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Empirical Evidence of Trends 2000 - 2007

By Odd-Helge Fjeldstad,
Lucas Katera, Jamal Msami
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This special paper is dedicated to the late Erasto Ngalewa, who worked tirelessly to develop the paper, but who passed away before he could see this final version. May his soul rest in eternal peace.

Preface

REPOA has been implementing a formative process research programme on local government reform (LGR) since 2002, with funding from the Royal Norwegian Embassy, Dar es Salaam. The research is organised on the basis of institutional collaboration between REPOA and Chr. Michelsen Institute (CMI). The current phase will run till the end of 2010.

The objectives of the research programme are to document the processes and outcomes of the LGR, and to provide key stakeholders with operationally relevant data and analyses of lessons learnt during its implementation. The research aims to promote informed dialogue among stakeholders to ensure that policymaking is an informed consultative process. In addition, the research recognises the importance of building capacity for local government research in Tanzania.

The vision of the local government reform programme is to improve service delivery to the people of Tanzania. Hence, the formative research programme focuses on processes leading to changes in service delivery at the local level. The core themes under the research programme are:

- **Service delivery** at the local level, including primary education, healthcare and water supply.
- **Governance** at central government level, including policy formulation and devolution by line ministries, and at local government level, including planning processes and citizen participation.
- **Local finances and financial management**, including local revenue bases, outsourcing of revenue collection, intergovernmental fiscal transfers and auditing.

The main objective of this paper is to document and analyse the impacts of the Tanzanian local government reforms on the third theme, ‘local finances and financial management’. The study is a follow-up analysis of the baseline published as REPOA Special Paper 16. It is based on new and updated information, especially from REPOA’s 2006 Citizen Survey and other primary and secondary sources on local government finances and financial management. Follow-up analysis of governance and service delivery have been undertaken separately.

Special thanks to the Local Government Reform Team in PMO-RALG and the contact persons in the case councils for their assistance, and to the many people in the councils visited who took the time to speak with us. Points of view and any remaining errors can be attributed to the authors.

Dar es Salaam, September 2010

Abstract

This paper examines the capacity of local government authorities in Tanzania with respect to financial management and revenue enhancement, and analyses trends in financial accountability and efficiency for the period 2000–2006/07. The study covered six councils in Tanzania: Bagamoyo District Council, Ilala Municipal Council, Iringa DC, Kilosa DC, Moshi DC, and Mwanza City Council. Data were collected using a combination of quantitative and qualitative methods, including two rounds of a survey of citizens' perceptions in the case councils in 2003 and 2006. The following themes are covered: (a) the degree of fiscal autonomy; (b) methods of revenue collection; (c) financial management, including budgeting, accounting and auditing; (d) transparency in fiscal and financial affairs; and (e) tax compliance and fiscal corruption. Based on the evidence collected, the study concludes that the process of decentralisation by devolution under the Local Government Reform Programme has contributed to improving local government capacity for financial management. However, the reforms have reduced the fiscal autonomy of local government authorities. The central government currently contributes to the bulk of local government revenues through transfers and still largely determines local budget priorities.

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Abbreviations

ALAT	Association of Local Authorities in Tanzania
CAG	Controller and Auditor General
CC	City Council
CG	Central Government
CMI	Chr. Michelsen Institute
CMT	Council's Management Team
DC	District Council
DED	District Executive Director
DMT	District's Management Team
ESRF	Economic and Social Research Foundation
FPRP	Formative Process Research Programme
FY	Financial Year
GPG	General Purpose Grant
IMF	International Monetary Fund
LAFM	Local Authorities Financial Memorandum
LG	Local Government
LGAs	Local Government Authorities
LGCDG	Local Government Capital Development Grants
LGR	Local Government Reform
LGRP	Local Government Reform Programme
MC	Municipal Council
NAO	National Audit Office
NGOs	Non-governmental organisations
OC	Other charges
PCCB	Prevention and Combating of Corruption Bureau
PE	Personal emoluments
PEDP	Primary Education Development Plan
PEFAR	Public Expenditure and Financial Accountability Review
PMO-RALG	Prime Minister's Office - Regional Administration and Local Government
PO-PSM	President's Office - Public Service Management
REPOA	Research on Poverty Alleviation
TASAF	Tanzania Social Action Fund
TRA	Tanzania Revenue Authority
UDEM	Urban Development and Environmental Management
URT	United Republic of Tanzania
VEO	Village Executive Officer
WDC	Ward Development Committee
WEO	Ward Executive Officer
WRC	Ward Revenue Collector

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Executive summary

The purpose of this paper is to document and analyse the impact of the Local Government Reform Programme (LGRP) in Tanzania on council finances and financial management. REPOA's Formative Process Research Programme (FPRP) has followed the implementation and impacts of the reform over time in six local government authorities: Bagamoyo District Council, Ilala Municipal Council, Iringa District Council, Kilosa District Council, Moshi District Council and Mwanza City Council. The six councils were selected in consultation with the Prime Minister's Office-Regional Administration and Local Government (PMO-RALG), on the basis of variations in resource bases, location (4 rural and 2 urban councils), the degree of inclusion in the LGRP, the degree of donor presence or support, and representation of political parties on the councils.

The current report provides empirical evidence for the period 2000-2006/07. A combination of qualitative and quantitative methods were applied to compile the data, including interviews with key stakeholders at local and central government levels, review of secondary data on local government finances and expenditures provided by PMO-RALG, and two citizen surveys each covering 1260 respondents in 42 localities across the six case councils. The first survey was conducted in November 2003 and repeated in the same localities in October/November 2006, thereby producing a data set to trace changes in citizens' perceptions over the intervening three-year period. A third citizen survey was conducted in November 2009, and is currently being analysed.

The current paper focuses on five dimensions of local government finances and financial management in the case councils in the period 2000-2006/07: (i) fiscal autonomy; (ii) methods of revenue collection; (iii) financial management, including budgeting, accounting and auditing; (iv) transparency in fiscal and financial affairs; and (v) tax compliance and fiscal corruption. The key findings in each of the five areas are presented below.

Fiscal autonomy

Fiscal autonomy of district councils is limited both with respect to revenue and expenditure. The four rural councils in the sample – Bagamoyo, Kilosa, Iringa and Moshi – generated less than 8% of their total revenue from own sources in 2005, down from 17% in 2002. Kilosa DC generated only 2% of its total revenues in 2005, compared to 13% in 2002. This drop in own revenue generation was partly due to the abolishment of many local revenue sources, including the head tax 'development levy', in 2003, and partly due to the sharp increase in central government grants to local government authorities. The larger urban councils Ilala MC and Mwanza CC also experienced a drop in their own contributions to total revenues, partly due to the abolishment of business licences in 2004. Ilala MC contributed 45% of its total revenues in 2005 compared to 64% in 2002, while Mwanza CC saw a reduction from 48% in 2002 to 22% in 2005.

In comparison, general annual increases in total expenditure were reported by the case councils in the period 2002-2005, except 2004 when five of the six case councils reported a decline in total expenditure relative to the previous year. These declines might be traced to the decline in total revenues in 2004, following the local tax reform in 2003. Only Moshi DC experienced an increase in expenditure (58% compared to the previous year) in 2004, which might be due to political intervention from the central government to win local support and regain control of the council from the opposition in the 2005 election. Thus, total revenues actually increased in Moshi DC in 2004 by 12% compared to the previous year.

The rural councils allocated the largest share of their total expenditure to the social sectors in 2004/05. In Moshi DC, Kilosa DC and Bagamoyo DC primary education received 71%, 48%, and 64%, respectively, of the councils' total expenditure. Only Ilala and Bagamoyo saw a relative decline in allocations to education from 2002 to 2004/05. The health sector also received substantial allocations. For instance, Bagamoyo DC allocated 21% of the total expenditure to health in 2004/05 and Moshi DC 13%, which represent substantial increases since 2002. For the other councils, however, the allocation to the health sector has remained unchanged or less than in 2002.

Methods of revenue collection

Before 2003 revenue collection was largely organised around the council headquarters, wards and villages. However, in recent years, collection of a large number of revenue sources has been outsourced to private agents. These include: private collection of property taxes in Ilala and Mwanza; market fees in both rural and urban councils; forestry levies (until they were abolished in 2005) mainly in rural councils such as Kilosa; cess on certain agricultural products in rural councils; and bus stand and parking fees. In Mwanza more than one-third of the council's own revenues in 2006 were collected by private agents.

Revenue collection was outsourced to different types of agents within and across councils. For example, in Mwanza, the collection of fish market fees was outsourced to a fish dealer organisation, while the collection of fees at the central market was contracted to a vegetable cooperative operating in the market. In Kilosa, the collection of forest levies (until they were abolished in 2005) was outsourced to a private firm whose main activity was the operation of private schools.

Local government tax collection has until recently been completely separated from the central government revenue administration. In 2008, however, the Tanzania Revenue Authority, on a pilot basis, started to collect property taxes in selected urban councils, including Ilala MC. It is too early to draw any conclusive lessons from these experiences.

Financial management

A comparison of the councils' budgets and accounts provides an indication of the quality and realism of budgeting in the case councils. Computerisation of budgeting and accounting activities, initiated in 2002, was expected to improve financial planning and management. The results have until now been disappointing. For instance, Kilosa DC, which was using both Platinum accounting software and a manual system, failed to account for 98% of its own revenues in its budget for 2005. Mwanza CC which uses Epicor also failed to account for 80% of its own revenues in 2005, while Ilala MC, which uses Platinum, failed to account for 64%.

A key indicator of financial accountability in LGAs is the annual report from the National Audit Office/Controller and Auditor General (NAO/CAG). The number of LGAs with adverse audit opinions fell sharply from 45% in 1999 to zero in 2006/07, while the proportion of LGAs with clean audit reports increased. None of the six case councils have been reprimanded with adverse reports from the NAO/CAG since 2003. This is an indicator of strengthened financial accountability in LGAs.

Transparency in financial and fiscal affairs

Meetings organised by the council, including full council meetings, ward and village meetings remain the primary methods for disseminating information on financial and fiscal affairs to citizens in the case councils. Ilala, Kilosa and Mwanza also reported using newspapers to inform citizens. Moreover, notice boards at ward and council headquarters are used in Ilala MC, Moshi and Mwanza. The 2006 citizen survey, however, indicated little improvement in the councils' dissemination methods. In the 2003 survey, about 86% of all respondents said they had never seen or received information on the amount of tax revenues and user charges collected in their area. Three years later in 2006, close to 88% of respondents claimed not to have seen or received such information.

There are substantial differences between the case councils in this respect. Around 90% of the respondents in Ilala and Mwanza in 2006 (compared to 94% in 2003) said they had never received financial information. In comparison, about 60% of respondents in Iringa DC in 2006 (compared to 80% in 2003) said they had not got information on revenue collection in their area.

Village Executive Officers (VEOs) were found to play a key role in informing the public in Iringa DC, where 21% of the respondents said they had obtained information on revenue collection from these officers. In Ilala and Mwanza, only 3% of respondents acknowledged having received such information from VEOs in 2006 (in Mwanza, up from 1% in 2003). This might reflect that it is generally easier to gather people for public meetings in rural areas than in urban settings.

Tax compliance and fiscal corruption

Tax compliance is key to building a social-fiscal contract between the state (the service provider and distributor) and citizens. Ineffective and inefficient tax systems – including coercive collection, extensive evasion and corruption – have contributed to undermine taxpayers' compliance.

The citizen survey in 2006 revealed between 84% (Moshi) and 92% (Kilosa) of respondents in the case councils were willing to pay more taxes if public services in their councils improved. This is an improvement from 2003, when on average 73% of respondents gave this answer (in Iringa in 2003 only 59% said they were willing to pay more taxes if services improved). In councils where the public generally see better returns on their taxes, there appeared to be higher compliance sentiments. For instance, in Ilala where 62% of respondents in 2006 said that tax revenues mostly or partly were used to provide public services, more than 60% of the respondents disagreed with the notion that people should refuse to pay taxes until they got better services (the corresponding figures in Ilala for 2003 were 32% and 38%). This contrasts with Bagamoyo's respondents of whom only 38% saw their taxes being used to provide public services in 2006 and where only 32% disagreed with the notion that non-compliance was acceptable until services improved (the corresponding figures for 2003 in Bagamoyo were 34% and 35%).

Overall, a relatively better understanding among citizens of their fiscal responsibilities was also noted in 2006 compared with 2003. In Mwanza, 43% of respondents in 2006 agreed that taxpayers would evade paying taxes if possible (58% in 2003), compared to 60% in Kilosa (39% in 2003). Views on this position, however, were correlated with the anticipation that public services will be provided rather than the public's sense of obligation towards the government.

As many as 58% of respondents in 2006 considered corruption to be a serious problem, which is only a marginal improvement from 59% in 2003. Substantial differences in perceptions were noted between councils. In Kilosa DC, 55% (up from 40% in 2003) of respondents viewed corruption as a serious problem, compared to 62% in Moshi (down from 72% in 2003). Moreover, in Kilosa 19% of respondents in 2006 claimed to have seen a worsening of the level of corruption compared to two years earlier (29% in 2003), while in Moshi only 3% observed a rise in corruption (53% in 2003). Overall, an increasing number of respondents perceived the level of corruption to be less than before. While as many as 39% of respondents in 2003 said corruption had worsened over time, only 11% gave this answer in 2006. These data suggest that the Government may be achieving some success in fighting corruption over time.

1 Introduction

The Local Government Reform Programme (LGRP) in Tanzania was initiated in the late 1990s, within the framework of a broader civil service reform. The essence of the LGRP was to transfer duties and financial resources to local governments. Local government authorities were thought to be in a better position than central government bodies to identify people's needs and to encourage broader citizen participation in democratic governance. Being closer to the people, it was assumed that local government authorities could more easily identify people's needs and thus supply the appropriate form and level of public services. An important component of the LGRP was to increase the fiscal autonomy of local authorities. This policy was encouraged and partly initiated by the donor community. Starting from 2000, a key element of the reform was the provision of conditional block grants from the centre to enable the local governments to improve their level of service delivery. Additional reform measures included strengthening local governments' revenue raising and measures of revenue sharing between local and central government.

REPOA's Formative Process Research Programme (FPRP) followed the implementation and impacts of the reform over time in six local government authorities:

- Bagamoyo District Council
- Ilala Municipal Council
- Iringa District Council
- Kilosa District Council
- Moshi District Council
- Mwanza City Council.

