- 4.1 To achieve the goal of poverty reduction, the PRS emphasizes investments that target the poor. A key challenge for LGAs is to improve infrastructure access by, and service delivery to, the poor. This problem is particularly acute in urban LGAs where a significant proportion of the population resides in unplanned and under served areas—in the case of Dar es Salaam, for example, an estimated 70% of the dwellings are in unplanned areas. In this context, the Government clearly recognizes the importance of upgrading low income unplanned settlements in urban LGAs as stated in the National Human Settlements Policy of 2000 and the Land Act of 1999.
- 4.2 Recognising that previous infrastructure upgrading initiatives have been modest in scale and have therefore benefited only a small segment of the population, the Government is promoting efforts to scale up and supports the following principles for infrastructure upgrading:
  - a. Selection of specific settlements (sub-wards) to be upgraded is based on a systematic and rational prioritisation process using clearly defined criteria. Through this process all unplanned settlements are ranked and upgraded in phases.
  - b. Community involvement in selecting the package of infrastructure improvements to be delivered by the LGA in their settlement (sub-ward), and supervising construction and subsequent operation and maintenance.
  - c. Household contributions to capital cost to demonstrate community demand and to enhance commitment to sustained operation and maintenance of the infrastructure.

- d. Selection of packages is subject to a per hectare cost cap set by the LGA to ensure the widest possible coverage given limited availability of public financing and capacity for operation and maintenance.
  - e. Minimize and preferably avoid displacing households by using appropriate planning standards and layouts.
  - f. Operation and maintenance (O&M) responsibilities, plans and financing commitments are agreed upfront for each community to ensure that infrastructure is sustained. Further, communities are responsible for monitoring and liaising with LGAs to ensure that O&M is carried out as agreed.
  - g. Municipalities are responsible for ensuring that their responsibilities for O&M are funded and implemented.
- 4.3 Building on existing national policies, experience from previous upgrading efforts and lessons learned from the LGSP supported upgrading initiative, the Government is committed to:
- a) Reviewing and modifying the space standards specified under the Town and Country Planning Ordinance, (TCPO) 1956, Space Standards Regulations, and adapting procedures and levels of approval for planning schemes in conformance with the overall decentralization agenda. A draft of the new legislation is currently under consideration.
  - b) Implementing the Land Act No. 4, 1999, and more specifically, the regulations pertaining to regularization of upgraded settlements, by issuance of land regularization plans and, residential licenses and eventually title deeds. These efforts will reduce the potential for encroachment of upgraded public space and rights of way, enhance security of tenure, and create a basis for future property taxation.
  - c) Establishing financing arrangements for rolling out a national program for systematic, phased and sustainable upgrading of all unplanned settlements in Dar es Salaam and other urban LGAs.

## **5. CAPACITY BUILDING POLICY AND STRATEGY**

- 5.1 From the beginning of the local government reform it was recognised that substantial capacity building of the LGAs was required for successful implementation of the reforms and the Local Government Reform Policy outlines the vision where the operational responsibility for human resource utilisation at LGA level remains with the LGAs. Government nevertheless retains the responsibility for providing an enabling environment and, in the initial stages of reform, substantial involvement in developing and implementing capacity building programmes.
- 5.2 The Government is currently addressing issues raised by the Joint Donor-GoT Review of the LGRP in 2001 regarding previous efforts of LGA capacity building as follows:
- The formula based allocation system for recurrent grants will give LGAs greater flexibility in the use of funds as the formula defines the total envelope for each council which is then allocated between personal emoluments and other charges by the LGAs following individual agreement on personnel requirements with the central ministries. This together with the performance based systems being introduced in the recurrent and development grant systems will provide incentives to improve LGA performance,
  - The initiatives being undertaken in the development grant system, particularly the LGSP Component 1, will provide access of LGAs to discretionary funds for capacity building,

