



**SUMMARY STATUS LOCAL GOVERNMENT REFORM**

**APRIL 2010**

**DISTRICT SUPPORT LGCDGS - BUDGET SUPPORT  
AND  
SUPPORT TO THE LOCAL GOVERNMENT CAPITAL DEVELOPMENT GRANT SYSTEM - LGCDGS - PHASE 2**

**TAN0501811 AND TAN0902311**

**TANZANIA**



## TABLE OF CONTENTS

<b>1 INTRODUCTION</b>	<b>3</b>
<b>2 LOCAL GOVERNMENT REFORM PROGRAMME II</b>	<b>5</b>
<b>3 LOCAL GOVERNMENT DEVELOPMENT GRANT SYSTEM</b>	<b>9</b>
<b>4 ALAT</b>	<b>13</b>
<b>5 JLE</b>	<b>13</b>

ABBREVIATIONS ARE EXPLAINED IN THE TEXT ON FIRST APPEARANCE

## 1 INTRODUCTION

This report provides a summary status of the Local Government Reform Programme (LGRP) and Local Government Development Grant System (LGDG system) and the latest developments over roughly the last six months.

In general the LGDG System is working well. More and more information from Government publications (audit reports, Annual Assessments, Local Authority Accounts Committee reports) show positive trends in the performance of Local Government Authorities (LGA's).

The Local Government Reform Programme II is slow in taking off and is facing a breach in confidence between Development Partners (DP's) and the Prime Ministers Office on Regional Administration and Local Government (PMO-RALG). There are signs that Government of Tanzania (GoT) is regressing on some of the principles of decentralisation and dialogue with higher level officials is virtually absent. This is also the experience of the other major reform programmes and may be due to the general impasse development cooperation has reached in Tanzania. Tanzania is dropping several places on corruption index, ease of doing business, human development index etc, while political pressure within the DP community to show results is growing. The global financial crises is putting financial commitments under pressure. The Tanzanian aid architecture and subsequent dialogue structure is growing out of proportion. A proposal to slim down these structure and de-politicize them is in the making, a non-paper to this effect was presented to DPG Main meeting.

Highlights during this period were:

- November 2009 The first LGRP Joint "sector" Review
- November 2009 Joint Coordination Committee Meeting
- November 2009 The annual GBS Review
- January 2010 The start of Belgian chair in LGRP
- January 2010 The Joint Learning Event on Management for Development Results
- February 2010 The extra-ordinary meeting with Minister of Local Government
- March 2010 The Quarterly Technical Review on LGDG to Coast
- April 2010 National stakeholder workshop on UNCDF Local Economic Development and financing of Local Infrastructure
- March 2010 Cancellation of Belgian Chair in LGRP

Belgium assumed the Co-chair of the Local Government Development Partners Group in on the 1<sup>st</sup> of January 2010.

As the incoming chair also chairs and hosts all DPG and related meetings the venue of these meetings was the very convenient conference room at BTC Office promoting the visibility of BTC in Tanzania.

In the capacity of chair of LG DPG Belgium also participated in the wider dialogue on the implementation of the National Strategy on Economic Growth and Poverty Reduction (Mkukuta) e.g. Governance Working Group, Cluster III Working Group, Joint Coordination Meetings etc.

In an extra-ordinary LG DPG meeting on the 29<sup>th</sup> of March 2010, where the Belgian Ambassador, HoC and ResRep were attending, the Belgian chair was re-allocated to the Netherlands.

*TA-LG would like to acknowledge the enormous support and sympathy received from the Belgium Embassy, DP colleagues and their respective missions in trying to convince BTC that a change of TA-LG was not advisable and would lead to the cancellation of the Belgian Chair in Local Government Reform.*

The Joint Learning Event, a three day conference with high level participation by DP's, Government and Academics, was held in the end of January. HoC Belgium held the key note speech at the start of the event. The conference was conducted by a Dutch consultancy MDF and was facilitated by BTC TA-LG. The TA-LG also prepared the concept note on which the conference was based, e.g. Managing for Development Results in the context of the decentralisation process in Tanzania. The conference was well attended and some results were directly used in the preparation of a results matrix with the Annual Plan and Budget for LGRP II at time under preparation.