These councils were selected in consultation with the Prime Minister's Office Regional Administration and Local Government (PMO-RALG) in 2002 on the basis of variations in resource bases, location (rural-urban), degree of inclusion in the LGRP, degree of donor presence, and representation of political parties on councils.[1]

The main objective of this paper is to document and analyse the main outcomes of the reform process on local finances and financial management. The paper presents empirical evidence on the councils' capacity for financial management and revenue enhancement, and trends relating to financial accountability and efficiency over the period 2000-2006/07.[2] The study is a follow-up analysis of the baseline published as REPOA Special Paper 16 (Fjeldstad et al., 2004).

[1] Until 2005, regional administration and local government was located within the President's Office (PO-RALG).

[2] This report focuses on financial management at the higher level of the case councils. REPOA's research team is currently working on studies covering sub-council levels (i.e. wards and villages).

Data were collected using quantitative and qualitative methodologies including:

- Two rounds of a citizen survey undertaken in 2003 and 2006 each with 1260 respondents, i.e., 210 respondents in each case council[3]
- Quantitative data collected in the case councils and from PMO-RALG
- Quantitative data submitted by contact persons in the case councils
- Qualitative research in each council, ward and village designed especially to examine events of change due to local government reform[4]
- Qualitative research at the central level, including ministries, national interest organisations (including the Association of Local Authorities in Tanzania (ALAT)), national NGOs and major donors in order to explore major changes in the relations between local and central government responsibilities due to the LGR, and variations between central level stakeholders.

The report is organised as follows:

- Chapter 2 focuses on fiscal autonomy. The councils' share of own revenues and grants from the central government is compared, and changes over time discussed, reflecting the degree of fiscal autonomy in the councils. The chapter also presents the status of and recent changes in local government expenditure and allocations to the priority sectors, education and health, in each of the six case councils.
- Chapter 3 examines modes of revenue collection.
- Chapter 4 focuses on financial management in the case councils. Several indicators of the status of and changes in financial management are applied, including staffing of the councils' finance departments, the internal auditors' offices and computerisation of the treasury departments, as well as the status for and recent changes in internal and external audit queries. Thereafter, as an indicator of the quality of budgeting, the gap between budgeted and accounted revenues in the case councils is discussed. A brief discussion of the assessment for access to the local government capital development grant is also included.
- Chapter 5 discusses transparency in financial and fiscal affairs, including how fiscal information is disseminated to the public.
- Chapter 6 provides a detailed account of citizens' perceptions on tax compliance and fiscal corruption. These perceptions provide indications of citizens' trust in the local governments.
- Chapter 7 and 8 present conclusions and policy recommendations.

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3 Many of the findings of the citizen survey, comparing responses in 2003 and 2006, have been previously published in various papers and briefs. For further detail on individual topics see REPOA Special Paper 29: 2009a *'Maybe we should pay tax after all? Citizens' views on taxation in Tanzania';* REPOA Brief 11: 2008 *'Citizens demand tougher action on corruption in Tanzania';* REPOA Brief 12: 2008 *'Changes in citizens' perceptions of the local tax system in Tanzania';* and REPOA Brief 13: 2008 *'Disparities exist in the citizens' perceptions of service delivery by local government authorities in Tanzania'.*

4 See the research programme's *Fieldwork Manual 2003* for details on key informants interviewed

2 Fiscal Autonomy

2.1 Revenues

Local authorities have two major sources of funding: own revenues and central government grants.[5] In addition, user charges and various forms of self-help activities contribute to the running and maintenance of public services such as primary schools and health facilities. Although data on the extent of user charges and self-help activities are not available, some studies from the 1990s indicate that these contributions are significant (Cooksey & Mmuya, 1997; Semboja & Therkildsen, 1995). Development aid is an important revenue source in some councils, generally earmarked for specific projects and sectors.

Local governments' own revenues represented 7% of total local revenues in Tanzania in 2006/07 (PMO-RALG 2008:4). This share gradually declined from 21% in 2001/02 to almost 20% in 2002/03 and 15% in 2003/04 (Table 1). The sharp drop after FY 2003/04 followed the rationalisation of local taxes in 2003 and 2004, including the abolishment of the development levy, and the significant increase in central government grants to local government authorities (URT 2003; World Bank 2006).[6]

Table 1: Local government resource flows, 2001/02-2006/07 (million TSh)

Revenue source	2001/02	% share	2002/03	% share	2003/04	% share	2006/07	% share
CG grants	201.1	79	247.0	80	291.0	85	859.5	93
LG own revenue	53.9	21	59.9	20	50.4	15	61.4	7
Total	**255.0**	**100**	**306.9**	**100**	**341.4**	**100**	**920.9**	**100**

Sources: PMO-RALG (2008) and World Bank (2006)

Own revenues are mainly used to finance operational costs, in particular salaries for the lower cadre of local government employees and sitting allowances for councillors. The lion's share of the operational costs in district councils, however, is funded by central government transfers. With respect to investments, many councils are almost completely dependent on transfers from the central level (PMO-RALG, 2008).

2.1.1 Own revenues

Table 2 summarises trends in case councils' own revenues from 2000 to 2006/07. Predictably, revenue collection dropped substantially in the immediate aftermath of the local government tax reforms in 2003. Four of the case councils experienced declines in own revenues in fiscal year 2002/03, in particular Kilosa and Moshi councils saw significant reductions in own revenues of 44% and 23% respectively. However, in subsequent years, all six case councils reported significant increases in revenue collections. For instance, Bagamoyo saw an 89% increase in own revenues (in nominal terms) from FY 2005/06 to FY 2006/07. This increase may be attributed to new methods of revenue collection in which collection of some taxes and charges were outsourced to private agents.

[5] Local government borrowing could also be considered as a co-funding flow. Since such borrowing is heavily constrained and contributes less than 0.1% of financial resources to the local government level, local borrowing is not considered further here (PMO-RALG 2008).

[6] In 2004, the fiscal year for LGAs was changed from the calendar year to July – June so as to be in line with the fiscal year for central government MDAs.

Table 2: Annual changes in own revenues, 2000-2006/07 (in %)

Council	1999-2000	2000-2001	2001-2002	2002-2003	04/05-05/06	05/06-06/07
Bagamoyo DC	25.9	20.2	4.5	- 7.1	0.5	88.9
Ilala MC	110.6	14.5	16	9.6	33.8	13.1
Iringa DC	- 13.8	10.9	- 2.4	0.5	88.7	4.9
Kilosa DC	- 28.1	29.1	30.7	- 43.8	24.2	- 8.2
Moshi DC	- 3.4	86.4	- 8	- 22.7	15.6	22.9
Mwanza CC	25.7	8.2	1.9	-7.7	70.3	1.2

Source: Compiled by the authors based on the councils' *Abstracts of Final Accounts* and www.logintanzania.net.

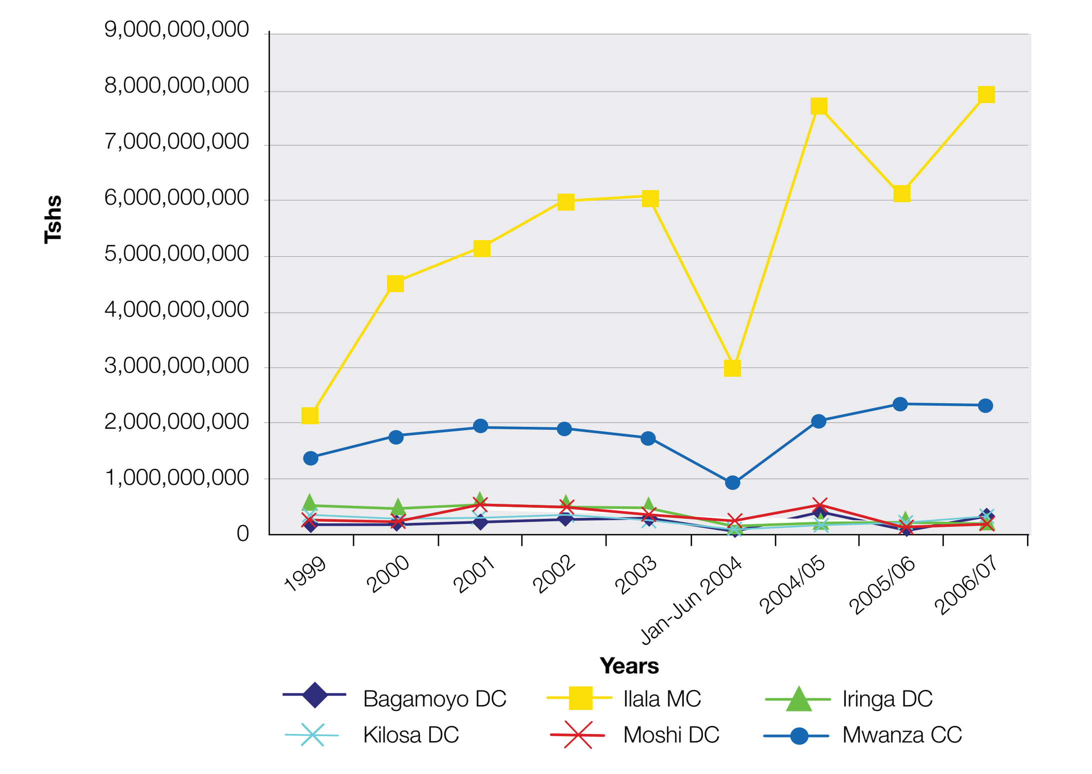
Figure 1 illustrates the trends in own revenues in each council during the period 2000-2006/07. The expected declines in revenues following tax reforms of 2003 are confirmed. Furthermore, the tax reforms of 2003 appear to have had some desired effects as the case councils' revenues rebound starting with the first full fiscal year 2004/05. The figure also clearly shows the differences in total revenues between rural and urban councils, reflecting that urban councils generally have a much larger revenue base than rural councils, particularly in the form of licences, fees, levies and property tax.[7] Moreover, the urban revenue bases are less volatile than many rural tax bases which often are based on agriculture. Appendix 1 provides a detailed breakdown of different revenue sources and collections for each council for the period 2002-2006/07.

In the two urban case councils of Ilala MC and Mwanza CC, the City Services Levy was one of the major own revenue sources during the whole period 2002-2006/07. But this levy has assumed an increasingly important role since 2004 when business licences were abolished. Hence, while City Service Levy in 2002 contributed 34% of total own revenues in Ilala MC, its share increased to 47% in 2006/07. The corresponding figures for Mwanza CC are 22% (2002) and 33% (2006/07). Revenues from other licenses and fees became increasingly important in Mwanza CC over the period, up from 22% in 2002 to 49% in 2006/07. In Ilala MC, however, contributions from other licences and fees declined as a percentage of total own revenues from 2002 to 2006/07, while property taxes increased from 12% to 17%.

In nominal terms, own revenues in urban councils were higher in 2006/07 compared to 2002. Rural councils, however, experienced a substantial drop in own revenue generation over the period both in nominal terms and as a percentage of total local government revenue. Crop cess is a major own revenue source in Iringa, Kilosa and Moshi, and its relative importance increased since 2002. In Bagamoyo, crop cess contributed significantly to revenue in 2002 and 2003 but was an insignificant source in 2004 and subsequent years. Since the tax reforms in 2003 and 2004, other licences and fees have become increasingly important revenue sources in the four rural case councils. This may indicate that councils are introducing a range of new licenses and fees to replace the lost revenues due to the abolishment of the development levy and businesses licences.

[7] The distinction between taxes, licences, charges and fees is often unclear in Tanzania (Fjeldstad & Semboja, 2000). A number of levies are referred to as charges although they are in reality taxes, since no service is rendered directly and exclusively to the payer. In addition, a wide variety of fees for forms and permits exist. The primary purpose of such permits is regulation, although in many councils they have become mainly a source of local revenue rather than a control mechanism. Thus, in this report the concept 'tax' includes taxes, licences, charges and fees, unless otherwise stated.

Figure 1: Own revenues in case councils, 1999-2006/07 (Tsh)



Source: Data provided from PMO-RALG based on the councils' *Abstracts of Final Accounts* and www.logintanzania.net.

2.1.2 Grants[8]

Central government grants represent the major revenue source for local government authorities. There are generally four such funding flows:

- Recurrent block grants: personal emoluments (PE) component
- Recurrent block grants: other charges (OC) component
- Recurrent subventions and basket funds
- Development grants and development funds

Local finance modalities are divided into these four categories since budget formulation, approval and execution (i.e. transfer and spending) for each of these funding flows are distinctly different from each other (PMO-RALG 2008: 3). The recurrent block grant system provides major funding for LGAs, and supplied 65% of all local government funds in FY 2006/07. In the six councils covered by this study, this grant varied from 84% in Bagamoyo to 58% in Iringa (Table 3). For FY 2007/08, however, Bagamoyo received 55%[9], Iringa 51%

8 This section draws on PMO-RALG (2008).

9 These are the figures reported by the councils in logintanzania.net. However, for 2007/08 no figure for general purpose grant was reported by Bagamoyo. If the GPG had been reported the share would be expected to be higher than 55%.

and Moshi DC 76%. These block grants fund the delivery of the main public services delivered at the local level, including:

(i) primary education;

(ii) healthcare;

(iii) agricultural extension services;

(iv) rural water supply;

(v) local road maintenance; and

(vi) general administration, salaries for senior staff and compensation for local revenue.

In February 2004, the Cabinet approved a formula-based recurrent transfer system to determine block grant ceilings for each of the first five sectors referred to above. In 2006, a formula-based General Purpose Grant (GPG) was also introduced by merging the local administration grant with the compensation grant.

The formula-based system that has been designed for allocating grants to Tanzania's local government authorities has the following factors:

(i) Population.

(ii) Number of school aged children (for primary education grant).

(iii) Poverty count.

(iv) Infant mortality rate as proxy for burden of disease (for health grant).

(v) Distance from council headquarters to service outlets as proxy for land area.

In addition, there are certain minimum conditions which a local government authority will have to fulfill in order to access development funds. The conditions aims reinforce good governance, e.g. that the council has an approved annual plan and budget; submission of final accounts for audit on time; no adverse opinion audit certificate awarded to latest accounts of the council; and submission of quarterly financial reports. Such requirements are seen as 'minimum safeguards' for handling funds, and aim to entrench accountability on the part of the staff and leaders of the councils.

There has been a clash between the original design and the actual implementation of the formula-based recurrent grant system (ibid: 10). In practice, each of the sectoral block grants is made up of two parts: a personal emolument (PE) component and a charges (OC) component. The PE component is by far the largest funding flow to LGAs, accounting for around 77-78% of block grant allocations. Therefore, PE allocations amount to approximately 50% of all financial resources used at the local government level. In contrast to the intent of the formula-based grant system, the PE allocation for each LGA continues to be determined in a discretionary manner by the President's Office-Public Service

Management (PO-PSM); the amount of PE resources provided to each LGA is in no way determined by formula-based allocations.