- The Government will prepare a policy framework for capacity building in LGAs, which will embrace policies for recruitment, retention and development of LGA staff for sustainable improved service delivery. The development of this policy framework will be informed by the experiences of the LGSP.
- 5.3 The first phases in the local government reform focused on the key areas of LGA performance and supported councils in the restructuring process, and improved administration (financial management, good governance etc.). The support by LGRP in areas of capacity building has been supplemented by various sector and donor specific initiatives. The current phase of support will focus more on a demand driven capacity building approach, assisting LGAs to take more responsibility for their own development of capacity within a clear guiding framework and incentive structure, which ensure more locally targeted interventions and strong incentives to improve the performance. The mechanisms proposed under LGSP component 1 provide an opportunity to pilot such a LGA driven, performance incentive based, capacity building approach.
- 5.4 The Government has recently passed a new Public Service Act. The Act lays down the framework for a unified public service and seeks to restore discipline, efficiency, integrity, dignity, capacity and effective performance in the public service by operationalising the Public Service Management and Employment Policy. This policy emphasises merit based recruitment, decentralisation of personnel management issues within all sections of the public service, introduction of performance appraisal systems, staff development programmes closely linked to work improvement, and the introduction of relevant incentive schemes to boost work morale.
- 5.5 The Act applies to all sections of the public service on Mainland Tanzania, including LGA staff. It is recognised that certain sections of the Act are not compatible with the intentions of the Local Government Reform Policy regarding LGA control over staff management issues and the Government is reviewing the Act with the aim of revising the relevant sections in 2004. The revision will ensure that the Public Service Act is fully consistent with the Government's decentralisation policy.

## **6. RELATED POLICIES AND STRATEGIES**

- 6.1 In addition to the fiscal decentralisation policy implementation outlined above Government has recently taken a number of initiatives to improve on the overall system of LGA finance. Below are listed some of the key elements.
- 6.2 The Government of Tanzania is committed to the good governance practices including the fight against corruption in all public institutions. Guidelines have been developed in line with the National Anti Corruption Strategy to assist LGAs to develop local anti corruption plans, which are being implemented from July 2004. Further to this the conditions for access to the Local Government Capital Development Grant systems are designed to strengthen good governance.
- 6.3 Operation and maintenance is recognised as a key challenge, as increased resources will be allocated for capital investments in LGAs. Government will support LGAs in the maximisation of local revenue collection and ensure that such funds are applied to the operation and maintenance of council infrastructure, thus ensuring the sustainability of investments. Improved planning and elements of user contributions will partially contribute to sustainability, but reliable LGA funding for operation and maintenance is crucial as LGAs will assume the main responsibility for operation and maintenance of infrastructures.

