



## The United Republic of Tanzania

President's Office - Local Government and Regional Administration

Ministry of Agriculture, Livestock and Fisheries

# Local Government Fiscal Reforms in Tanzania

*Lessons from produce cess study on what it takes for a successful policy reform*

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# BACKGROUND

- Since 1980s, the Government of Tanzania has placed fiscal decentralization as an integral part of the “devolution by decentralization” (D by D) process
  - Crop cess, a tax charged by Local Government Authorities (LGAs) on the gross value of agricultural produce was introduced under the Local Government Finance Act
  - Crop cess has long sparked concern regarding its impact on agriculture competitiveness
  - In 2012, GoT committed to reduce or eliminate cess by July 2013 under G8 New Alliance on Food Security and Nutrition
  - However, the GoT faced challenges in implementing cess reforms as it was an important source for local government revenue
  - In 2014, at the request of PMO-RALG MSU conducted a study so as to inform reforms
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# PRODUCE CESS STUDY FINDINGS AND RECOMMENDATIONS

**Action:** Reduce the cess rate from 5% to 3% exports and industrial crops, and 1 percent for food crops and livestock

**Reason:** To be at par with other countries in the region so as to enhance Tanzania's competitiveness

**Action:** Make cess progressive by adopting a different rate between export/industrial crops (3%) and food crops (1%)

**Reason:** Poverty is more pervasive in areas growing food crops; It is a challenge to administer cess in a predominant informal food sector

**Action:** Adopt a uniform cess rate across all 166 LGAs

**Reason:** To simplify the tax structure so as to enhance transparency and reduce transaction cost

**Action:** Establish a Local Tax Appeal Board

**Action:** Adopt mobile and e-payment system for local tax administration

**Reason:** Currently LGAs are collecting only 27% of the potential revenue. There are 15 LGAs where produce cess contribute more than 50% of local revenue

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# POTENTIAL IMPACT OF THE FISCAL REFORMS AND THE E-PAYMENT SYSTEM

- Increase in LGAs revenue because of the improved efficiency, broader tax base and increased monitoring for compliance
  - Improved local tax and revenue database
  - Identification of local tax payers is the first step towards formalizing the large informal rural sector
  - Beneficial to SMEs in accessing formal credit from financial institutions as tax records could be used as proxy for their cash flow
  - Reduced transaction costs: Mobile payment reduces transaction cost to tax payers
  - Enable produce traders to pay after selling their produce
  - Overall improvement in the business environment because of increased transparency, accountability and predictability
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# PROPOSED AMENDMENT OF THE 1982 LGFA

- PO-RALG used the opportunity to amend produce cess to implement broader fiscal reforms in local government by amending the 1982 Local Government Finance Act (LGFA)
  - The fiscal reforms aimed at:
    - ✓ Broadening the tax base to improve local government revenue
    - ✓ Removing or reducing nuisance taxes
    - ✓ Improving efficiency and accountability in tax administration and revenue management
  - In 2016, drawing the lessons from produce cess study, MSU was requested to facilitate policy dialogue and support LGFA amendment across other sectors of the economy
  - Amended LGFA is undergoing approval process within GoT system and the process is at advanced stage
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# WHY E-PAYMENT SYSTEM FOR LOCAL TAXES?

## **Challenges in the current system of local tax administration:**

- The current LGA paper-based payment system lacks transparency, and leaves room for poor record keeping and monitoring of tax records by LGAs.
  - Poor database – key information such as type of tax, commodity (if the tax is the produce cess), location of payment, and amount charged is not easily available.
  - Weak enforcement as there is no reference information
  - LGAs revenue projections during budgeting are arbitrary because of the weak database
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# ASPIRES TECHNICAL SUPPORT TO PO-RALG AND LGA

## Pilot LGA - Kilombero

- Training on the use of the e-payment system to staff of LGA and private agencies involved in local tax administration (done in collaboration with a private service provider)
- Public awareness on the new system
- Monitoring and further capacity building

## PO-RALG

- Amendment of the LGFA
  - Designing a results framework for M&E (in progress)
  - Capacity building to LGAs (in collaboration with PS3, ENGINE, and Africa-Lead)
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# LESSONS ON WHAT IT TAKES FOR A SUCCESSFUL POLICY REFORMS

- Aligning the policy issue with the country's national policy framework
  - Aligning policy engagement with evidence based policy research
  - Documenting regional experience and international best practice
  - Identifying and engaging the champions
  - Understanding the evolution of the policy
  - Profiling stakeholders' concerns and develop the dialogue strategy
  - Acknowledging the political economy
  - Laying out alternative and coherent policy options
  - Finding the middle ground if fail to reach consensus e.g. phased reforms
  - Mapping out the process (e.g. non-legislative, amending an existing law)
  - Consider appropriate timing and incentives for reforms Piloting reforms
  - Sustained engagement
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THANK YOU!



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*Thank You!*