In aggregate, the OC component of the block grants accounts for approximately 22-23% of recurrent block grant allocations (ibid: 21). While local government PE accounts for almost 60% of all public sector expenditure on personal emoluments, local OC accounts for barely 7% of all OC spending in the public sector.

Another component of recurrent grants is the basket fund and subventions to key sectors and programmes. Prior to 2006/07 this was budgeted and approved under specific line ministries. These subventions include:

(i) education, for specific programmes such as PEDP;

(ii) health under the health basket funding;

(iii) road subvention under the roads fund;

(iv) HIV/AIDS subventions; and

(v) others.

The reported subventions as a share of total grants received by the six case councils for the period from 2005/06-2007/08 are also summarised in Table 3.

Table 3: Grants reported by the case councils in percentage of total grants reported (in brackets, share of grants budgeted by the councils and approved by Parliament)

Council	Grant type	2005/06	2006/07	2007/08
Bagamoyo DC	Block grants	80 (87)	84 (88)	55 (66)
	Basket fund/subventions	7 (8)	6 (6)	27 (12)
	Development grants and funds	13 (5)	10 (6)	18 (23)
Ilala MC	Block grants	78 (64)	82 (72)	74 (71)
	Basket fund/subventions	14 (10)	8 (17)	12 (11)
	Development grants and funds	8 (26)	11 (11)	14 (18)
Iringa DC	Block grants	57 (54)	58 (61)	51 (46)
	Basket fund/subventions	12 (8)	12 (10)	10 (13)
	Development grants and funds	30 (38)	30 (29)	39 (41)

Kilosa DC	Block grants	79 (74)	79 (64)	61 (69)
	Basket fund/subventions	11 (25)	5 (22)	6 (9)
	Development grants and funds	9 (2)	16 (15)	33 (22)
Moshi DC	Block grants	74 (81)	82 (77)	76 (79)
	Basket fund/subventions	12 (13)	4 (13)	7 (3)
	Development grants and funds	14 (7)	15 (9)	16 (18)
Mwanza CC	Block grants	83 (62)	73 (68)	71 (68)
	Basket fund/subventions	3 (9)	10 (13)	12 (10)
	Development grants and funds	14 (29)	17 (19)	16 (22)

Source: Compiled from logintanzania.net

In addition to block grants and subventions for recurrent purposes, local governments receive an increasing amount of intergovernmental transfers for capital infrastructure and development activities (ibid: 41). The level of local development financing that is flowing directly to the local government level in Tanzania has substantially increased since 2004. From FY 2005/06 to FY 2007/08, budgeted development transfers to LGAs nearly tripled from Tsh 141.1 billion to Tsh 375.9 billion. Since 2004, the main funding modality for channelling development resources to the local government level has been the formula-based Local Government Capital Development Grant (LGCDG). The LGCDG is funded by a combination of government funds, World Bank proceeds and development partner contributions. In addition to the development grants provided to LGAs under the LGCDG system, numerous other development resources flow directly or indirectly to the local government level through a myriad of current or previous modalities, including general-purpose (cross-sector) modalities such as the Tanzania Social Action Fund (TASAF), as well as a variety of sectoral development programmes such as the Primary Education Development Programme (PEDP) development grants, Health Joint Rehabilitation Fund, Local Government Transportation Programme (LGTP), Urban Development and Environment management (UDEM), Participatory Forest Management. Many of these funds are completely or partly funded by external sources.

Table 4 shows annual changes in grants from the central government to each of the six case councils. The grants are conditional, earmarked for specific sectors and formula-based, though this last criterion is not always adhered to. Of note, two rural councils, Bagamoyo DC and Moshi DC, saw a steady annual increase in central government transfers from FY 2002/03. Data however, does not indicate any rural-urban bias in intergovernmental fiscal transfers, which may reflect that the tax reforms in 2003 and 2004 adversely affected the finances of most case councils.

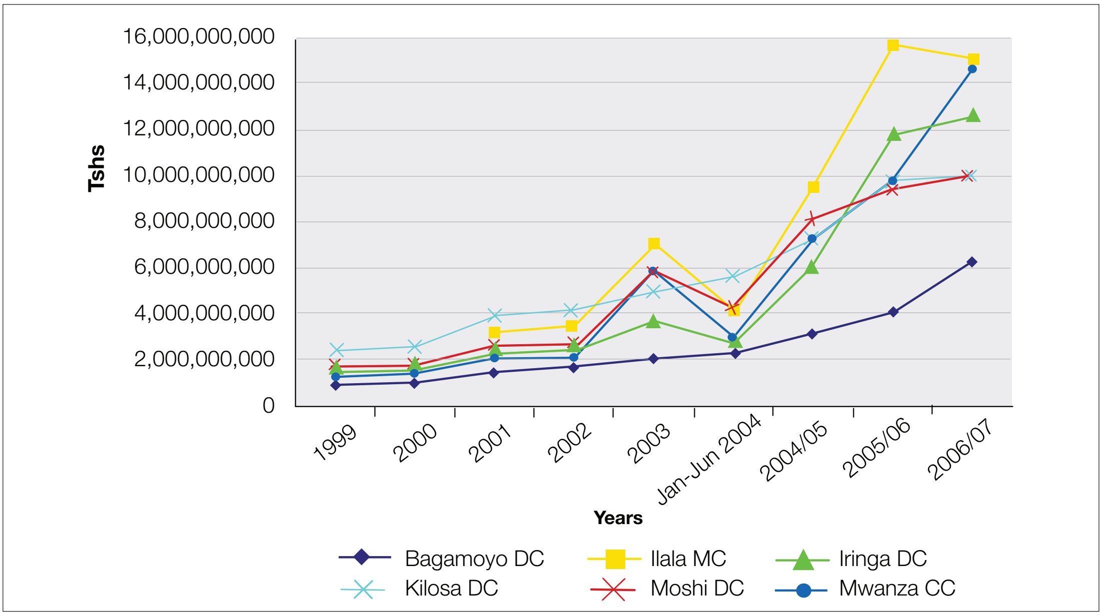
Figure 2 also shows total grants are increasing annually over the period 1999-2000 to 2006/07. There was a relatively large one-time increase in grants from fiscal year 1999/00 to FY 2000/01.[10] For Kilosa, the increase from FY 1999/00 to FY 2000/01 was about 145%, and for the other councils about 50%. This increase was mainly due to the revamped Local Government Reform Programme (LGRP) which started to be implemented in 1999 (IMF, 2003). In the following fiscal year, however, the increase in grants was very modest, except for Bagamoyo where the grants increased by almost 20% compared to the previous fiscal year. In 2001/02– 2002/03, Ilala MC, Kilosa DC and Mwanza CC were the major beneficiaries of grants from the central government. The increase in total grants between 2002/03 and 2003/04 was mainly due to subvention from the central government for lost revenues following abolition of 'nuisance' taxes in June 2003 (especially the development levy). The subsequent increase in 2004/05 was due to the introduction of recurrent and development grants under LGCDG.

Table 4: Annual changes in central government grants to case councils, 1999/2000-2006/07 (in %)

Councils	1999/00 2000/01	2000/01 2001/02	2001/02 2002/03	2002/03 2003/04	2003/04 2004/05	2005/06 2006/07
Bagamoyo DC	56.1	19.5	21.6	11.6	27.5	31.5
Ilala MC	n.a	8.0	105.1	- 40.7	66.4	0.5
Iringa DC	53.6	3.1	56.0	- 24.2	90.9	- 10.8
Kilosa DC	145.4	5.4	120.5	- 29.8	17.7	53.9
Moshi DC	49.7	5.8	18.5	15.7	39.6	54.7
Mwanza CC	48.6	6.0	180.0	- 49.3	34.0	43.4

Sources: Compiled by the authors; data for 1999/00-2004/05 is based on *Appendices to Volume III, Estimates of Public Expenditure Supply Vote (Regional)* and data for 2005/06 and 2006/07 grants: http/www.logintanzania.net

Figure 2: Central government grants to case councils, 1999-2006/07 (Tsh)



Source: Compiled by the authors based on the *Appendices to Volume III, Estimates of Public Expenditure Supply Vote (Regional).*

[10] Ilala MC was established in 2000.

2.1.3 Total revenues: grants and own sources

Although local government authorities are responsible for 20% of government spending, on average they only collect roughly 7% of total LGA revenues. Typically, own revenues only account for 5-6% of total funding in rural local governments, less so after the rationalisation of taxes in 2003 and 2004. Municipal councils collect significantly more own revenue than rural councils, especially after the tax reform. For example, the four local government authorities in Dar es Salaam (out of 115 LGAs nationally) accounted for around 35% of all own revenue collections in 2005/06.[11] This percentage share was the same in 2006/07 out of 122 LGAs.

Rural councils have depended upon central transfers since local government authorities were reintroduced in Tanzania in the early 1980s. The four rural councils in this study have become increasingly dependent on central government transfers since 2003(Table 5). While Iringa and Kilosa generated over 20% of their revenues from own sources in 2000, this share was reduced to about 2% in 2005/06 and 2006/07 (Table 6). Urban councils have also become increasingly dependent on transfers. While Ilala generated 58% of its revenues from own sources in 2000, this share was reduced to 28% in 2005/06 and, thereafter, increased slightly to 34% in 2006/07 (Table 6). The corresponding figures for Mwanza are 57%, 23% and 19%, respectively. The heavy reliance on grants from FY 2004/05 onwards is due to the introduction of the general purpose grant and the local government capital development grant. Moreover, in 2004/05, the government also introduced a formula for allocating grants to LGAs.

Table 5: Own revenues as a percentage of grants, 1999-2006/07

Councils	1999	2000	2001	2002	2003	Jan-Jun[12] 2004	2004/05	2005/06	2006/07
Bagamoyo DC	24.3	27.1	20.8	18.2	15.9	2.0	13.2	3.5	4.5
Ilala MC	n.a	n.a	164.3	176.6	87.6	73.1	82.0	39.3	52.5
Iringa DC	36.9	29.7	21.4	20.3	13.1	2.9	2.5	1.8	1.5
Kilosa DC	23.1	23.1	12.2	15.1	3.8	1.4	2.1	1.8	2.5
Moshi DC	11.3	10.0	12.4	10.8	9.5	3.9	7.1	1.6	1.2
Mwanza DC	119.5	131.1	95.5	91.8	30.3	32.0	27.8	29.7	23.1

Sources: Compiled by the authors based on the councils' *Abstracts of Final Accounts, Appendices to Volume III, Estimates of Public Expenditure Supply Vote (Regional),* and LOGIN Tanzania (www.logintanzania.net)

[11] Before the abolishment of the unpopular development levy, the villages were a vital source of revenue for the districts. Districts levied considerable taxes from villagers. The districts were to return a proportion of the taxes collected from the villages, but with no set procedure for redistribution (known as *ruzuku*).

[12] Central Government accepted mini-budget for all LGAs in order to harmonise financial year for LGAs and that of CG.

Table 6: Own revenues as a percentage of total revenues 2000-2006/07

Councils	2000	2001	2002	2003	Jan-June 2004	2004/05	2005/06	2006/07
Bagamoyo DC	21.3	17.2	15.4	9.3	7.0	7.2	15.3	4.3
Ilala MC	58.2	62.2	63.8	46.7	42.2	45.0	28.2	34.4
Iringa DC	22.9	17.7	16.9	11.2	2.6	2.3	1.8	1.5
Kilosa DC	18.8	9.8	13.1	3.7	1.4	2.0	2.0	2.4
Moshi DC	9.1	11.0	9.8	6.6	3.8	6.7	1.5	1.1
Mwanza MC	56.7	32.8	47.9	23.3	24.3	21.8	22.9	18.8

Source: Compiled by the authors based on the councils' *Abstracts of Final Accounts and Appendices to Volume III, Estimates of Public Expenditure Supply Vote (Regional)*

Year-on-year changes in the case councils' revenues are presented in Table 7. Annual changes in revenues are characterised by significant periodic rises in 2001, 2003, and 2004/05, as well as expected decreases in 2004.

Table 7: Annual changes (%) in total revenues (grants and own revenues)

Councils	2000	2001	2002	2003	Jan-Jun 2004	2004/05	2005/06	2006/07
Bagamoyo DC	15.5	48.4	17.0	57.6	- 28.7	71.2	10.1	31.2
Ilala MC	n.a	84.2	13.0	39.2	- 45.3	140.6	26.4	5.9
Iringa DC	1.5	43.8	2.1	50.6	- 28.8	119.6	- 2.4	48.8
Kilosa DC	7.6	123.6	8.1	99.0	- 31.4	96.0	45.7	- 16.7
Moshi DC	8.5	53.0	4.3	14.5	12.3	30.5	32.2	39.4
Mwanza CC	20.7	25.7	4.0	89.9	- 48.6	140.8	10.7	16.8

Sources: Compiled by the authors based on the councils' *Abstracts of Final Accounts and Appendices to Volume III, Estimates of Public Expenditure Supply Vote (Regional)*

The urban-rural divide with respect to own revenue generation reflects the much wider revenue bases available in densely populated urban settings (such as licences, city service levy and property taxes). The abolishment of the development levy (head tax) as part of the tax reforms in 2003 led to a substantial decrease in own revenues in rural councils, while the abolishment of business licences in 2004 hit urban councils hard. Intergovernmental transfers, largely in the form of the general purpose grants, have since then been applied to compensate LGAs for the lost revenues and to strengthen council finances.