- 6.4 Improvement in the locally generated revenue sources is also crucial to ensure LGA accountability and a sustainable system of local government finance and the recent abolition and rationalisation of inefficient and cumbersome local taxes is an important component of this strategy. In future LGA taxation will be focussed on the high yielding taxes, with due consideration to the avoidance of distortion in local development and poverty reduction, and property tax collection will in particular be pursued. Under LGSP (component 2) constraints on the optimisation of own LGA revenues will be addressed in Dar es Salaam, with a view to enhancing revenue collection in the three municipalities and to informing the initiatives being taken in revenue collection in other councils.
- 6.5 Government will compensate LGAs for the reforms in the tax assignment, but they will also be expected to utilise the existing taxes more efficiently. Thus training and capacity building in tax administration (assessment, collection and control) has been and will continue to be in the forefront of these initiatives, both at the political and administrative levels.
- 6.6 The present revenue sharing arrangements between higher and lower local governments have been studied under the LGRP and initiatives will be launched to ensure that the present local tax sources are shared in accordance with the overall decentralisation policy, in an equitable manner.
- 6.7 The Government is in the process of commissioning a study to develop a strategic framework for the financing of local governments, starting from the identification of the roles and responsibilities of the various levels of government and how they should be financed, including the identification of new revenue sources for local government.
- 6.8 Timeliness, transparency and dissemination of information about intergovernmental fiscal transfers have improved significantly in recent years, and this process will be continued especially with the focusing on capacity building within the key units of PO-RALG and MoF.
- 6.9 A number of initiatives have been launched to improve LGA financial management. The financial management specialists recruited under the Local Government Reform Programme are providing significant support to the LGAs. A financial benchmarking system to track and compare progress has been developed and implemented for all LGAs, and a steady overall improvement in performance is being revealed. Formal training in financial management is being provided under the sponsorship of the Ministry of Finance, which has focused on the up grading of accounting skills in LGAs.
- 6.10 A computerised Integrated Financial Management System (IFMS) has been introduced and is now operating in 32 councils as a basis for improving fiscal and financial management and reporting. The system is being extended to cover the remaining LGAs, under the auspices of the LGRP. The IFMS will link with the Planning and Reporting Database, which will soon commence implementation in the LGAs, to form a comprehensive management information system.
- 6.11 LGAs currently receive guidance for participatory planning in the form of various sector specific planning guidelines in addition to the annual budget guidelines. The Government has approved a participatory planning approach, which is being operationalised in the LGAs.
- 6.12 PO-RALG is, in common with other Government Ministries, going through a process of restructuring, under the Public Service Reform Programme, as part of which a

revised organisation structure has been developed. This structure recognises the role of PO-RALG as the manager of national programmes in respect of local governments and provides for the appropriate capacity to carry it out. It is therefore the Government's policy that the management of programmes such as LGSP will be mainstreamed into the Government structures and parallel programme management structures will only be countenanced during the period of implementation of the new organisation structure and the building of its capacity, becoming redundant thereafter.

## **7. CONCLUDING REMARKS**

- 7.1. Government is committed to continue the decentralisation reform and sees the devolution of the development budget, the strengthening of LGA capacity building and efforts for LGA revenue enhancement as critical pillars in this process. It is expected that the LGSP as part of the Government's development grant facility for LGAs, in close cooperation with and complementing the LGRP, and other important initiatives, will contribute to the enhancement of LGAs' capacities for provision of needed local services and thereby be an important tool in the Government's poverty reduction strategy.
- 7.2. On behalf of the Government of the United Republic of Tanzania, I wish to thank IDA and the donors contributing to the Local Government Reform Programme Common Basket Fund for the assistance rendered in the preparation of the LGSP and hereby request for assistance to implement the LGSP according to the budgeted estimates in the programme design documents. I trust that this request for assistance through the proposed LGSP will receive your favourable support.

Yours Sincerely,

**Minister of Finance**

**United Republic of Tanzania**

### Annex 3: Basic Regional Distribution of Local Governance and Service Delivery Funded Programmes/Projects in Tanzania 2005<sup>16</sup>

SECTOR	PROJECT	FINANCIAL	AMOUNT	REGIONS																						
				Mara	Lindi	Ruvuma	Mtwara	Dodoma	Singida	Tabora	Morogoro	Mbeya	Rukwa	Dar es salaam	Coast	Tanga	Zanzibar	Arusha	Mwanza	Iringa	Kilimanjaro	Kagera	Shinyanga	Kigoma	Manyara	
CAP. BUILDING	DDP2	SIDA	35 Billion TZS	√																						
		EU & CONCERN	1,849,157 Euro				√						√									√				
	Morogoro Women Legal Aid project	SDC	Tshs. 98 mill							√																
	Micro project programme	EU						√																		
	Gender Networking programme	EU	2,088,238											√	√											
	LGRP Support to LGAs	DED	200,000											√	√											

<sup>16</sup> Study of Support to Implementation of Reform Activities at District and Community Level by Donor and Sector, REPOA, July 2005.