The HoC of Germany and Belgium, together with the TA's were invited to a meeting with the Minister of Local Government, H.E. Mrs. Kombani to discuss capacity problems in PMO-RALG. The summary note is in annex to this brief

The Quarterly Technical Review Mission was held in Coast Region. The field visit was concluded with a plenary meeting of all involved LGA's directors, Planning Officers, Members of Parliament, Council Chairmen and NGO representatives. On the side of DP's, the LG-DPG members were present and a delegation from the DP Working Group financing the Health Basket.

The plenary meeting was chaired by the PS of PMO-RALG and the TA-LG with the Regional Commissioner of Coast Region as the guest of honour.

The minutes of the meeting and the key issues noted are not yet out.

UNCDF conducted a study on Local Economic Development and alternative ways of financing local infrastructure. The stakeholder meeting was facilitated and chaired by TA-LG at the conference room of BTC office.

The summary note is annexed to this brief.

## 2 LOCAL GOVERNMENT REFORM PROGRAMME II

### INTRODUCTION

The reform programme is in grave difficulties after a disastrous LG sector review in November 2010, where DP's and GoT had to agree to disagree in the assessment of the progress in the reform programme.

The disagreement ended in an "unsatisfactory" rating as underlying process in the Mkukuta monitoring framework for a second year in a row.

DP's note the following concerns:

- › Lack of capacity in PMO-RALG
- › Low quality and infrequent dialogue on major issues
- › Below standard reporting
- › Diversion on principles agreed in the LGRP II programme document
- › Absence of a M&E framework
- › Continuous postponement in the start of LGRP II

The assessment brief on the JSR is annexed to this report.

After many delays due to poor quality of presented plans and budgets a Common Basket Fund Steering was finally convened on 16<sup>th</sup> of April 2010 to approve the first release of funds for LGRP II.

### MOU

The MoU for LGRP II was signed by all parties in January 2010.

Integral part of the MoU is a Financial Management Manual (FMM) which directs the way the programme is to be administered and how accountability is to be organised. The FMM will also be adopted by the other reform programmes to create a more uniform budgeting and accountability process.

The MoU is designed to also allow non-contributing partners to sign and is centered around the agreement between DP's supporting any local governance programme/project to abide by the principles of Local Government Reform.

Belgium also signed the MOU but is not financing the programme.

A note on the considerations prepared by TA-LG for the BTC Budget Support Working Group is annexed to this report.

An official launch of LGRP II is still pending a proposal from PMO-RALG. It is expected to be a high level and prominent media event involving the President of Tanzania and senior officials from DP's and GoT.

### PROGRAMME PROGRESS

LGRP I ended in June 2008 and the transition period to prepare for LGRP II ended in June 2009.

DP's endorsed short term plans and budgets for the 3<sup>rd</sup> and 4<sup>th</sup> quarter in 2009, to be financed from the balance left in basket after the transition period. No further funds were committed.

In January 2010 implementation of all activities have come to an halt, except those related to the implementation of the LGDG system, audits and quarterly reviews.

PMO-RALG did make progress in drafting a new Local Government Finance Act, which presented at a stakeholder conference held in March 2010. The Act is expected to be passed by Parliament in their budget sessions in June/July 2010.

An analysis of the new Act is not yet available.

The progress reports (2) over the period January-December 2009 are annexed to this report. These reports are still draft and will have to be endorsed by the CBFSC to become final.

## AUDIT

One of the elements delaying the CBFSC was the unavailability of the audit report of LGRP for the year 2008-2009. None of the DP's could approve financing LGRP II without having a clean audit report over the previous phase.

This audit report is now available. (in hard copy only)

The auditors opinion is clean.

The audit report will be analysed by the DP's audit subcommittee. Their report is not yet available.

In the preparation of this report the TA-LG could not make a preliminary analysis due to time constraints.