2.2 Expenditure

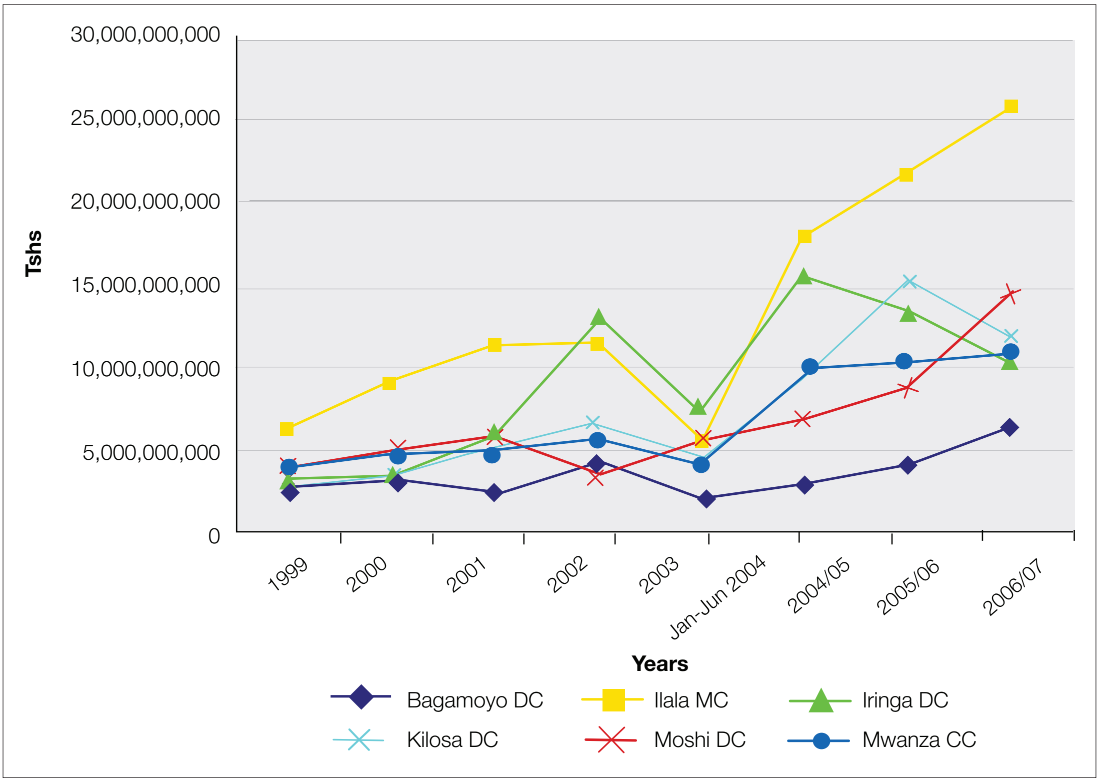
A significant drop in annual expenditure was exhibited by five of the six case councils following the tax reforms of 2003, which imposed immediate revenue constraints (Table 8). Expenditure dropped by between 25% (Mwanza) and 52% (Ilala) in the six months to June 2004. Moshi DC was the sole exception in this period; its expenditure increased by 58% compared to the previous year. This uncharacteristic increase might have been due to government efforts to regain political control of the council, which from 1995 to 2004 had been governed by the opposition. The following year (FY 2004/05) all case councils experienced a substantial increase in their expenditure. In FY 2005/06 only Iringa DC experienced a decrease in annual expenditure, while the five other case councils experienced an increase ranging from 8% Mwanza CC to 66% Kilosa DC. In FY 2006/07 Iringa DC also experienced a decrease of about 23% in total expenditure, and so did Kilosa DC (21% decrease). Figure 3 depicts the annual fluctuations in nominal annual expenditure in the case councils.

Table 8: Annual changes in total expenditure (%) as reported by the case councils, 2001-2006/07

Councils	2001	2002	2003	Jan-Jun 2004	2004/05	2005/06	2006/07
Bagamoyo DC	25.2	- 22.8	72.2	- 43.1	24.2	42.8	51.7
Ilala MC	44.6	24.2	1.1	- 51.9	221.5	22.4	19.6
Iringa DC	13.6	78	50	-45	120.1	- 14.8	- 23.3
Kilosa DC	21.7	59.3	30.9	-33.3	110	65.9	- 21.2
Moshi DC	- 18.2	95.5	- 38.4	57.5	20.8	27.8	6.8
Mwanza CC	21.6	2.6	12.9	- 25.1	134.00	8.3	3.1

Source: Compiled by the authors based on the councils' *Abstracts of Final Accounts* and logintanzania

Figure 3: Total expenditure as reported by the case councils, 2000-2006/07 (Tsh)



Source: Compiled by the authors based on the councils' *Abstracts of Final Accounts* and LOGIN Tanzania

The share of total expenditure allocated to the social sectors differs substantially across LGAs. Section 2.2.1 and 2.2.2 below present data on allocations to education and health as share of the case councils' total expenditure.

2.2.1 Allocations to the education sector

Significant differences in the allocations to the education sector as share of total expenditure can be observed between the case councils (Table 9). Moshi DC consistently spent more money on primary education as a proportion of total expenditure than the other councils. Historically, the Kilimanjaro region has had a higher density of schools and a larger share of children enrolled in schools than other regions in Tanzania. Before 2004, the two urban councils, Ilala and Mwanza, allocated a substantially lower proportion of total expenditure to education than the rural councils. This is probably due in part to economies of scale, where urban councils can operate much larger schools than in rural areas with lower population density Bagamoyo DC substantially increased its allocations to education, up from less than 30% of total expenditure in 2003 to 64% in 2004/05, and, thereafter, maintained about half of its allocation to the education sector.

Table 9: Primary education expenditure as a % of total expenditure

Councils	2000	2001	2002	2003	Jan-Jun 2004	2004/05	2005/06	2006/07
Bagamoyo DC	n.a	32.4	38.4	29.6	36.8	64.1	50.3	53.7
Ilala MC	34.7	30.6	32.5	22.6	26.7	21.9	20.7	27.7
Iringa DC	59.5	46.5	59.7	20.6	22.3	26.0	28.4	48.6
Kilosa DC	55.5	61.4	22.3	47.3	76.3	47.8	28.3	39.7
Moshi DC	71.0	70.2	66.0	87.2	84.5	71.1	50.5	58.9
Mwanza CC	39.3	35.7	35.3	40.7	22.6	23.0	28.5	34.9

Source: Compiled by the authors based on the councils' *Abstracts of Final Accounts*

2.2.2 Allocations to the health sector

Data on annual expenditure in the health sector as share of total expenditure are reflected in Table 10. For Iringa, Kilosa, Moshi and Mwanza, the proportion of total expenditure assigned to health was relatively stable during the period 2001-2004/05. Bagamoyo, however, saw a substantial increase in the allocation to health in FY 2004/05. While Bagamoyo before 2004 allocated approximately the same proportion to health as the other case councils (around 10%), this proportion increased to 21% in FY 2004/05. After 2003, Ilala decreased its allocation to the health sector, which might be due to the relative abundance of private health facilities in the municipality, although FY 2005/06 saw a substantial increase again.

Table 10: Health expenditure in % of total expenditure

Councils	2000	2001	2002	2003	Jan - Jun 2004	2004/05	2005/06	2006/07
Bagamoyo DC	n.a	8.2	11.8	10.6	11.3	21.4	14.3	14.6
Ilala MC	13.3	10.7	11.8	7.4	5.2	0.7	9.0	11.3
Iringa DC	5.7	7.2	8.1	4.5	3.1	5.8	9.9	14.5
Kilosa DC	9.8	19.4	4.9	11.3	12.1	8.6	9.9	8.0
Moshi DC	10.2	11.0	8.9	10.4	9.3	12.9	8.9	8.0
Mwanza CC	12.7	12.5	8.8	9.4	9.5	9.6	9.3	11.9

Source: Compiled by the authors based on the councils' *Abstracts of Final Accounts*

2.3 Fiscal decentralisation: the link between taxes and expenditure

Having some degree of autonomy over the collection and spending of revenue is often considered one of the key features of fiscal decentralisation. However, the autonomy of local governments to collect and spend own revenues should be considered a necessary, but not a sufficient condition of a successful decentralised system (PMO-RALG, 2008: 7). Fiscal decentralisation can be strong and positive force for public sector efficiency and good governance. However, if local governments tax local residents merely to finance their own sitting allowances or spending activities that do not have any clear direct benefit to the community, fiscal decentralisation may actually be detrimental to the efficiency of the public sector and to the well-being of society. Thus, revenue decentralisation and local fiscal autonomy should only be seen as a positive element of fiscal decentralisation if the benefits from locally-funded spending outweigh the burdens of the local taxes paid to fund this spending (ibid). It appears, however, that the link between the burden of local taxation and the benefits from local spending is largely absent in local public discourse in Tanzania.

3 Methods of revenue collection

Prior to 2003 revenue collection was generally organised around the council headquarters, the wards and, in district councils, the villages (see Fjeldstad et al., 2004). Many councils have, however, introduced new methods to increase revenues from existing sources by: (i) collaborating with the Tanzania Revenue Authority; and (ii) outsourcing collection of some taxes to private agents.

Until recently, local government tax collection was completely separated from the central government tax administration. In 2008, however, Tanzania Revenue Authority, on a pilot basis, started to collect property taxes in selected urban councils, including Ilala MC. It is too early to draw any conclusive lessons from these experiences.

3.1 Outsourcing revenue collection

Collection of a large number of local government revenue sources has been outsourced in recent years (Fjeldstad et al., 2008, 2009b). They include private collection of property taxes in some urban councils such as in Ilala Municipal Councils and Mwanza City Council; market fees in both rural and urban councils; forestry levies (until 2005) mainly in rural councils such as Kilosa; cess on certain agricultural products in rural councils; bus stand and parking fees. Table 11 shows which taxes were outsourced in each council. In Mwanza, more than one-third of the council's own revenues in 2006 were collected by private agents.

Table 11: Private revenue collection in selected councils

Revenue bases outsourced	Ilala MC	Mwanza CC	Kilosa DC	Moshi DC	Bagamoyo DC	Iringa DC**
Property tax (flat rate)*	X	X				
Market fees	X	X	X	X		
Forestry levies (until 2005)			X			X
Livestock auction & abattoir fees		X				X
Bus stand fees		X	X		X	
Parking fees		X		X		
Billboards	X	X				
Quarrying					X	
Processing salt					X	

Notes: * In 2007, the councils' own staff usually collect property taxes from the valued roll, including from large property owners;
** Villages are used as agents

Revenue collection is outsourced to a range of different types of agents within and across councils. For example, in Mwanza CC, the collection of fish market fees was outsourced to a fish dealer organisation, while the collection of fees at the central market was contracted to a vegetable cooperative operating in the market. In Kilosa, the collection of forest levies (until they were abolished in 2005) was outsourced to a private firm whose main activity is the operation of private schools. Iringa DC contracted villages where business took place to collect revenue.[13]

[13] For further details on revenue outsourcing see Fjeldstad et al., 2009b

Evidence is inconclusive whether outsourcing has led to better revenue administration performance compared with tax collection remaining a function of local government officials. However, outsourcing can establish a platform from which change can be facilitated, but its initial impact and longer-term successful performance depend on:

- the strength and quality of the management of the local government authority;
- political commitment to support the reform, and
- transparency reflected in the provision of accessible and updated information to the general public on the tendering process and bids received, as well as data on the revenue potential and actual collection.

A major challenge facing privatised revenue collection in local government authorities is related to the assessment of the revenue potential for various tax bases. Currently, this assessment is conducted on an *ad hoc* basis, often based on the previous year's reported collection. Substantial underestimation of the revenue potential may imply that actual collection by the agent is substantially higher than what is reflected in the contract. Consequently, there is a risk of ending up in a situation where the agent keeps the substantial portion of the revenues collected, which already seems to be the case in some councils. To meet its objectives, the councils' outsourcing systems need to establish criteria that ensure that private contractors accomplish a reasonable return to the local government authority. Hence, it is important for each council to conduct a rigorous assessment of the revenue potential before outsourcing takes place or is expanded, and to update the assessments regularly. One option for consideration is to move the responsibility for revenue assessment out of council administrations by establishing an independent body responsible for such assessments.

4 Financial Management

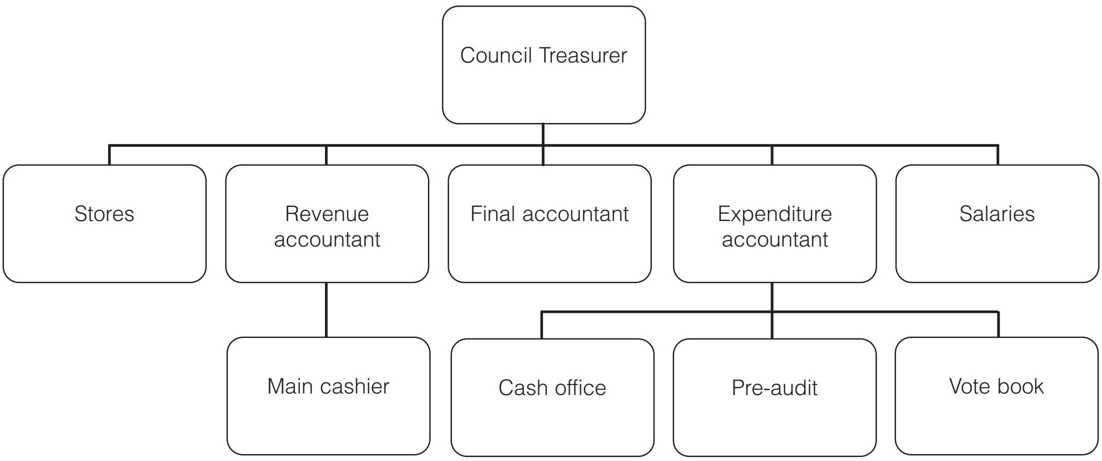
Public financial management concerns taxing (i.e., revenue raising) and spending by government, and the impacts this has on resource allocation and income distribution (Rosen, 2002: 16). Financial management encompasses the budget process, including budget preparation, internal controls, accounting, internal and external audit, monitoring and reporting arrangements, etc.

Sound financial management systems are potentially powerful instruments for preventing, discovering, or facilitating the punishment of fraud and corruption. Important elements are the organisation and staffing of the local revenue administration, the effectiveness of auditing systems and the realism of budgets (Langlois et al., 1998). Hence, improving financial management has become an important element of public sector reform which, in turn, requires skills building and institutional strengthening. This chapter provides a brief overview of the organisation and staffing of the councils' treasury and internal audit offices. Thereafter, local government budgeting and accounting are discussed, followed by an assessment of internal and external auditing mechanisms. Finally, results of the assessments under the local government capital development grant are examined.

4.1 Organisation and staffing of the Treasury department

Figure 4 shows the recommended organisational structure of the treasury department in LGAs. Generally, the treasurer is assisted by the heads of five departmental units, namely the procurement office, revenue office, final accounts office, expenditure office, and the salaries office.

Figure 4: Organisation chart of the treasury department in a council



In practice, however, the organisation and staffing of the treasury departments differ substantially between councils. Table 12 shows the number of staff members in the Treasury Department and in the Internal Auditor's Office in the case councils as of September 2003 and June 2007. Differences between the councils with respect to staff members and their qualifications are partly due to the size of the councils. For instance, in 2003 Ilala had 95 and Mwanza 42 staff members in their treasury departments, compared to 17 in Bagamoyo and Moshi. Generally, the number of trained accountants in the treasury departments has improved in recent years. Hence, the treasury department in Bagamoyo experienced an increase in the number of trained accountants from 5 in 2003 to 17 in 2007. The corresponding figures for Iringa were 3 in 2003 and 14 in 2007, and for Moshi DC from 2 to 14. In Ilala MC the number of trained accountants remained almost the same; 35 in 2003 and 34 in 2007. The general picture of improvements of the staffing of the Treasury Department in the case councils is associated with recent efforts by the Ministry of Finance to recruit, post and train accountants on behalf of the councils.