	Basic Education Fellowship Project	UNFPA and Kilimanjaro Climbers	US \$ 169,690	√									√			√									
<b>SECTOR</b>	<b>PROJECT</b>	<b>FINANCIAL</b>	<b>AMOUNT</b>																						
				Mara	Lindi	Ruvuma	Mtwara	Dodoma	Singida	Tabora	Morogoro	Mbeya	Rukwa	Dar es salaam	Coast	Tanga	Zanzibar	Arusha	Mwanza	Iringa	Kilimanjaro	Kagera	Shinyanga	Kigoma	Manyara
GOVERNANCE	The dynamic of civil society development in Zanzibar	ACTION AID COORDINATED FORD FOUNDATION FUNDED	US \$ 480,000														√								
	Kilosa District Development Programme	Government of Ireland	Euros 1,663,557								√														
	Ulanga District development programme	Government of Ireland	Euros 2,465,263								√														
	Muheza District Development Programme	Government of Ireland	Euros 3,630,997												√										
	Kilombero District Development Programme	Government of Ireland	Euros 2,763,834								√														
	AP 2000		US \$ 375.0mill	√		√			√	√				√		√	√	√	√					√	



	b) Support to Decentralization: Local development Fund	UNCDF	5,454,000															√							
	c) Support to Good Local Governance	UNCDF	5,770,000															√							
	DDP 3	SIDA	35Billion TZS															√							
	<b>PROJECT</b>	<b>FINANCIAL</b>	<b>AMOUNT</b>	Mara	Lindi	Ruvuma	Mtwara	Dodoma	Singida	Tabora	Morogoro	Mbeya	Rukwa	Dar es salaam	Coast	Tanga	Zanzibar	Arusha	Mwanza	Iringa	Kilimanjar	Kagera	Shinyanga	Kigoma	Manyara
	Human Right Awareness Building project	Foundation For Civil Society (FCS)	103.0 mill Tshs		√		√	√	√	√	√														
	Urban Authorities Partnership Project (UAPP)	DFID	3,462,612				√			√			√												
HEALTH	SIPAA	ACTION AID COORDINATED DFID FUNDED	US \$ 1,186,541											√			√								
	Orphanage Centre project	ACTION AID COORDINATED ITALIAN FUNDED	US \$ 76,000											√											

	Long term support for people living with HIV/AIDS and their families	EU AMREF B-SANTTE	1,324,178																√					
	Improving the Quality of life of disabled people in Tanzania	EU CBM/CCBRT Co-Financing	1,397,282										√				√							
	<b>PROJECT</b>	<b>FINANCIAL</b>	<b>AMOUNT</b>																					
				Mara	Lindi	Ruvuma	Mtwara	Dodoma	Singida	Tabora	Morogoro	Mbeya	Rukwa	Dar es Coast	Tanga	Zanzibar	Arusha	Mwanza	Iringa	Kilimanjaro	Kagera	Shinyanga	Kigoma	Manyara
	Local Community Competence Building and HIV/AIDS Prevention in Tanzania	EU DanChurch Aid B-SANTE	5,000,000	√								√							√					
	COMMUNITY BASED HEALTH INITIATIVES	SDC	US \$ 1.850					√																
	COMMUNITY BASED HEALTH CARE	SDC	TSH 320mill							√														
	The Tanzania Micronutrient and Health Programme (MICAH)	World Vision Tanzania (WVT)	US\$ 1.9m												√									





EDUCATION	COBET- Complimentary Basic Education in Tanzania	UNICEF & UNESCO		√		√	√							√						√					
	EDUCATION II –ED II	ADF GOT	US\$ 31.2 mill																						
	FAMILY LIFE EDUCATION-FLE	UNFPA & GOT	1.6 USD & GOT 120 mill Tshs	√					√	√			√	√		√				√	√	√			
	HUMAN RESOURCES DEVELOPMENT PROJECT (HDRP)	IDA	US \$ 20.86M																						
	INTEGRATED COMMUNITY BASED ADULT EDUCATION -ICBAE	-ADF -UNESCO	Tshs 33,905,935 M		√	√	√				√				√			√	√			√			
	INTERNATIONAL PROGRAMME FOR ELIMINATION OF CHILD LABOUR - IPEC	ILO	Tshs 554.7 mill				√		√				√			√		√							
					Mara	Lindi	Ruvuma	Mtwara	Dodoma	Singida	Tabora	Morogoro	Mbeya	Rukwa	Dar es salaam	Coast	Tanga	Zanzibar	Arusha	Mwanza	Iringa	Kilimanjaro	Kagera	Shinyanga	Kigoma