An audit issue from 2007-2008 which was left unresolved for a long period (see previous TA reports) has finally been settled with a mutual agreed text to be minuted in the previous CBFSC and a commitment by PMO-RALG to refund the money used to pay bonuses to LGRP staff without authorisation by the CBFSC.

## MONITORING AND EVALUATION

One of the temporary process actions agreed in the Annual Review of 2008 was the establishment of a Monitoring and Evaluation Framework for LGRP, e.g.

*Temporary process action: Performance Assessment Framework developed and agreed by end of June 2009 and used in the sector review for Local Government Reform in October 2009.*

This did not happen and was one of the reasons the Sector Review for LGRP ended in an unsatisfactory rating.

The Integrated M&E framework will track outcomes on the LGRP II (D by D) and the broader D by D reforms related to the following six issues:-

- Institutionalization of D by D in government operations (Central and LGA levels)
- Decentralization of human resources
- Fiscal decentralization
- LGA capacity development and Service Delivery Effectiveness
  - Leadership and management development in LGAs Organizational and HR capacity development
  - Enhanced financial management systems
  - LGA capacity to develop and provide programs in general
  - LGA capacity to implement effective services
- Enhanced citizen participation and accountability
- Program Management and accountability

A draft M&E framework was agreed upon, with the understanding that the final version would be agreed once the baseline study was concluded and assessed.

The National Bureau of Statistics was contracted to carry out the baseline study. Their preliminary report had many flaws and was to a certain extent not corresponding with the agreed Term of Reference.

Their final report is yet to be received.

The dialogue on this issues is conducted by a Task Force on M&E in which the TA-LG is an active member.

One of the issues which was brought forward by TA-LG is the idea, that the M&E framework and the LGDG Annual Assessment of LGA's could be merged. The continuation of the Annual Assessment will be unsustainable without donor funding, since present costs have risen to more than 1 million USD per year.

A revision of the manual for the Annual Assessment is foreseen before the start of the next assessment (probably delayed again to January 2011, due to the national elections in October 2010) and is an ideal opportunity to see if the two systems can

somehow be combined into one annual exercise complemented with only a few additional surveys in a limited number of LGA's to gather specific data for the M&E framework.

### **CONSTITUENCY DEVELOPMENT CATALYST FUND (CDCF)**

Parliament approved the CDCF in June 2009. The fund provides funds to Members of Parliament to spend on development projects in their constituencies. The fund was heavily contested by Civil Society organisations on the grounds that MP's should have an overseeing role and not get involved in the execution of development and the fear that the fund will lead to mismanagement. (as was the case in surrounding countries where the fund was instituted some years ago and in some cases abandoned again (Kenya, Nigeria))

DP's opposed the fund for the same reasons and because the fund creates again a parallel fund to LGA's (next to Tanzania Social Action Fund (TASAF), Agricultural development programmes (ADSP), Agricultural investment programmes (DASIP) etc.) competing for already strained administrative capacity at local level. So far no actual funds have been committed this financial year and it is yet unclear if the fund is budgeted for in the 2010-2011 financial year.

See also brief on CDCF by TA-LG annexed to this report

### **SPECIAL FUND FOR UNDERSERVED LGA'S**

During the year 2009 PMO-RALG created a special fund for underserved LGA's with the idea to provide stimulus packages to those LGA's that are remote, poor in natural resources and infrastructure and who have grave difficulties in attracting sufficient staff (teachers, health workers etc.) DP's approved the initiative but requested PMO-RALG to provide clear and transparent criteria and conditions on which basis LGA's would be considered "underserved". These criteria and conditions have so far not been provided, but funds have been allocated to 33 rural districts throughout Tanzania at about 1 million USD each. A detailed report is annexed.

### **PMO-RALG CAPACITY**

After LGRP I closed in 2008, PMO-RALG was given time to reorganise and build up capacity in order to mainstream LGRP II into the ministry. This did not happen, on the contrary some very competent directors were transferred to other ministries and their replacements have so far not been able to make a visible impact on the success of LGRP II. The capacity problem was anticipated in LGRP II and a sizeable TA team was included in the programme budget. The TA team is supposed to integrate in the Ministry and not to operate as a PIU. The members are specialists in Legal, Governance, M&E and HR issues and are headed by a Chief Technical Adviser.