Table 12: Staffing of the Treasury Department and the Internal Auditor's Office in the case councils, September 2003 and 2007 (2007 figures in brackets)

Council	Treasury Department			Internal Auditor's Office		
	Total staff	No. of trained accountants	Trainings/ workshops /courses	Total staff	No. of trained auditors	Trainings/ workshops/ courses
Bagamoyo DC	17 (17)	5 (17)	- (-)	0 (3)	0 (3)	- (-)
Ilala MC	95 (79)	35 (34)	- (-)	4 (11)	4 (5)	1 (3)
Iringa DC	15 (19)	3 (14)	- (3)	1 (4)	1 (4)	- (-)
Kilosa DC	23 (22)	7 (8)	6 (3)	1 (1)	1 (1)	1 (-)
Moshi DC	17 (23)	2 (14)	- (5)	1 (5)	1 (3)	1 (2)
Mwanza CC	42 (-)	14 (-)	- (-)	1 (-)	1 (-)	1 (-)

(-) means the information was not available at the time of report writing
Source: Compiled by the authors based on information from the councils' management teams

4.2 Organisation and staffing of the Internal Auditor's Office

Up to 2003 the Internal Auditor's Office in the case councils were either weakly staffed or not staffed at all (see Table 12). Bagamoyo, for instance, had no internal auditor in place in 2003, and in Iringa DC this position was vacant until mid-2003. Thus, the internal audits in Iringa were carried out by the Treasury staff themselves. Recently, the Ministry of Finance, under the Public Finance Management Reform Programme, has hired qualified auditors and posted them to LGAs to mitigate this problem. Consequently, in 2007, Bagamoyo had 3 trained auditors, Iringa 4, Ilala 5 and Moshi 3.

A general problem experienced by LGAs is that, after having acquired some experience in the local authorities, many internal auditors quit for the private sector and parastatal organisations or they take up positions in government agencies such as the Tanzania Revenue Authority (TRA) where they are offered substantially higher salaries. Vacancies in both urban and rural councils are often difficult to fill. Lack of response by the Treasury Department (or other departments) on internal audit queries and recommendations also contribute to discourage auditors to stay in councils. Since the introduction of the Local Government Capital Development Grant in 2005/06, the situation has changed for the better in many councils in Tanzania. One of the conditions to gain access to the full grant is to have a functional and qualified Internal Audit Office in place as stated in the Local Government Act 1982 and Local Government Authorities Financial Memorandum 1997.

4.3 Computerisation of the Treasury Departments

By September 2003 only Kilosa utilised Platinum accounting software in combination with a manual system (see Table 13). Ilala had started to implement Platinum and Epicor was in place in Mwanza. In contrast, Bagamoyo, Iringa and Moshi had not started to computerise financial management and planning. By July 2007, however, only Bagamoyo was still using a manual system, while the five other case councils used both manual and computerised systems.

Bagamoyo is, however, not unique. By mid-2007, only 85 out of the 133 local government authorities had computerised financial management systems, often in combination with a manual system. Recent sample surveys report that very few councils have fully operational computerised financial management systems (PMO-RALG, 2007).

Table 13: Computerisation of the Treasury Departments (as at September 2003 and June 2007)

Council	September 2003	June 2007
Bagamoyo DC	Budgeting and accounting carried out manually	Budgeting and accounting still carried out manually
Ilala MC	Started to use Platinum. Experienced problems to implement the system at lower levels of the council. Hence, the manual system was still used.	Epicor used; manual system still in use
Iringa DC	Only a manual system	Epicor used; manual system still in use
Kilosa DC	Both Platinum and a manual system used	Epicor used; manual system still in use
Moshi DC	Neither Platinum nor Epicor system had been implemented	Epicor used; manual system still in use
Mwanza CC	Epicor had been introduced, but the manual system was still used	Epicor used; manual system still in use

Source: Compiled by the authors based on information from the councils' treasury departments

4.4 Budgets and accounts

A comparison of the councils' budgets and accounts provides an indication of the quality and realism of council budgeting. Table 14 shows the gaps between actual revenues and the corresponding budget estimates in the period 2000-2006/07. In the period 2000–2002, Ilala MC and Bagamoyo DC, the revenue estimates in all three years are within a 10% range of the reported revenues. For the four other councils, the gaps between actual revenues and budget estimates in 2002 were between 13% (Kilosa) and 35% (Iringa). From 2003 onwards the data paint a bleak picture of the capacity of the councils to plan and execute their own budgets. These large budget 'misses' also came during the period when the automated centralised budgeting tool PlanRep was supposed to have been rolled out to all councils in Tanzania. These figures may partly suggest the need for further training of council staff on how to make full use of PlanRep.

Table 14: Own revenues collected as a % of budget estimates

Council	2000	2001	2002	2003	Jan-June 2004	2004/05	2005/06	2006/07
Bagamoyo DC	93.9	109.2	91.3	72.0	68.3	73.7	43.3	51.7
Ilala MC	102.5	101.1	95.5	46.8	30.2	36.1	28.3	99.3
Iringa DC	62.2	57.4	65.8	54.5	75.3	71.8	268.9	80.3
Kilosa DC	83.3	91.0	87.6	47.2	47.2	78.9	96.1	102.9
Moshi DC	43.7	82.4	67.3	-	-	-	63.2	73.2
Mwanza CC	95.4	91.5	75.5	28.3	20.6	19.2	93.6	86.2

(-) means the information was not available at the time of report writing

Source: Compiled by the authors based on the councils' *Abstracts of Final Accounts*

4.5 Audit queries

According to a 2002 report on corruption in Tanzania, corruption in local authorities is particularly prevalent in procurement of goods and services, in revenue collection and financial management, in human resources management, and in land allocation and control (ESRF & FACEIT, 2002). Although some officials, including the internal auditors, may voice concerns on procurement and tendering, such issues are difficult to discuss openly with the management teams and councillors. In general, the only cases raised are those where individuals are suspended or under investigation for taking bribes. However, such cases are not typically viewed as institutional or systemic failure but as moral issues. This contrasts with citizens' perceptions that corruption is a serious problem in local authorities (see section 6).

The Public Expenditure Review (PEFAR): Local Government Fiduciary Assessment from 2006 pointed out a number of issues facing LGAs that needed improvement, including:

(a) monitoring of fiscal risk and oversight of activities at the lower level of LGAs;

(b) the concept of budget as control mechanism was not well understood and other internal controls were not being rigorously applied; and

(c) revenue collection at the local level was not being carried out in a transparent and consistent manner.

4.5.1 Internal auditing

Table 15 provides an overview of data collected on tendering procedures in the case councils. Interestingly, Bagamoyo DC, which had no internal auditor, and Iringa DC, which was without one until mid-2003, reported no irregularities in tendering and procurement.[14] In contrast, the internal auditors in Kilosa DC and Mwanza CC raised such issues.

In 2000-2003, many reports by the Internal Auditors in the case councils were not responded to or no action was taken by the council. For example in Kilosa, the Internal Auditor's report for FY 2000 shows that none of the internal auditor's recommendations were followed up by the council. Such lack of response indicates that the internal audit reports are considered to be less serious and less 'powerful' than the external Auditor General's reports.

[14] Iringa DC recruited a new internal auditor in mid-2003.

Table 15: Data on tendering procedures in the case councils, 2003 and 2007

Council	Observations in 2003	Observations in 2007
Bagamoyo DC	According to the District Management Team (DMT), there were no complaints on tendering procedures. The council followed the tendering procedure as prescribed by the LG Financial Memorandum.	Purchases are made without the approval of the relevant Council's tender board contrary to the requirement.
Ilala MC	Irregularities in tendering procedures were revealed in 2002 and eight staff members were suspended.	Procurements were made without tender board approval contrary to the requirement of regulation 40 and 41 of the Public Procurement Regulation of 2005. Similar purchases were made in 2006/07 on the basis of proforma invoices.
Iringa DC	According to the DMT, no problems were identified in procurement so far. The Danish International Development Agency (DANIDA) had organised training on new tendering procedures.	Tendering procedures are followed, however, occasionally the council deals with some suppliers/service providers not listed to provide services
Kilosa DC	In 2002, irregularities were reported in tendering and problems were identified over the construction of Gairo-Nongwe road. There was a disagreement between the DMT and the councillors on who should get the contract. The contractor proved to unqualified and the work was below standard and incomplete.	Some purchases/services are made without supporting documents, though the suppliers are those approved
Moshi DC	According to the District Treasurer who acted as a Secretary to the Tender Board, tendering was carried out with caution, taking into account Financial Memorandum, to avoid conflicts of interest between staff and councillors, particularly between councillors representing different political parties.	In FY 2005/06 the council procured goods and services without formal approval of he procurement plan. In FY 2006/07 the plan was approved by the Finance and Planning Committee and the council's procurement activities followed the national procurement guidelines and manuals
Mwanza CC	According to the CCMT, they followed Financial Memorandum. However, the awarding of contracts does not follow professional standards.	For most of 2006/07 the procurement unit was not in place

Source: Compiled by the authors based on information from the councils' management teams

Interviews with the key informants in the case councils suggest that there had been improvements in the organisation of the internal audit units reflected in better staffing and better procedures on running the unit. The new procedures include:

(a) formation of internal audit committees comprising internal and external members;

(b) use of annual plans approved by the Finance Committee;

(c) discussions of the quarterly audit reports with the Finance Committee; and

(d) sharing the internal audit reports with PMO-RALG and NAO.

However, the councils were still struggling to deal with issues associated with procurement as noted in Table 15.

4.5.2 External auditing

Failure to disclose procurement receipts, payments sanctioned without adequate supporting documents, inadequate keeping of records, non-compliance with laws and regulations, and other routine accounting irregularities were raised as concerns in reports by the National Audit Office (NAO) for all case councils. For instance, the NAO noted that Bagamoyo DC made TSh 106,944,848 worth of payments without adequate documentation and Ilala MC failed to collect revenue worth TSh 107,272,409, while Iringa DC overstated their surplus figures by TSh 152,158,985 in the financial year 2005/06 alone.

In 2005/06, the National Audit Office issued qualified[15] opinions on four of the six case councils (Table 16). Only Ilala's and Kilosa's audited reports were deemed unqualified. In the period following the 2003 tax reforms, Moshi and Ilala received only one qualified certification each, in 2005/06 and 2006/07, respectively. In contrast, Bagamoyo, Iringa, Kilosa and Mwanza received three qualified audits from 2003 onwards.

Since 2000, Bagamoyo's and Iringa's accounts have been the subject of much scrutiny with unfavourable audit opinions from the Controller and Auditor General (CAG). However, there's evidence of gradual improvement in these two councils as neither council received an 'adverse' audit opinion from 2003 to 2006/07.

Table 16: Audit Report of the Controller and Auditor General for the Six Councils, 2000-2007

Councils	2000	2001	2002	2003	Jan-June 2004	2004/05	2005/06	2006/07
Bagamoyo DC	Adverse	Adverse	Adverse	Qualified	Qualified	Unqualified	Qualified	Unqualified
Ilala MC	Qualified	Unqualified	Qualified	Unqualified	Unqualified	Qualified	Unqualified	Qualified
Iringa DC	Adverse	Adverse	Qualified	Unqualified	Qualified	Qualified	Qualified	Unqualified
Kilosa DC	Adverse	Unqualified	Qualified	Qualified	Qualified	Qualified	Unqualified	Unqualified
Moshi DC	Adverse	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Qualified	Unqualified
Mwanza CC	Qualified	Unqualified	Qualified	Unqualified	Qualified	Qualified	Qualified	Unqualified

Source: Compiled by the authors based on information from the Controller and Auditor General (CAG)

Unretired imprests were a problem area in the accounting and financial management of case councils. In 2005/06, several councils violated Order No. 134[16] of the 1997 Local Authority Financial Memorandum, with vast sums of total outstanding imprests. Mwanza CC had a staggering outstanding imprest amount of TSh 352,121,267, while Kilosa DC had amounts

[15] Audit opinions are interpreted as follows:
(a) Unqualified opinion: no reservations concerning the financial statements. This is also known as a clean opinion meaning that the financial statements appear to be presented fairly.
(b) Qualified opinion: the auditor has taken exception to certain current-period accounting applications or is unable to establish the potential outcome of a material uncertainty.
(c) Adverse opinion: the financial statements do not fairly present the financial position, results of operations, and changes in financial position, in conformity with generally accepted accounting principles

[16] Order No.134 of the *Local Authority Financial Memorandum* states that "A safari imprest or special imprest must be retired within two weeks after the officer has returned from the journey or after finalisation of the activity; failure to do so will not only necessitate the outstanding amount to be deducted from the officer's salary at an enhanced rate, but may also attract a surcharge of not less than 5% of his salary".

of TSh 88,560,612 of a similar nature. Despite these irregularities, post-2003 audit results for case councils did not receive any adverse opinion (Table 16).

In PEFAR 2006, civil society organisations cited the following issues with respect to LGA finances:

(i) LGAs budgets were not comprehensive (excluded many sources of funds);

(ii) Unpredictability of fund flows (time and amount);

(iii) Reporting formats designed more to meet monitoring requirements of central government and development partners than for internal management and domestic accountability;

(iv) Multiplicity of audits;

(v) Limited access to information for the public or councillors;

(vi) Disconnect between the bottom-up planning process and top-down budgeting.

4.5.3 Results of assessments under the Local Government Capital Development Grant

Access to the LGCDG is linked to local government performance in the areas of financial management, participatory planning, pro-poor budgeting, budget execution, broader areas of local governance such as transparency and accountability, and the involvement of lower levels of the local government structure (ward, village, *mtaa*) and communities. Councils must meet certain minimum access conditions to qualify for the LGCDG. Every year PMO-RALG carries out an annual performance assessment to determine whether councils have met the minimum access and performance measures. The assessment process is used both as a monitoring mechanism and an incentive mechanism; improved council performance is recognised through increases to the annual grant.

Likewise, all LGAs are eligible for the Capacity Building Grant (CBG), although the minimum access conditions are less strict compared to LGCDG. The two conditions for receiving the CBG are: (a) the council must have an acceptable capacity building plan, congruent with council restructuring; and (b) the council must have satisfactorily accounted for previously disbursed funds.

The first assessment was carried out in May-June 2005 covering 66 councils in Mainland Tanzania. The second assessment took place in March-May 2006 for all 121 Mainland councils. The third and fourth ones were carried out in October/November 2006 and September/October 2007, respectively.