	Community level basic education	ACTION AID COORDINATED			√																	√	
		DFID FUNDED	US \$ 2,410,667																				
	Self-Reliance and Education	EU	Euro 717,092 (r3)																			√	
	Environment, Education and HIV	EU	Euro 735,890 (r2)																		√		
	Tusome Vitabu project	Royal Netherlands Embassy	US \$ 12,040,478												√	√				√	√		√
	Education Sector Development	USAID	US \$ 180,000										√								√	√	
	Kahama Education Enhancement Programme	Kahama Mining Corporation Limited (KMCL)	US \$ 653,168.39																			√	
NATURAL RESOURCES	Evaluated Intervention	SIDA																					√
	Participatory Forest Management (PFM)	DANIDA	69 million DKK a year per district (ceiling) There are 14 districts																				
	District natural Resources Management Project	GTZ	US \$ 600,000											√							√		







ROAD SECTOR	Ruvuma and Southern Iringa Road maintenance (RUSIRM)  -Mwanza region border-Tinde/Isaka-Nzegu roads (Euro 85M)  Backlog maintenance programme (Euro 42M)	EU	Euro 290 M					√		√								√				
	Mwanza regional transport project	Eu	Euro 35M= Tshs 42 Bl															√				
	a) Rehabilitation of District and Feeder Roads	UNCDF	4,224,000															√				
	Road sector support programme	SDC	US \$ 49mill				√			√												
	Kidatu – Ifakarra road project	SDC	Us 4.86mill				√															
FISH INDUSTRY	Lake Victoria's Fish resources	EU																√				
MICRO FINANCE		EU and FERT	1,468,213							√								√				
		EU & HORIZON 3000	833,477	√		√	√	√		√				√			√		√	√	√	
		EU & TRIAS	892,328													√						
		EU &	1,444,073																			√

		SDC, DFID, DCI, RNE	US \$ 4.65mill																					
	Rural Financial Services Programme (RFSP)	IFAD, OPEC, Swiss Government and Government of Tanzania	US\$ 23.77			√		√	√			√	√					√	√					
SOCIAL INFRASTRUCTURE		EU & AFRICARE TZ	Tshs 909, 509, 156					√																
		EU-AFRICARE TZ	TSHS 287,742,685									√												
		EU-AFRICARE TZ	TSHS 239,156,398																					√
		EU	TSHS 275,816,344						√															
WATER	Mwanza sewege rehabilitation project	EU	Euro 10.3M=Tshs 11.7Bl																					√
	Mwanza water project	EU and Germany	Euro 44.9M																					√
	The Kilolo Sustainable Development programme	EU	450,356																					√

	MEMA PROJECT: Sustainable development of rural water supply and sanitation	EU	998,867					√																
		EU	Euro 749,990																			√		
			EU																					
	Pemba health and water project	SDC, UNICEF	US \$ 355,000													√								
Cross cutting	Program ya pamoja ya Kuboresha Huduma za Jamii kwa maendeleo	Royal Netherlands Embassy	Us S 10,272,369												√	√								
		EU & AFRICARE TZ	Tshs 909,509,156					√																
		EU- AFRICARE TZ	TSHS 287,742,685								√													√
		EU- AFRICARE TZ	TSHS 239,156,398																					√
		EU	TSHS 275,816,344						√															
	Tunza Mazingira Uongeze Mapato	Austrian Govt-CARE Austria																						√