A consortium of a Danish consultancy (Orgut) and KPMG Tanzania was selected in an extended tender procedure. The deployment of this TA team is however delayed due to the fact that a contract between PMO-RALG and the consultancy cannot be signed as long as there is no approved APB for LGRP II.

To DP's this is very worrying as the team needs to be in place to assist PMO-RALG to prepare for a first full year of planning and budgeting for LGRP II which starts in July 2010.

A delay in approval of the APB 2010-2011 due to poor quality (which happened several times in the current financial year) could also affect the implementation of the LGDG system whose management is an integral part of LGRP II and PMO-RALG.

### **SECTOR COORDINATION**

DP's are increasingly worried about the sector coordination in PMO-RALG. This department coordinates all national interventions with LGRP and between interventions. Individual DP's design programmes to address specific issues in LGA's under supervision and/or implementation of PMO-RALG and this is straining the already limited capacity of PMO-RALG.

Additional TA is deployed in PMO-RALG to assist in implementing these programmes. Especially Germany, WB, US and Jica have substantial TA presence in PMO-RALG drawing on local capacity and sometimes interfering with the implementation of LGRP. In the beginning of 2010 the LG DPG contacted representatives of USAID after it was learned, that USAID is planning a massive accountability programme in LGA's (360 million USD or about 6 times the total budget for LGRP II) without much coordination with LGRP II.

Presently USAID representatives do attend the LG DPG meetings and committed to coordinate their interventions with LGRP II, but also made it clear that they cannot participate in the basket and have to finance their operations directly with the LGA's. USAID contracted local consultants to develop a programme document which will be presented to the LG DPG.

But sector programmes increasingly target LGA's directly and by doing so have go through PMO-RALG. Since these programmes usually entail large funds it is difficult for PMO-RALG to refuse and/or re-direct these programmes under the umbrella of LGRP.



### 3 LOCAL GOVERNMENT DEVELOPMENT GRANT SYSTEM

#### PROGRESS

The progress report is annexed to this brief. Highlights in the report are:

##### ***Council Development Grant (CDG)***

After the annual assessment of LGAs for CDG and CBG for 2008/09, the results revealed that 127 LGAs out of 132 met all minimum conditions for CDG and hence qualified to access CDG funds; the amount of each LGAs was determined by its performance measures scores. A total of TZS 73.10 billion was allocated and approved for disbursement to the qualified LGAs for 2008/09.

Generally secondary education sector has been found to consume about 46 percent, which is the largest share of the expenditure, followed by development projects under administration sector which consumes 28 percent and health by 7 percent. Common activities among LGAs are construction of classrooms, dormitories, office blocks, latrines, dining halls etc.

In administration sector, major activities were rehabilitation/construction of council offices, WEOs offices, fencing for council offices, staff houses.

Out of the reported expenditure, 40 percent was spent at Council Level and 60 percent at Lower Level Government (villages); the split between the two levels is in compliance with the LGDG Operational Guide which requires minimum of 50 percent of the grant allocations to be utilized at village level.

##### ***Capacity Building Grant (CBG)***

Upon receipt of the Discretionary CBG, LGAs implemented a range of capacity strengthening interventions in the areas of Skills Development, Tooling and Retooling, Technical Assistances and Professional Career Development, as per the gaps identified.

The impact of CB activities in both HLG and LLG is in improvement of service delivery and increased community participation in planning to abide with the participatory O&OD policy.

Most importantly CB interventions have had an important role to play in the improvement on Operations and Maintenance (O&M) in the LGAs.

As per findings in the Annual Assessment for 2009/10, 80.3 percent of the assessed LGAs had staff with adequate qualifications for their positions.

The use of Staff Performance Appraisal System (OPRAS) is increasing.