Table 17: Number and percentage of councils that met minimum conditions for CDG and CBG, 2005/06-2008/09

Financial Year	Grant	Met	Provision	Met + Provision	Not met
2005/06	Capital Development Grant	30 (45%)	7 (11%)	37 (56%)	29 (44%)
	Capacity Building Grant	58 (88%)	8 (12%)	66 (100%)	0
2006/07	Capital Development Grant	62 (51%)	22 (18%)	84 (69%)	37 (31%)
	Capacity Building Grant	121 (100%)	0	121 (100%)	0
2007/08	Capital Development Grant	63 (52%)	46 (38%)	109 (90%)	12 (10%)
	Capacity Building Grant	106 (88%)	15 (12%)	121 (100%)	0
2008/09	Capital Development Grant	111 (84%)	16 (12)	127 (96%)	5 (4%)
	Capacity Building Grant	126 (95%)	1 (0.8%)	127 (96%)	5 (4%)

* means a council will be considering meeting the minimum criteria to access grants subject to fulfilment of certain conditions

Source: Compiled by authors from the various assessment reports

Figure 5: Percentage of councils that met the minimum conditions for allocation of the Capital Development Grant, 2005-06-2008/09

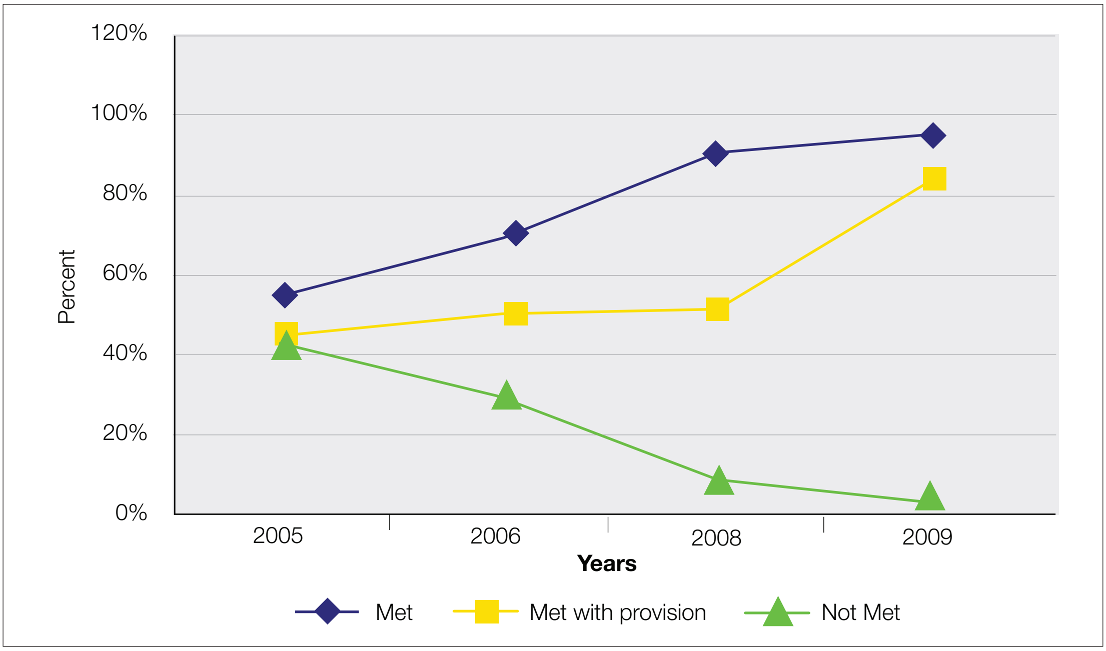


Table 17 and Figure 5 show that an increasing share of the councils met the minimum conditions for allocation of the Capital Development Grant (CDG) over the period 2005/06-2008/09. While 45% of the councils assessed met the conditions for the CDG in FY 2005/06, this share had increased to 84% in FY 2008/09. The corresponding figures for the Capacity Building Grant (CBG) are 88% and 95%, respectively. Moreover, while as many as 44% of the assessed councils did not meet the minimum conditions in FY 2005/06 only 4% of the councils did not meet the conditions in FY 2008/09. With respect to the CBG, only 4% of councils in 2008/09 did not meet the minimum conditions for this grant.

5 Transparency in fiscal affairs

Local government authorities use different ways of disseminating information on fiscal affairs (i.e. revenue and expenditure) to the public. All case councils report that financial information is disseminated through meetings organised by the council, including full council meetings as well as ward and village meetings (Table 18). Ilala, Kilosa and Mwanza also report that they use newspapers to disseminate information. Notice boards at ward and council headquarters are also used in Ilala, Moshi and Mwanza.

Table 18: Dissemination of information on fiscal issues to the public by case councils (as at September 2006)

Council	Modes of dissemination of fiscal information (revenue and expenditure)
Bagamoyo DC	- Information on revenue collection disseminated through council meetings
Ilala MC	- People are invited to attend presentations of the quarterly fiscal reports at the full council meetings
	- Notice boards at ward offices
	- Ward Development Committee (WDC) meetings - Newspapers
Iringa DC	- Village assemblies
	- Village meetings
Kilosa DC	- Village and wards meetings
	- Full council meetings
	- Newspapers
Moshi DC	- Ward councils and village assemblies
	- Notice boards at council Headquarters
	- Every month the Ward Executive Officers (WEOs) were called to the council headquarter to be informed and directed to put fiscal information on notice boards at ward offices
Mwanza CC	- Full council meetings
	- Notice boards
	- Newspapers

Source: Interviews with key informants in the case councils

Citizens' access to and right to information is often seen as a necessary condition to achieve accountable, transparent and participatory governance and people-centred development (Crook & Manor, 1998; Jenkins & Goetz, 1999). Information to the public on tax revenues collected, financial allocations, and how to report corruption have improved substantially in recent years, although many people still report that they do not have access to such information (Table 19). In 2003, for instance, only 6% of the respondents said they had seen information posted on taxes and fees collected. This share increased to 12% in 2006. Moreover, while 3% of respondents in 2003 said they had seen audited statements of council expenditure, the corresponding figure for 2006 was 6%. And while only 16% of respondents had seen information on how to report corruption in 2003, almost one-quarter were aware in 2006.

Interestingly, respondents who had heard about local government reform (LGR) were better informed than those who were not aware of LGR (Table 19). This was particularly evident with regard to information on the local government budget, audits and on how to report corruption. For instance, more than 30% of respondents who had heard about the LGR in 2006 knew how to report corruption compared with 16% of citizens who had not heard about the LGR. However, information to citizens on government revenues, financial management and corruption were still in short supply compared to information on HIV/AIDS. A large majority of the respondents in both 2003 (78%) and 2006 (80%) had seen posters for HIV/AIDS prevention.

Table 19: Access to information – Changes from 2003 to 2006 (% of respondents)

Description	Have you in the last two years seen any of the following information posted in a public place?											
	LG budget		Taxes and fees collected		Audited statements of council expenditure		Financial allocation to key sectors		HIV/AIDS prevention		How to report corruption	
	Yes 2003	Yes 2006	Yes 2003	Yes 2006	Yes 2003	Yes 2006	Yes 2003	Yes 2006	Yes 2003	Yes 2006	Yes 2003	Yes 2006
Heard about LGR	11	21	9	15	4	9	7	11	85	85	23	31
Not heard about LGR	3	7	3	9	1	2	2	4	71	74	10	16
Total	**7**	**14**	**6**	**12**	**3**	**6**	**4**	**8**	**78**	**80**	**16**	**23**

Sources: Citizen surveys 2003 and 2006

There are large variations across councils with respect to information collected on tax revenue (not tabled here). The respondents in Iringa and Kilosa were relatively better informed compared to other councils. In 2006, for instance, more than 30% of respondents in Iringa DC reported receiving information on tax revenue collected in their area. In comparison, only 2% of respondents in Ilala MC and 7% in Mwanza CC were informed. People in Iringa and Kilosa are also relatively better informed than people living in the other case councils when in comes to information on local government budgets, audits, and on how to report corruption. The survey data do not provide an answer on why respondents in the rural councils are generally more informed on fiscal issues than people living in the other councils. However, among those who had received information on tax revenue, the Village Executive Officer (VEO) was the most likely official to have issued it, which may indicate that VEOs function as an effective channel of information between the council and citizens.

6 Tax compliance and fiscal corruption

At the start of the local government reform programme, taxpayers' unwillingness to pay taxes and fees was often cited as a hindrance to LGAs' drive to improve their finances. Nationwide campaigns aimed to educate the populace on the importance and virtues of paying taxes have been employed from the days of the Third Phase Government (1995-2005). Tax compliance is key to building a social-fiscal contract between the state (the service provider and distributor) and citizens (Braütigam et al., 2008). Ineffective and inefficient tax systems (including coercive collection, extensive evasion and corruption) have contributed to undermine taxpayers' compliance (Fjeldstad & Therkildsen, 2008). Dealing with the policy problem of revenue enhancement and tax evasion therefore requires understanding of the factors underlying the individual's decision whether to pay or evade taxes. Based on data from the citizen surveys conducted in 2003 and 2006, this chapter examines whether – and why – any changes had occurred in citizens' views on taxation.[17] What changes – if any – can be observed with respect to factors impacting on peoples' willingness to pay taxes or not? What do ordinary people consider to be the major challenges to improving the tax system in 2006 compared to 2003?

6.1 Why people pay tax

When asked why people pay taxes and fees, the responses differed substantially between 2003 and 2006. In 2003, the majority of respondents said people paid because they 'wanted to avoid disturbances' (46% of the total sample). This response reflects that many people at that time perceived the tax enforcement regime to be unfair, coercive and demeaning (see Fjeldstad, 2006). Three years later, in 2006, only 14% of respondents gave this answer (Table 20). This dramatic change in peoples' perceptions was most likely due to the abolishment of the 'poll tax' development levy; a tax connected with oppressive tax enforcement and harassment of taxpayers (see Fjeldstad & Therkildsen, 2008). Moreover, differences between the case councils with respect to reasons why people paid taxes were less marked in 2006. For instance, in the 2003 survey, 39% of respondents in Ilala MC and 57% in Kilosa DC said that people paid because they wanted to 'avoid disturbances'.[18] In 2006, however, only 13% of respondents in Ilala MC and 18% in Kilosa DC gave this answer.

Another major change in peoples' perceptions of the tax regime is related to service delivery. While only 23% of respondents in 2003 said that people paid taxes and fees because they anticipated public services, as many as 50% of respondents gave this answer in 2006. In Ilala MC, as many as 62% of respondents gave this answer in 2006 compared to 26% in 2003. This change is consistent with peoples' perceptions that public services have improved in Tanzania in recent years. The majority (75%) of respondents in the 2006 survey reported an improvement in service delivery over the past two years. The corresponding figure for 2003 was 54%. These findings are consistent with the Afrobarometer surveys (see REPOA, 2006a), and suggest that the reforms aiming to improve local service delivery have started to bear fruit and are becoming visible to ordinary people.

[17] A more detailed analysis of changes in citizens' views of taxation in Tanzania from 2003 to 2006 is published in REPOA Special Paper 29 (Fjeldstad et al., 2009a).

[18] The data from Kilosa DC is likely to reflect that many residents perceived the tax collection regime to be harsh before it was rationalised and the development levy abolished in 2003 (Fjeldstad, 2001).

Table 20: Why people pay taxes, 2003 and 2006 compared (% of respondents; 2003 in brackets)

Major reasons why people pay taxes	Council name						Total
	Ilala MC	Bagamoyo DC	Kilosa DC	Iringa DC	Moshi DC	Mwanza CC	
They will avoid disturbances	13 (39)	11 (43)	18 (57)	17 (54)	13 (39)	12 (41)	14 (46)
They anticipate public services	62 (26)	50 (23)	46 (20)	52 (19)	43 (23)	49 (25)	50 (23)
They have no opportunity to evade	8 (13)	16 (10)	11 (6)	10 (10)	16 (13)	14 (7)	12 (10)
Feel obligations towards the government	11 (11)	11 (8)	9 (11)	9 (12)	16 (5)	14 (10)	12 (10)

Sources: Citizen surveys 2003 and 2006

On the question of why (some) people pay taxes, the survey data from 2003 also showed differences based on respondents' age and level of education, and whether the respondents were born in or had migrated to the council (Fjeldstad, 2006). For instance, a larger share of the youngest age group (47%) said that people paid because they would avoid disturbances. Moreover, the higher the respondents' level of education, the more likely it was that the respondent either anticipated reciprocal services for his/her tax payment or felt an obligation to the government. The 2003 data also suggested that respondents who had migrated to the case councils were more likely to pay taxes for other reasons than simply to avoid disturbances, relative to people born in the area. The 2006 survey, however, found no significant differences between age groups, levels of education and origin of birth with respect to why people pay taxes. These changes in citizen's perceptions from 2003 to 2006 are likely due to the changes in the local government tax regime which took place in 2003 and 2004. In particular, the abolishment of development levy and other so-called nuisance taxes made the tax system less oppressive and more transparent.[19]

Around 50% of respondents in both surveys agreed with the statement that 'people would evade paying taxes if possible' (Table 21). This may seem surprising given that respondents' views on why people pay taxes (Table 20) changed substantially between 2003 and 2006. However, studies from other countries have similarly found that people put high weight on 'opportunities' when explaining tax evasion (Andreoni et al., 1998; Cowell, 1990).

Responses about tax evasion differed between the case councils and have also changed over time. For instance, in 2003 less than 40% of respondents in Kilosa DC said they agreed with the statement that people would evade taxes if possible (Table 21). In 2006 this share had increased to 60%. In contrast, the share of respondents in Moshi DC agreeing with the statement dropped from 59% in 2003 to 45% in 2006. No information is available to explain these differences between case councils, but it might be due to different collection regimes, as well as trust in local government officials.

[19] This was confirmed in numerous interviews by the authors with citizens and elected councillors in the case councils.

Table 21: Citizens' views on tax evasion, 2003 and 2006 (% of respondents; 2003 in brackets)

Would people evade taxation if possible?	Council name						Total
	Ilala MC	Bagamoyo DC	Kilosa DC	Iringa DC	Moshi DC	Mwanza CC	
Agree	51 (49)	53 (49)	60 (39)	55 (37)	45 (59)	43 (58)	51 (48)
50-50	19 (10)	13 (11)	16 (11)	17 (10)	10 (8)	14 (10)	15 (10)
Disagree	28 (34)	27 (32)	21 (48)	24 (44)	37 (26)	36 (27)	29 (35)
Don't know	2 (8)	7 (8)	3 (3)	4 (9)	8 (8)	8 (6)	(8) (7)

Sources: Citizen surveys 2003 and 2006

Responses to this question also differed by respondents' age, although these differences were larger in the 2003 survey compared with 2006 (Table 22). In both surveys, a larger share of respondents in the youngest age group agreed with the statement that people would evade paying taxes if possible compared to older respondents.

