

## Decentralization by Devolution: Perception of Councilors on Their Exercise of Fiscal Decision Making Authority in Local Government Authorities in Tanzania

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### Abstract

In 1990s the government adopted D-by-D policy with a very good intention of reforming its local governments and let them enjoy the decision making powers promised by the D-by-D policy. One of the crucial elements of decentralization was fiscal decentralization which gives the local jurisdictions to exercise adequate authority over important decisions with regard to setting development priorities, financing local services, revenue mobilization and expenditure authority continue. This article explored the perception of council on exercise of their fiscal authority in selected local authorities in Tanzania. The findings show that council exercise reasonable authority over revenues mobilization, the setting of the local tax rates and full expenditure authority over the locally generated revenue and also the discretionary grants.

**Keywords:** Local government authorities; Decentralization by devolution; Decision making and fiscal decentralization

### Introduction

In 1982 the government of Tanzania made a very crucial decision of re-introducing local government in the country after abolished in it in 1972. Then after, a number of measures were adopted to improve the capacity of local governments in delivering services to meet the expectations of the local people [1]. For instance, in 1996 the government adopted the local government reform agenda that led to the publication of the policy paper on local government reform in 1998 that formally pitched the government to the policy of decentralization by devolution commonly known as the D-by-D policy. This policy was followed by the implementation of the first and second phases of local government reform (LGRP 1) starting in January 2000 through August 2008 and (LGRP 2) between 2009 through 2014. Overall, the local government reform policy signaled the government's resolve to establish autonomous local governments with significant functions, resources and adequate decision making authority to carryout local the locally initiated development activities and improving the delivery of local services [2].

The government's drive to strengthen local governments also saw the introduction of Local Government Miscellaneous Amendments Act N0 6 of 1999 that amended various provisions in the government laws of 1982 to ensure that local governments have adequate decision making authority and capacity to improve the delivery of local services. Moreover, the changed central-local relations enshrined in the Local Government Miscellaneous Amendments Act referred to above categorically redefined the new central-local relationship as a *partnership* in the delivery of public services that replaced a 'father-son' relationship that characterized the pre-reform central-local relations which not only entrenched the subordinate status of local governments but also undermined their decision making authority in development planning and service delivery [3].

However, critics such as Mollel and Kessy have argued that despite the good intention to reform the local governments these governments do not enjoy the decision making powers promised by the D-by-D policy. Critics have claimed that important decisions with regard to setting development priorities, financing local services, revenue mobilization and expenditure authority continue to be centrally directed, with local governments acting in the margins. These claims

are consistent with decentralization literature that accuses central government authorities as merely paying 'lip service' when it comes to decentralization. It suggests that many governments are never truly committed to establishing devolved local governments because they are more comfortable working with weak rather than stronger local governments that can oppose central guidance and directives [4]. This article therefore attempted to find out whether councilors enjoy the fiscal decision making authority conferred to them to meet decentralization by devolution objective (fiscal decentralization) which began by the government of Tanzania since 1990s.

### Theoretical Literature Review

In the context of public sector governance it is assumed A related argument for decentralization is that "the devolution of power to the local level could create formidable incentives by placing the decision-making in the hands of those who have local information that distant bureaucrats are unable to have" [5]. Decentralization has also been described as vital in reducing corruption since it enables the local voters to hold the culpable leaders accountable during the local elections. This implies the local people can remove from political office all individuals they deem irresponsible and selfish and elect the new leaders with potential to promote the common good [6]. Another, important argument for decentralized governance is that it stimulates intergovernmental competition that potentially leads to the improvement of service delivery. In this regard the decentralized units or governments attempt to outdo one another in the delivery of local services, especially where there are financial (grants) and legitimacy incentives where the better performing council is labeled the model council in the region or country.

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Literature provides additional arguments for decentralized decision making as follows: 1. It is a means of effectively implementing local initiatives that in turn lead to investment in public services and infrastructures that are relevant to the respective local jurisdiction and context; 2. Locally made decisions are likely to address the root causes of poverty because they are likely to be based on rich local knowledge and experiences that are unlikely to be supplied by top-down decision making (Malena, 2004), and 3. It enables the local population to (re) gain some influence and power, enabling them to break their pattern of exclusion and have access to the resources they need.

### Variants of decentralization

Literature for instance World Bank [7] refers to two main variants of decentralization: Devolution and De-concentration (Figure 1).