##### ***Rural Water Supply and Sanitation Programme (RWSSP)***

The water window in LGDG released 67 billion Tsh to all qualifying LGA's which was mainly spend on water infrastructure. However the RWSSP still has strict directives on how funds should be spend for specific purposes, which goes against the discretionary nature of LGDG and the principle of following LGA priorities.

##### ***Agricultural Sector Development Programme (ASDP)***

The amount transferred to LGAs in the Agriculture window in the LGDG system for 2008/09 was TZS 54 billion which is about 100 percent of the planned estimate in the financial year.

##### ***Primary Education Development Grant (PEDG)***

PEDG allocations for 2008/09 was TZS 5 billion. These funds are now usually

treated by LGAs as a contribution to the LGAs' consolidated education budget, so that funds can be pooled and not treated as separated "project funds" which is good development.

### **Health Sector Development Grant (HSDG)**

The HSDG for 2008/09 is funded with TZS 23 billion by GOT, 11 million DKK from Denmark and 4.5 million Euros from Germany.

But only the GoT funds were transferred to LGA's due to administrative bottlenecks which hindered the release of DP funds.

### **ASSESSMENT 2010-2011**

The annual assessment of LGA's was delayed due to the civil local elections in October 2009. The first draft report of the assessment is expected in April/May 2010. Indications are that the results will not differ much from last year and only few LGA's are expected to disqualify for the receipt of LGDG funds. The audit reports of all LGA's are integral part of the assessment, but carried out by a different organisation (NAO) was received in time at the beginning of April.

### **AUDIT**

The audit report of the Controller and Auditor General (CAG) of the National Audit Office (NAO) shows again a very positive development in the quality of the financial management of LGA's.

In the opinion of the CAG:

*Generally, it is worth mentioning upfront that the LGA's financial reporting for the financial year 2008/09 has considerably improved as compared to the accounts of the financial year 2007/08.*

Although there is for the first time in three years again 1 LGA with an adverse opinion (Kilosa DC)

Councils	Unqualified opinion		Qualified opinion		Adverse opinion		Total	
	07/08	08/09	07/08	08/09	07/08	08/09	07/08	08/09
City Councils	3	-	1	4	-	-	4	4
Municipal Councils	7	10	10	7	-	-	17	17
Town Councils	4	4	2	2	-	-	6	6
District Councils	58	63	48	42	-	1	106	106
<b>Total</b>	<b>72</b>	<b>77</b>	<b>61</b>	<b>55</b>	<b>-</b>	<b>1</b>	<b>133</b>	<b>133</b>
<b>Percentage</b>	<b>54%</b>	<b>58%</b>	<b>46%</b>	<b>41%</b>	<b>-</b>	<b>1%</b>		

At Central Government Level there are three MDAs with an adverse audit: Ministry of Natural Resources and Tourism, Lindi Regional Administration and the Tanzanian Embassy in Brussels.

Although the media is increasingly reporting misuse of funds at LGA level, the Local Authorities Accounts Committee (a parliamentary financial control committee) noted that this misuse is mainly occurring in parallel funds provided to LGA's and not so much in the institutional central-local fiscal transfers (like LGDG). It should also be realised that the increasing transparency and accountability efforts of the LGA's make the misuse of funds easier notable.

## FINANCING

The level of funding of LGDG is set at 2% of the National Budget (excluding special service funds) and is expected to be around 170 billion Tsh (150 million USD). This excludes the funding of the windows for Health, Education, Water and Agriculture which are funded through Ministry allocations and or GoT/DP specific sector baskets. DP's committed so far the following funds for the year 2011-2012

Agency	FY 10/11 (in million USD)
Belgium	9.52
Canada	
Finland	6.80
Germany	9.52
Ireland	
Japan	
Netherlands	16.32
Sweden	1.40
UNCDF	
<b>Total Bilaterals</b>	<b>43.56</b>
<b>WB (to be confirmed) <sup>1)</sup></b>	<b>17.00</b>
<b>Projected needs</b>	<b>123.35</b>
<i>in TZS billion</i>	<b>163.93</b>
<b>Needed GoT contribution</b>	<b>103.37</b>

<sup>1)</sup> Remaining balance on IDA. A new IDA has been signed for LGDG, but so far not effected.