Table 22: Perceptions of tax evasion by age of respondent, 2003 and 2006 (% of age group; 2003 in brackets)

Would taxpayers evade taxation if possible?	Age group		
	18-29 years	30-49 years	50 years and above
Agree	52 (51)	51 (50)	49 (41)
50-50	13 (8)	16 (9)	14 (12)
Disagree	30 (32)	28 (36)	30 (37)
Don't know	5 (9)	5 (4)	7 (9)

Sources: Citizen surveys 2003 and 2006

Differences of view were also found between respondents who were born in the case councils and those who had migrated to the area.[20] Although these differences were less in 2006 compared to 2003, in aggregate, a larger share of migrants in both surveys agreed with the statement that people would evade taxes if possible. But the longer a migrant had lived in the area, the more likely he/she was to have views on taxation similar to those born in the area. This may reflect a natural socialisation process. When a migrant has lived in an area for some years it does not make much sense to distinguish between 'migrants' and 'natives'.

[20] A previous study, based on survey data from the late 1990s, found that the compliance rate with respect to development levy was relatively higher for migrants than for people born in the area (Fjeldstad & Semboja, 2001). The authors found that since migrants generally were less integrated and had looser relations to local authorities than non-migrants, it was easier and probably more convenient for the tax enforcer at the village level to target migrants rather than people from the area who might be their relatives, friends or who have closer links to local politicians and authorities.

6.2 Major problems in tax collection

The most serious problem hampering revenue collection, according to citizens' views in 2003, was that taxes collected were not spent on public services (Table 23). More than 58% of respondents held this view. In 2006, however, this share was reduced to 36% suggesting that respondents' perceived that their terms of trade with the government had improved, reflected in better public services. In 2003, 'too high taxes/fees' (48% of respondents) and 'dishonest collectors' (46%) were also perceived to be major problems. The corresponding figures for 2006 were 26% and 39%, respectively, which indicate that some of the perceived problems with the tax system had been addressed. In particular, the data suggest that citizens in 2006 had more trust in the governments' ability and/or motivation to provide services, although substantial differences were noted between the six councils. For instance, while 65% of the respondents in Bagamoyo DC in 2003 believed that taxes collected were not spent on public services, the corresponding figure for 2006 was 40%. For Ilala MC the corresponding figures were 63% (2003) and 24% (2006). Moreover, while 51% of respondents in Bagamoyo DC in 2003 perceived tax collectors to be dishonest, 43% held this view in 2006. In Iringa DC, however, there was only a minor change from 2003 (33%) to 2006 (32%) with respect to citizens' perceptions of the honesty of tax collectors. Surprisingly, only 29% of respondents in 2003 and 25% in 2006 considered taxpayers' unwillingness to pay as a major problem. Nor was dishonesty among elected local leaders perceived to be a major problem, though more respondents considered this to be a problem in 2006 compared with 2003.

Table 23: Perceptions of major problems in tax collection, 2003 and 2006 (% of respondents; 2003 figures in brackets)

Description of problem	Council name						Total
	Ilala MC	Bagamoyo DC	Kilosa DC	Iringa DC	Moshi DC	Mwanza CC	
Tax revenues not spent on public services	24 (63)	40 (65)	43 (48)	24 (45)	44 (68)	37 (61)	36 (58)
Too high tax/fee rates	9 (52)	25 (52)	31 (46)	14 (31)	37 (53)	39 (54)	26 (48)
Dishonest collectors	40 (54)	43 (51)	41 (40)	32 (33)	43 (50)	35 (46)	39 (46)
Too many taxes/fees	9 (51)	26 (44)	27 (29)	18 (23)	34 (41)	32 (45)	24 (39)
Harassment by tax collectors	28 (43)	32 (36)	39 (33)	33 (29)	40 (41)	26 (46)	33 (38)
Tax payers unwilling to pay taxes	19 (31)	19 (28)	25 (23)	22 (31)	32 (30)	32 (28)	25 (29)
Dishonest local government elected leaders	29 (21)	26 (17)	29 (30)	30 (21)	29 (28)	20 (23)	27 (23)
Dishonest parliamentarians	16 (16)	9 (12)	5 (12)	7 (11)	11 (22)	10 (16)	10 (15)

Sources: Citizen surveys 2003 and 2006

6.3 Corruption

Corruption undermines trust and, thus, the legitimacy of government, where legitimacy refers to citizens' approval of the government which, in turn, justifies citizens' obedience.[21] When government institutions are legitimate, citizens have a predisposition to consider obedience to them as reasonable and appropriate (Fauvelle-Aymar, 1999). A government's lack of legitimacy, on the other hand, diminishes the perceived moral justification for obeying its laws, including the tax laws.

Generally, corruption was perceived to be a serious problem in all the case councils (Table 24). As many as 58% of respondents considered corruption to be a problem in 2006, which is almost unchanged from 2003 (59%). However, substantial differences were recorded between councils. While as many as 74% of respondents in Mwanza in 2006 thought corruption was a serious problem, the corresponding figure for Iringa was 44%. A larger share of respondents in Kilosa, Bagamoyo and Mwanza viewed corruption to be a major problem in 2006 compared to 2003. In particular, a substantial deterioration in Kilosa had occurred between 2003 and 2006. In contrast, fewer respondents in Ilala, Iringa and Moshi perceived corruption to be a problem in 2006 compared to 2003. In Ilala, for instance, the improvement was substantial; from 64 % in 2003 to 50% in 2006.

Table 24: Citizens who think corruption is a serious problem, 2003 and 2006 (% or respondents; 2003 in brackets)

	Bagamoyo DC	Ilala MC	Iringa DC (R)	Kilosa DC	Moshi DC	Mwanza CC	Total
Yes	64 (61)	50 (64)	44 (49)	55 (40)	62 (72)	74 (70)	58 (59)
50-50 (average)	11 (10)	25 (13)	19 (17)	18 (23)	11 (8)	10 (7)	16 (13)
No	11 (17)	17 (15)	29 (21)	21 (19)	16 (8)	7 (11)	17 (15)
Don't know	14 (12)	9 (8)	8 (14)	7 (19)	11 (12)	10 (13)	10 (13)

Sources: Citizen surveys 2003 and 2006

The data suggest, however, that the Government may be achieving at least modest success over time in fighting administrative corruption[22], reflected in improved public perceptions of government efforts to combat corruption in the case councils (Table 25). In 2006, more than 50% of respondents said that corruption was less than before, while in 2003 only 27% were of this view. In all councils, except Kilosa, there was a substantial increase in the number of respondents reporting that corruption was less than before. The survey data also show that respondents' direct experiences with corruption declined. While 50% of all respondents in 2003 said they had observed acts of corruption, this proportion fell to 30% in 2006.

[21] Following Lipset (1959: 86), legitimacy can be defined as 'the capacity of a political system to engender and maintain the belief that existing political institutions are the most appropriate or proper ones for the society'.

[22] This is often referred to as everyday or *petty* corruption, which citizens experience daily in their encounter with public administration and services like hospitals, schools, local licensing authorities, police, customs, taxing authorities, the judiciary and so on (see Blundo & Olivier de Sardan, 2006).

Table 25: Corruption as a problem compared to two years ago, 2003 and 2006 (% of respondents; 2003 figures in brackets)

	Bagamoyo DC	Ilala MC	Iringa DC (R)	Kilosa DC	Moshi DC	Mwanza CC	Total
Worse than before	7 (39)	15 (45)	10 (30)	19 (29)	3 (53)	9 (40)	11 (39)
No changes	18 (18)	19 (24)	12 (5)	22 (8)	22 (19)	23 (20)	19 (15)
Less than before	51 (28)	54 (21)	56 (39)	44 (40)	50 (13)	49 (24)	51 (27)
Don't know	25 (15)	12 (10)	22 (27)	15 (24)	25 (16)	19 (17)	20 (18)

Sources: Citizen surveys 2003 and 2006

These findings are consistent with findings on corruption in the Afrobarometer survey (REPOA, 2006b). Moreover, the World Bank Institute's governance indicators (1996 to 2006) placed Tanzania in a group of countries that had experienced significant improvements. In addition, the country's score on Transparency International's *Corruption Perceptions Index* (CPI) also improved from 1.9 in 1996 to 2.9 in 2006.[23]

6.4 Citizens' perception on who is to blame for poor tax collection

Table 26 presents survey data on citizens' perceptions of whether specific groups of people/institutions were most to blame for poor tax collection. Tax collectors were those most frequently blamed in both surveys (54% of respondents). This view cut across all case councils, although the share of respondents who blamed tax collectors was lower in Iringa DC than the average for the other councils. While council employees were ranked second among those most frequently blamed in the 2003 survey (49%), they were ranked third (36%) in the 2006 survey after local government elected leaders (44%). In both surveys, only around 20% of respondents agreed with the statement that taxpayers were most to blame. These views are consistent with findings reported in Table 23, where dishonest tax collectors were perceived to be one of the major problems in revenue collection.

Distrust in revenue collectors is documented in previous studies (Tripp, 1997; Fjeldstad & Semboja, 2001; Kelsall, 2000). In particular, before 2003, the collection of the development levy often led to conflicts and tensions between collectors and citizens. Since the 2003 survey was carried out only a few months after the abolition of development levy, citizens' perceptions of tax collectors were likely to reflect their recent experiences with development levy collectors. However, in the two urban councils, Ilala MC and Mwanza CC, the development levy was not an important revenue base. In these councils the poll tax mainly covered public and formal sector employees, whose payment of the levy was deducted from their salaries by the employer with limited contact between collectors and taxpayers. Hence, taxpayers' low trust in collectors in Ilala MC and Mwanza CC in the 2003 survey was most likely related to other factors than the now abolished development levy. This also applies to

[23] See www.afrobarometer.org, www.worldbank.org/wbi/governance, and www.transparency.org.

the situation in 2006, more than three years after the abolition of development levy. One explanatory factor is the simple fact that tax collectors are rarely well regarded by citizens, though this is hardly the full explanation. Tirole (1996) provides a theoretical explanation. This paper argues that new members (e.g., tax collectors) of an organisation (e.g., a tax agency) may suffer from an original sin (e.g., corruption) of their elders long after their predecessors have left. This implies that the reputation of current tax collectors is affected by the past reputation of the tax collecting agency. Hence, it may take time to rebuild the reputation of formerly highly corrupt tax agencies.

Table 26: Who is most to blame for poor tax collection, 2003 and 2006 (% the respondents; 2003 in brackets)

Officials or institutions most to blame for poor tax collection	Council name						Total
	Ilala MC	Bagamoyo DC	Kilosa DC	Iringa DC	Moshi DC	Mwanza CC	
Tax collectors/fee collectors	53 (58)	58 (56)	49 (55)	50 (41)	61 (54)	55 (59)	54 (54)
Council employees	35 (48)	37 (48)	34 (45)	27 (41)	39 (55)	44 (59)	36 (49)
Central government authorities/TRA	40 (50)	27 (46)	31 (30)	27 (30)	27 (43)	37 (56)	31 (43)
Licences and permits officers	42 (42)	28 (37)	30 (38)	32 (32)	28 (39)	33 (50)	32 (40)
Local government elected leaders	44 (27)	44 (28)	41 (49)	47 (35)	46 (41)	42 (46)	44 (38)
Parliamentarians	17 (18)	20 (20)	4 (16)	11 (17)	18 (29)	25 (34)	16 (22)
Tax payers/ fee payers	21 (28)	17 (21)	22 (12)	26 (19)	23 (17)	28 (25)	23 (20)

Sources: Citizen surveys 2003 and 2006

6.5 Citizens' views on how to improve the tax system

In a series of questions, the citizen surveys addressed the issue of how to improve the tax system, including matters such as where respondents thought public revenues were least likely to be misused, and actions to be taken to reduce misuse of revenue collected. While as many as 27% of all respondents in 2003 thought that misuse of funds was unavoidable, only 10% held this view in 2006. This may reflect higher trust in the authorities, which is consistent with the finding that people were more satisfied with law and order in 2006 compared to three years earlier. Moreover, increasing trust in lower levels of government was recorded. In 2006, almost 35% of respondents suggested that misuse of funds was least likely at the village level, compared with only 15% in 2003. Especially in the three rural councils, Iringa, Kilosa, and Moshi, this view was strong. More than 40% of respondents in each of these councils held this view in 2006. The *kitongoji* leader and the village/*mtaa* chairperson are also the persons whom people consider to be least likely to misuse public funds. In contrast, peoples' trust in the Tanzania Revenue Authority (TRA) seems to have eroded over time.

When asked what actions would reduce the misuse of tax revenue, more than 40% of the respondents in 2003 said it would not help to report this to the village authorities, the ward and council offices, or to the police. In the 2006 survey, only between 14% and 18% of respondents held this view. More than 70% of respondents in 2006 said it would help to report such misuse to the village authorities (compared to less than 50% in 2003), reflecting higher trust over time in the lower level authorities (Table 27). However, almost 80% of all the respondents in the 2006 survey (compared to 64% in 2003) suggested that reporting the misuse of tax revenue to a journalist would help reduce this form of corruption. Citizens' relatively high trust in journalists is also reported in other studies, for instance, ESRF and FACEIT (2003).

Table 27: Actions to reduce the misuse of tax revenue, 2003 and 2006 (% of respondents; 2003 in brackets)

Report to:	Council name						Total
	Ilala MC	Bagamoyo DC	Kilosa DC	Iringa DC	Moshi DC	Mwanza CC	
Journalist	91 (63)	80 (61)	74 (60)	83 (63)	68 (68)	77 (68)	79 (64)
Village authorities	81 (44)	73 (50)	69 (50)	77 (65)	68 (41)	71 (49)	73 (50)
Ward office	85 (38)	73 (50)	75 (50)	85 (57)	68 (43)	70 (50)	76 (48)
Member of Parliament	84 (40)	78 (44)	78 (41)	82 (49)	61 (50)	69 (63)	75 (48)
Police	83 (42)	73 (40)	75 (55)	78 (49)	59 (42)	72 (44)	73 (45)
Political party leaders	81 (43)	77 (41)	57 (31)	74 (38)	53 (56)	70 (59)	68 (45)
Council authorities	85 (37)	75 (41)	79 (47)	88 (53)	66 (41)	72 (47)	77 (44)

Sources: Citizen surveys 2003 and 2006

7 Conclusions

This report has analysed data and trends on finances and financial management in six councils over the period 2000-2006/07 with reference to a baseline covering the period 2000-2003 (Fjeldstad et al., 2004). The analysis focused on whether local government reforms have contributed to improve five core aspects of council finances and financial management: (i) the degree of fiscal autonomy; (ii) financial management, including budgeting, accounting and auditing; (iii) methods of revenue collection; (iv) transparency in fiscal and financial affairs; and (v) tax compliance and fiscal corruption.