Devolution also called political decentralization is often regarded as the most desirable form of decentralization because it involves transferring specified powers, functions and adequate resource from the central government to the locally elected governments that make decisions on behalf of the local citizens to which they are first and foremost accountable [1]. De-concentration also called administrative decentralization is the variant of decentralization that involves the central government dispersing decision making powers, functions and resources to its field agents stationed in the regional and district headquarters. This essentially implies the decision making authority remains in the hands of the central government and its agents decide on local development matters.

### Decision making: Concept and purpose of decision making

Decision has to do with making a choice or choices. It is a conscious human process which involves both individuals and groups selecting one or several courses of action from a set of alternatives [4]. In the public sector governance, decision making implies a process by which those entrusted with the decision making make rational choice of policy or policies deemed to be potentially capable of addressing a problem or a set of problems at hand. The purpose of decision making is to select a best pathway or course of action that can lead to satisfactory problem solving [8]. Thus decision making is meant to promote interests of the public. Given the scarce resources to address the problems choices must be made to select the suitable solution(s) that are not only feasible but also with demonstrable potential to address the respective problems that may be social, political or economic in nature [9].

### Fiscal decentralization and decision making authority in local government

Fiscal decentralization literature provided suggests a number of parameters that may be used to assess the decision making authority of local governments. Devas [10] and Davey [11] argues that a meaningful

local government needs to have authority over: 1. Revenue mobilization, 2. Setting the tax rates, and 3. Authority over expenditure decisions. Fiscal decentralization literature also refers to the importance of local jurisdictions to exercise adequate authority over the choice of overall strategic direction that implies the investment priorities and service delivery with a view to meeting the public demands for services and reducing poverty in the respective local jurisdictions [12]. Insights on how decision authority of a local governments or communities may be assessed.

### Organization of local government in Tanzania

In Tanzania local governments are established by under articles 145 and 146 of the constitution of the United Republic of Tanzania of 1977. Specific categories of local government are established by specific local governments laws described below. Urban councils that include City, Municipal and Town councils are established under Local Government (Urban Councils) Act No 8 of 1982 while and District Councils that include District Councils, Township Authorities and are established by Local Government (District Authorities) Act No 7 of 1982.

All local governments except Village Councils are led by the Full Council which is the gathering of councilors elected from the wards and also the special seats councilors representing their political parties. Members of parliament who are residents in the wards are members of the council and form part of the Full Council. As indicated in the introductory part the full council is the top policy and decision making body in the council and supervises the conduct of the council and performance in the delivery of public services [3]. The appointed staff headed by the Director assist the councilors to come up with informed decision by providing them technical advice and also information on various aspects affecting the development of the council [9].

### Functions of Councilors in Local Government

#### Individual responsibilities

Fowler [9] describes that the individual responsibilities of the councilor relate to representing his/her ward in the council. Thus the councilor is expected to collect, present and defend interests of his /her ward in the council; also provides feedback to the ward on the decisions reached by the council.

#### Collective responsibilities

Councilors irrespective of the different political ideologies are responsible for the overall development of the districts within which their councils operate and have responsibility [13]. Collectively they perform many duties including but not limited to determining and reviewing development policy and strategy and decide on the relevant changes, deliberating and deciding on council's development and recurrent budget and by-laws, supervising the conduct of the council's administration with regard to the implementation of development projects and fiscal resource mobilization and management in a given council. The interest of this article is to assess the extent councilor's exercise their authority in fiscal decentralization era.

### Analytical model of the study

In this study the exploration of councilors' perceptions on their decision making authority was informed by independent variables defined as the determinants of decision making authority, derived from the literature reviewed above. Fiscal decentralization literature [10-12] revealed that to effectively improve service delivery and alleviate poverty local governments need to exercise substantial authority over

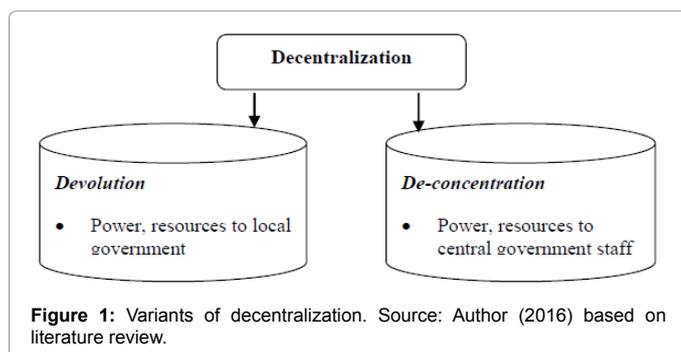


Figure 1: Variants of decentralization. Source: Author (2016) based on literature review.

local development planning alongside adequate fiscal and service delivery authority. As already indicated in this and the previous chapter these areas of authority (determining strategic directions, planning, service delivery and fiscal powers) are consistent with the objectives of D-by-D policy pursued by the government of Tanzania that aims at strengthening the capacity of local governments to improve the delivery of local services and alleviate poverty.