GoT therefore needs to budget around 100 million USD to LGDG to keep its commitment to the execution of the MoU. This is about twice the sum it allocated in FY 2009/2011 and can be seen as a test for government commitment to the decentralisation policy.

Canada has changed policies and will not participate in LGRP or LGDG. Ireland at present is waiting the signing of a new bi-lateral agreement.

Sweden might increase its contribution pending internal policy decisions.

Japan commits about 1 million USD per year to LGDG, but still has to confirm before making final commitment.

## FORMULA BASED ALLOCATIONS

The LGDG transfer system is formula based, including its windows.

However within LGRP II it was agreed with government to base all transfers to LGA's on formula's to promote equity in the allocation of national resources.

Personal Emoluments (PE) e.g. salaries, Other Charges (OC) and Development Funds should all be based on clear and transparent formula's.

An Outcome Indicator in LGRP to achieve this reads:

*Percentage of total government budget allocated directly to LGAs, which is formula based and which does not go through Ministerial votes.*

The target for 2009 was set at 25% of the National Budget. According to GoT this target was achieved and surpassed by 0.6% (e.g. 25.6%).

However DP's dispute the fact that all these funds were allocated according to formula's. Especially on PE there is no evidence that formula's were used. Since the actual figure could not be established definitely the achieved indicator for 2009 was indicated as N/A with a footnote explaining the circumstances.

See annexed final PAF 2010 document.

The OI was changed in 2010 to read:

*Percentage of total government budget (minus CFS) allocated directly to LGAs, which does not go through ministerial votes, and excluding CDCF, and which is calculated on a formula basis.*

However also this formulation does not reflect the underlying equity principle sufficiently and for AR 2010 it should be re-formulated again.

After discussions with the BTC delegation of the Budget Support Working Group who came to Tanzania for the preparation of the Technical Note for LGDG in July 2009, the TA-LG raised the issue of providing a ratio for the figure of 25% in the cluster III working group. Apparently this figure was established rather arbitrarily in 2007. A study will now be conducted through the PER/MACRO group to establish a new target figure, based on sound economic and public finance management principles, to be included in the next Mkukuta, which is presently under formulation.

### **HARMONISING FUNDING CHANNELS**

In the context of the AR 2009 a new TPA related to public finance management was agreed with GoT.

*"Review the flow of funds to LGA's for the financial year 2010/11 at least in key social sectors (education, health, and water) and agriculture in order to reduce them by introducing one flow for PE/Personal Emolument, one flow for OC/Operational Costs and one flow for development.*

GoT/PMO-RALG did agree to this Temporary Process Action.

Within the LGDG system the funding flows for capacity building in the discretionary fund and the windows will be combined in one Capacity Building Grant.

#### **4 ALAT**

The Association of Local Authorities Tanzania is slowly recovering from a long period of inactivity. Since tis organisation is crucial in the implementation of LGRP it receives a attention from various Local Government DP's. Presently Sweden (SIDA) and Germany (GTZ) are planning assistance to ALAT. SIDA conducted an extensive pre-financing study and audit of ALAT at the beginning of 2010 and although the report noted anomalies in financial management the overall impression is positive. GTZ is financing two TA positions in ALAT, one international on lobbying and advocacy and one local on Communication.

With the revival of ALAT also the DP task force on ALAT, of which TA-LG is chair, is gaining prominence and more and more mutual consultations are taking place. It is regrettable that a proposal to make provisions for assistance to ALAT was not accepted in the Belgian IDCP 2009-2013.

#### **5 JOINT LEARNING EVENT**

Belgium organised together with the Netherlands a Joint Learning Event on Managing for Development Results in January 2010.

Regrettably there was no further attention from BTC HQ after the initial request by BTC HQ to organise this event for Tanzania.

The funding of the conference was shared between Netherlands and Belgium.

Even so the Event went well and the conference report is annexed to this brief.