Fiscal autonomy

The overall conclusion from the study is that the reforms have reduced the fiscal autonomy of local government authorities. At present, the central government contributes the bulk of local government revenues in rural councils through transfers and largely determines local budget priorities. It should, however, be acknowledged that local own revenues are a necessary, but not a sufficient condition for fiscal decentralisation. In most LGAs in Tanzania, revenue sources are not sufficient to develop and supply adequate services for the fast growing population. The reality is that most LGAs will for a long time continue to be heavily dependent on fiscal transfers from the central government. Only a few large urban councils are able to finance a substantial share of their total expenditure from their own revenue sources. Transfer systems based upon revenue sharing between the central and sub-national levels of government and grants from the central level, should therefore be considered important components of the fiscal decentralisation programme.

Methods of revenue collection

Evidence is inconclusive whether outsourcing has led to better revenue collection performance compared with tax collection remaining a function of local government officials. However, outsourcing can establish a platform from which change can be facilitated. The longer-term success of outsourcing will depend on the:

- Strength and quality of the management of the local government authority;
- Political commitment to support the reform; and
- Transparency reflected in the provision of accessible and updated information to the general public on the tendering process and bids received, as well as data on the revenue potential and actual collection.

Financial management

The local government reform has contributed to improve the staffing of the councils' Treasury Departments and Internal Audit Offices, reflected in an increasing number of trained accountants and auditors. This has improved local governments' capacities for financial management. There remain, however, significant and persistent problems in attracting and retaining senior staff within the finance departments of districts considered "remote" or marginalised. Urban LGAs tend to be better staffed than rural and remote LGAs. The fact that urban LGAs have relatively more qualified accountants and auditors than rural clearly demonstrates a wider problem of inefficiencies in the current system of staff allocations which is neither transparent nor truly needs based.

A key indicator of financial accountability in LGAs is the annual report from National Audit Office/Controller and Auditor General (NAO/CAG). The number of LGAs with adverse audit opinions fell sharply from 45% in 1999 to zero in 2006/07, while the proportion of LGAs with clean audit reports increased. None of the six case councils have been reprimanded with adverse reports from the NAO/CAG since 2002. Furthermore, results from the annual assessments for accessing development grants, in particular the CDG, showed an encouraging trend since the grant's inception. These are all indicators of strengthened financial accountability in LGAs. Still, the ability of the councils to plan and execute their own budgets is weak, with large gaps between accounted revenues and the corresponding budget estimates even after the roll-out of the automated centralised budgeting tool, PlanRep.

Transparency in fiscal affairs

Transparency with respect to budgets and accounts is at the heart of local government accountability. Local authorities publish information on revenues collected and allocations of funds in accordance with the Local Authority Financial Memorandum 1997. However, much of this information does not reach or is not understood by the general public. Only a small minority of citizens surveyed were aware of basic budget and finance information. Public notices gazetted in newspapers or posted on notice boards at the council headquarters are often presented in a relatively complicated and technical way, which makes the notices hard to understand for ordinary citizens.

Tax compliance and fiscal corruption

Peoples' views on taxation were much more positive in 2006 compared to three years earlier. This was partly due to improvements in service delivery, particularly education, health, and law and order, and partly due to reforms which led to less oppressive collection (especially the abolishment of the controversial 'development levy' in 2003). Still, the survey data presented in this report show that citizens feel they get little in return for taxes and fees paid. This perception erodes people's confidence in the capacity of local councils to supply essential services which, in turn, impacts on their willingness to pay taxes. Corruption was also perceived by citizens to be a major problem. Yet many respondents did not know how to report cases of corruption. And those who did know were reluctant to report due to fear of repercussions.

8 Policy recommendations

Based upon the study's conclusions, the following policy recommendations are proposed to strengthen financial management in local government authorities.

Building local government capacity in tax design, revenue administration, and budgeting
To sustainably increase local revenue collection and, in turn, councils' fiscal autonomy, it is necessary to enhance LGAs capacity in tax design and revenue administration. Training should be done collaboratively between the local government authorities and the central government body responsible for training revenue officers – the Institute for Tax Administration – by offering a local government finance curriculum. Given the evidence indicating limited capacity of councils to plan and execute their budgets, further training for council staff is also needed on how to make full use of PlanRep.

Harmonising local and central government taxes and fees to avoid duplication
Establishing a sound system of taxation requires cooperation and dialogue between local and central government bodies so that overall economic policy, with its tax and expenditure implications, is coherent and well managed. Initiatives by the Ministry of Finance to strengthen local government financial management are promising in this respect.

Sharing resources for efficient revenue collection
It is important that local government authorities and the Tanzania Revenue Authority (TRA) share their databases. In particular, this applies to data on business income and turnover, which is required for estimating revenues from sources that are shared by both central and local government revenue authorities. The recent cooperation and information exchange between Arusha City Council and the TRA is promising in this respect. A taxpayer information centre should be established for all taxpayers; one that responds to requests for all types of local and central government taxes, fees, and licenses.

Improving dissemination of financial information
To provide information on fiscal issues that reaches the general public and is understandable to ordinary citizens, LGAs will need to use a combination or written and oral methods of dissemination for information submitted at village and ward offices and at service outlets such as schools and dispensaries. The successful dissemination of information on HIV/AIDS prevention may provide valuable lessons on how to design and disseminate information on budgets and accounts to communities. In addition, more active use of VEOs and mitaa leaders to communicate financial information to citizens may pay high dividends as the experiences from Iringa DC indicate. Urban councils will in general require additional measures compared to rural councils, due to the often high mobility and turnover of residents that make it more difficult to reach citizens with financial information.

Improved information to the public on budgets and accounts may improve the opportunities for citizens to exercise their voice and hold local authorities accountable. It is, however, important to stress that encouraging citizens and the civil society to engage in fiscal and financial monitoring at the local level does not imply that such measures should replace formal auditing and accounting mechanisms. Nor does it imply that such measures will weaken the formal accountability mechanisms. On the contrary, it can strengthen the legitimacy and standing of local authorities in the communities by contributing with complementary measures to improved control of revenue collection and expenditure.

Strengthening policy linkages between service delivery improvements and tax compliance
To further improve tax compliance, local councils will need to ensure the supply of essential services. Until own revenue sources are sufficient, formula-based central government transfers will need to be fully implemented to provide equitable, needs-based financial and human resources so as to enable LGAs to fulfill their role of delivering quality services.

Protecting whistleblowers

There is an urgent need to better protect citizens who speak out on cases of local corruption. Otherwise, awareness raising may have limited practical impacts on controlling corruption. It might even be counterproductive if people see that those who report corrupt acts are punished, while no action is taken against corrupt officials. Lessons from Mwanza suggest that the Prevention and Combating of Corruption Bureau (PCCB) may play a positive role by following up on complaints raised by citizens. Other councils, however, report that the PCCB is too distant from ordinary people and is not properly integrated in anti-corruption endeavours at the ward and village levels. Thus, there is a need for better coordination between the PCCB and councils to ensure anti-corruption measures reach out to citizens. It is encouraging that some LGAs in collaboration with the PCCB have invited councillors, construction companies, small traders and village leaders to participate in the discussion and planning of anti-corruption strategies. The objective is for local government authorities to implement their own plans and activities directed at combating corruption in their areas of jurisdiction, as part of the implementation of the National Anti-Corruption Strategy and Action Plan-Phase II.

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Appendix 1

Table A1: Local government own revenue sources, 2002 to 2006/07 (in Tsh millions and as % of total own revenues)

Bagamoyo DC

Revenue sources	*2002*	*%*	*2003*	*%*	*2004*	*%*	*2004/05*	*%*	*2005/06*	*%*	*2006/07*	*%*
Development levy	13.7	4.5			0		0		0	0	0	0
Crop cess (local tax on agricultural products)	25.7	8.5	39.7	10.8	0		0		1.0	0.7	3.3	1.2
Livestock cess	0				4.4	6.1	0		0	0	0	0
Business licences	68.3	22.5	73.1	19.8	4.5	6.2	6	4.0	5.9	3.9	3.9	1.4
Market fees	20.7	6.8	20.0	5.4			0		0	0	0	0
Other taxes	0.6	0.2	2.0	0.5	7.3	10.1	1.1	0.7	1.4	0.9	0	0
Other fees, licences & fines	155.1	51.1	221.7	60.1			136.6	92.3	110	73.9	257.1	91.4
Miscellaneous	19.5	6.4	12.4	3.4	56.4	77.7	4.3	2.9	30.6	20.6	17.0	6
Total	303.6	100	368.8	100	72.6	100	148	100	148.8	100	281.2	100

Iringa DC

Revenue sources	*2002*	*%*	*2003*	*%*	*2004*	*%*	*2004/05*	*%*	*2005/06*	*%*	*2006/07*	*%*
Development levy	252.3	56.2			0			0	0	0	0	
Crop cess (local tax on agricultural products)	42.9	9.6	57.6	23.9	24.7	28.6	63.0	41.4	126.2	53.4	130.2	52.5
Livestock cess	40.3	9.0	50.1	20.8	0.2	0.3		0	0	0	0	
Business licences	32.1	7.1	34.6	14.4	14.1	16.3	2.7	1.8	11.1	4.7	17.4	7.0
Market fees	1.8	0.4	2.1	0.9	0.4	0.5	0.1	0	0	0	0	
Other taxes	18.8	4.2	25.3	10.5	11.7	13.5	18.5	12.1	3.9	1.6	5.8	2.3
Other fees, licences & fines	50.9	11.3	53.8	22.3	27.0	31.2	38.9	25.5	62.5	26.4	70.9	28.6
Miscellaneous	10.1	2.2	17.2	7.2	8.4	9.7	29.1	19.1	32.7	13.8	23.6	9.5
Total	449.2	100	240.7	100	86.5	100	125.3	100	236.4	100	247.9	100

Kilosa DC

Revenue sources	*2002*	*%*	*2003*	*%*	*2004*	*%*	*2004/05*	*%*	*2005/06*	*%*	*2006/07*	*%*
Development levy	138.4	31.7							0	0	0	0
Crop cess (local tax on agricultural products)	104.6	24.0	18.0	15.6	15.1	18.3	90.9	54.8	78.5	38	68.4	36.2
Livestock cess	13.2	3.0							0	0	0	0
Business licences	36.1	8.3	30.9	26.8	8.1	9.8	13.6	8.2	8.2	4	10.9	5.8
Market fees	16.2	3.7	14.9	12.9	24.4	29.5			0	0	0	0
Other taxes	25.5	5.8	10.2	8.8	8.5	10.3	15.1	9.1	17.5	8.5	8.6	4.5
Other fees, licences & fines	66.4	15.2	41.5	35.9	25.2	30.5	45.2	27.2	101.6	49.3	100.2	52.9
Miscellaneous	35.6	8.2			1.4	1.7	1.1	0.7	0.2	0	1.0	0.5
Total	436.1	100	115.4	100	82.7	100	165.9	100	206.1	100	189.2	100

Moshi DC

Revenue sources	2002	%	2003	%	2004	%	2004/05	%	2005/06	%	2006/07	%
Development levy	60.8	11.0							0	0	0	0
Crop cess (local tax on agricultural products)	201.3	36.4	158.7	36.3	42.4	64.4	98	82.3	64.7	47	72.3	42.7
Livestock cess	0.4	0.1	3.0	0.7					0	0	0	0
Business licences	51.9	9.4	27.0	6.2	3.3	5			1.7	1.2	3.8	2.2
Market fees	25.2	4.6	46.2	10.6	6.7	10.2			0	0	0	0
Other taxes	11.1	2.0	28.1	6.4	0.06	0.1			1.8	1.3	0	0
Other fees, licences & fines	94.2	17.0	74.1	17.0	0.5	0.8	14	11.8	59.4	43.2	51	30.1
Miscellaneous	107.4	19.4	99.6	22.8	12.9	19.6	7	5.9	10	7.3	42.1	24.9
Total	552.5	100	436.7	100	65.7	100	119	100	137.6	100	169.2	100

Ilala MC

Revenue sources	2002	%	2003	%	2004	%	2004/05	%	2005/06	%	2006/07	%
Development levy	36.3	0.6							0	0	0	0
Property taxes	690.8	11.5	1,115.3	16.3	708	11	1500	29	1,460	20.8	1,345.3	16.9
Business Licenses	1,194.5	19.9	1,943.5	28.4	2408	36	376	7	42.4	0.6	53.2	0.7
City service levy	2,044.2	34.1	2,303.9	33.6	2801	42	2638	50	3,230.9	46	3,746.9	47.2
Other taxes	16.4	0.3	80.5	1.2	68	1	72	1	0	0	0	0
Other fees, licences & fines	1,697.1	28.3	1,109.3	16.2	492	7	530	10	1,495.6	21.3	1,683	21.2
Miscellaneous	311.3	5.2	301.3	4.4	198	3	134	3	793.3	11.3	1,115	14
Total	5,990.6	100	6,853.9	100	6675	100	5251	100	7,025.3	100	7,943.5	100

Mwanza CC

Revenue sources	2002	%	2003	%	2004	%	2004/05	%	2005/06	%	2006/07	%
Development levy	279.5	13.2							0	0	0	0
Property taxes	243.6	11.5	442.2	21.6	245	28	442	33	410.8	18	267.0	11.6
Business Licenses	364.7	17.3	391.7	19.2	25	3	12	1	20.8	0.9	27.3	1.2
City service levy	452.9	21.5	477.9	23.4	286	33	531	40	815.4	35.8	759.2	32.9
Other taxes	121.2	5.7	485.9	23.8	121	14	299	22	105.6	4.6	107.2	4.6
Other fees, licences & fines	460.6	21.8	244.3	11.9	3	0	5	0	817.8	35.9	1124.5	48.7
Miscellaneous	188.4	8.9	2.5	0.1	193	22	49	4	108.3	4.8	21.6	0.9
Total	2,111.2	100	2,044.5	100	872	100	1338	100	2,278.6	100	2,306.9	100

Sources: Councils' *Abstracts of Final Accounts (2002 – 2004/05)* and Local Government Fiscal Review (2005/06-2006/07)

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REPOA's research agenda is concerned with poverty and its alleviation. Our objectives are to:

- develop the research capacity in Tanzania;
- enhance stakeholders' knowledge of poverty issues and empower them to act;
- contribute to policy dialogue;
- support the monitoring of the implementation of poverty related policy;
- strengthen national and international poverty research networks, and forge linkages between research(ers) and users.

It is our conviction that research provides the means for the acquisition of knowledge necessary for improving the quality of welfare in Tanzanian society.

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