Based on the above summary of theoretical perspectives, the exploration of councilor's perceptions on their fiscal authority examined the following independent variable, adequate councilors' decision making authority being the dependent variable:

### Fiscal authority

Using this variable the analysis explored the financial authority of the case study councils defines as critical for local governments to be able to deliver the local services and improve the living conditions of the local people. The following indicators were used to examine this variable: 1. Revenues mobilization authority, 2, powers to set the local taxes, 3. Expenditure powers, and 4. Authority over the approval of the local government budget.

Figure 2 summarizes the analytical approach of the study. The first apex box represents the independent variable and the associated indicators (in bullets). The bottom box represents the dependent variable which is councilors' fiscal decision making authority that is influenced by the level of fiscal decision making authority allowed to councilors.

### The Methodology

This article used qualitative approach to explore the perception of councilors on fiscal authority in Tarime Town Council. 20 respondents were used as sample size wherries 9 respondents where councilors from Tarime town council, 6 respondents where professionals or expertise those with positions (head of departments) working in Tarime town council and 4 respondents were form NGOs working in Tarime town council. Also two sampling techniques namely purposive and simple randomly samplings were employed in doing sample size i.e. councilors and professionals. Focus group discussion and Interview (semi-structured interview guide) method were principally used to gather perceptions of councilors on the extent they exercise fiscal authority in local government authority. The methods also were used to get some useful information's from expertise informants working in Tarime town authority regarding fiscal decision making authority. To be focused with the main objective of this article a number of

documents were solicited and reviewed in the course of collecting data such as, Local Government (Urban Authorities) Act No 8 of 1982 and Local Government Finance Act No 9 of 1982,. Data collated were mainly. All data collected were qualitative reflecting data collection tools employed which also necessitated qualitative analysis approach (thematic analysis) to be used too. Therefore a researched had nothing to do than complying with the very demands of the study to use qualitative analysis approach to analysis the data collected.

### Findings and Discussion

As set out in the conceptual framework of the study, three indicators were used to explore the councilor's fiscal authority variable: 1. Revenue mobilization authority, 2. Authority to set local tax rates, and 3. Budgeting and expenditure and authority.

#### Council's authority on revenue mobilization and setting local tax rates

Like the responses on the planning powers of local government, interview with councilors at TTC produced mixed reactions on the council's revenue mobilization (collection) authority and powers to set the local tax rates. Table 1 summarizes the responses provided by councilors.

Almost all councilors were of the opinion that while they did not have full powers they had reasonable or modest (not trivial) fiscal authority in terms of revenue mobilization (nearly 90% of the respondents) and setting the local tax rates (almost 80% of the respondents). These findings are discussed below.

#### Revenue mobilization authority

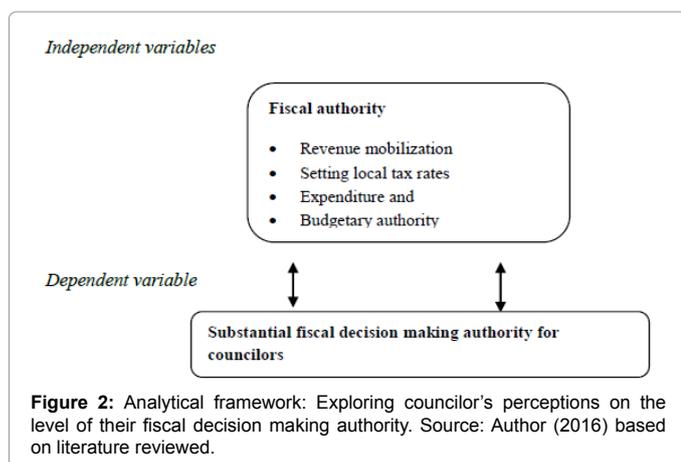
Regarding the revenue mobilization authority, some councilors indicated that while the law (the Local Government Finance Act N0 9 of 1982 as amended) assigns a number of tax sources to local governments most of these sources are expensive, trivial and difficult collect. When pressed to clarify this position the respondents referred to the various fees charged such as market fees charged per individual at a rate of 200-300 Tshs per day and car park fee charged at the rate of 300 Shs per car. They labeled these fees as trivial and difficult to collect because as put by one councilor.

*"You need a lot of staff to go around the town and collect those fees. When you pay the collectors you remain with very little balance unlikely to enable you invest in the local services. The people will tell you, look, you collect the fees on the daily basis but where are the services?"*

The respondents further argued that a lot of people do not want to voluntarily pay the due taxes and that some act aggressively toward the tax collectors. As put by one councilor *"They beat and even injure the collectors. They will do everything possible to avoid paying the taxes. This adds the collection cost because we end up increasing additional collectors and at times hiring even the police to enable the fees collection to take place without the collectors getting hurt"*.

FGD with the staff of TTC indicated that the council enjoyed some revenue mobilization powers and even referred to some very good sources such as the service levy that requires all formal businesses to pay 0.3% of their annual turnover. This is buoyant (well paying) source of tax that increases by an increase of the income of the tax payer. Literature for instance Tanzi [12] indicates that any tax that increases by growth of business is buoyant.

The council staff also referred to property tax indicating that even if it was flat rate it was a good source of council income. The respondents



**Figure 2:** Analytical framework: Exploring councilor's perceptions on the level of their fiscal decision making authority. Source: Author (2016) based on literature reviewed.

Reaction	Responses on revenue mobilization authority	Percent	Responses on tax rate setting powers	Percent
Substantial powers	0	0	0	00.00
Some powers	8	89	7	77.8
Very limited powers	1	11	2	22.2
Total	9	100	9	100

Source: Interview data (2016).

**Table 1:** Responses on council's authority on revenue mobilization and setting local tax rates.

Opinion/Reaction	Responses on budgetary powers	Percent	Responses on expenditure authority	Percent
Substantial authority	2	22.2	1	11.1
Some authority	5	55.6	3	33.3
Limited authority	2	22.2	5	55.6
Total	9	100	9	100

Source: Interview data (2016).

**Table 2:** Responses on councilor's budgetary and expenditure authority.

also referred to business license fees and also business advertisements posters fees as constituting some of the very good sources of revenues in the council. Indeed the company law of 2000 empowers local governments to collect such fees via their by-laws. Indeed, documentary review indicated that the case study council had by-laws with regard to the collection of service levy charged to all formal businesses and also business advertisements and property tax. Clearly, the above findings suggest the case study council enjoyed some revenue mobilization authority.

Similarly, the local government experts and representatives of NGOs confirmed that the local government authorities in Tanzania have some revenue mobilization powers. They clarified that the local governments are allowed to establish any sources of revenues provided the proposed sources are within the permitted tax areas. This means local governments can only collect taxes in the tax areas assigned to them [14]. It should be noted that some sources of revenue are exclusively central government's sources and local governments can only be contracted to collect revenue from such sources on behalf of central government that in turn pays the local authorities a loyalty (a defined percentage out of the collections) for faithfully helping to collect the revenue.

Some experts have advised the government to reexamine and reassign some of its lucrative sources of revenue to local governments [1]. As confirmed by the interviewed local government experts, the government of Tanzania has recently indicated a commitment to allow local government collect revenue from lucrative sources such as bus stands and even from the local mining activities. This move is supported by literature, for instance Prud'homme [15] and Honlonkou [5], indicating governments committed to transferring revenue mobilization authority to local governments can only do so if they actually assign some of their buoyant sources of revenue to local governments.

However, the interviewed local government experts cautioned that at times local governments may lack adequate capacity to fully mobilize the assigned revenue sources and they may suffer from corruption where a big part of the collected revenue goes in the private pockets of the local government official and politicians. Further, the interviewed experts disagreed with the suggestion that market and car park fees are trivial. Instead, they provided evidence from various councils indicating that if properly and fully collected those two sources can contribute significant amount of revenue to local governments.

### Tax rate setting authority

That over 70% of interviewed councilors felt they had tax rate setting powers was supported by documentary review involving the Local Government Finance Act of 1982 as amended that confers the local government authorities powers to both establish the local taxes and decide on the rates to be charged. This view was also shared the staff of TMC during FGD. However, such powers are not without limits. First, both the local government Finance Act of 1982 and the Company law of 2002 set the limit of service levy at 0.3% allowing local government to decide the rate not exceeding 0.3% of the business annual turnover. Experience indicates all LGAs charge the full 0.3% rate. Second, any tax rates proposed by LGAs must be approved by Minister responsible for regional and local government [14].

According to the interviewed local governments experts and also representatives of NGOs such controls called financial controls over local governments are essential because if left unchecked these governments can abuse their fiscal authority for instance by setting tax rates that that are unrealistic and possibly cause damage in the local and national economy that occurs when people refrain to engage in some economic activities because of the high taxes involved [10]. Indeed literature indicates that governments have a responsibility to ensure the taxes are fair, affordable and do not cause distortions in the economy locally and nationally [7,11].

### Expenditure and budgeting authority

Interview with councilors turned out findings suggesting most councilors were to some extent happy with their budgetary powers and less so with expenditure powers. The data in Table 2 summarizes opinions of councilors on their powers over the local budget and expenditure authority.

### Budgetary authority

That revelation that only 56% of councilors thought they had some budgetary authority was good but not an impressive figure. The councilors presented arguments two main arguments as to why they mostly did not think they had substantial budgeting powers. First, they referred to the requirement of the local authority to abide by the budgeting guidelines set out by PMORALG annually and second that the budget must be scrutinized and approved by the central government that funds the large part of the local budgets. Overt 90% of local of funding in most LGAs in Tanzania comes from central governments grants [16].

Regarding the requirement to observe the planning guidelines from the central government some councilors and staff of TTC felt this compelled the council to implement the central government's development agenda rather than the locally determined agenda. This view was partly shared by local government experts who indicated that the provision of local budgeting guidelines is likely to be seen by many as violating the whole idea of decentralization by devolution. This feeling may explain the stance adopted by 2 councilors who felt they hardly had any budgetary authority. The 2 councilors who felt they had substantial budgetary authority clarified as put by one of them that "You know, once we as councilors approve the budget then no one at the district or regional level can touch it or state otherwise". These councilors were happy that nobody is allowed to reverse or suggest any changes to the budget once it is approved by the Full Council [1].

The interviewed local government experts noted that setting the planning guidelines is not necessarily an evil because some oversight over local government affairs is justified. This is because if left on their own they may not choose to invest sufficiently in the public services. In the words of one of the local government experts

*"Experience indicates that local governments may likely devote the bulk of resources to recurrent rather than development expenditure. We should also not forget that governments have a responsibility to ensure that the people in all corners of the country receive the basic services. Also note that the government needs to steer the country toward even development that is avoiding too much development disparities among the regions. If you let other places fall backward economically you plant the seeds of hatred emanating from a sense of frustration for regional isolation and hence unrest as experienced in North East of Nigeria where Boko Haram insurgency has emerged as a reaction to social and economic deprivation of that area".*

While the above caution makes sense it is important that the local governments are allowed to make their own budgetary choices that reflect the local development priorities and demands for services. If there is too much interference, the whole idea of decentralization loses meaning; it becomes pointless [17].

### Expenditure authority

Nearly 56% (Table 2) of councilors were unhappy with the expenditure authority, calling it limited. According to the councilors this related to the nature of central government grants received that are mostly conditional that effectively erodes the council's authority over expenditure decision making. Literature review indicated that 90% of the central government grants offered to local governments in Tanzania Kenya and Uganda are conditional meaning that such grants can only be used to finance the services specified by the central government. However, the councilors and staff of TTC acknowledged that they exercised full expenditure authority (100%) over the locally raised revenue and also the discretionary grants but noted that these were only a small part of the council's finances.

Linked to the above some councilors argued that since local government budgets are centrally directed and scrutinized it is unlikely that these governments can enjoy full expenditure authority. FGD with heads of department indicated TTC like other LGAs across the country present their budgets to central government where they are often told to re-write or modify the content of the budgets to qualify for funding. Interviewed local government experts noted that this move by central government may be justified by the fact that there may simply be no money to fund all the shopping lists (Budgets) submitted by the LGAs.

### Conclusion

The study concludes that the case study council exercised reasonable authority over revenues mobilization, the setting of the local tax rates and full expenditure authority over the locally generated revenue and also the discretionary grants. The study further concludes in support of critics of decentralization in Tanzania that the expenditure authority of the case study council was undermined by the fact that the large part of the funds available to the council was conditional grants.

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