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INNOVATION LAB FOR FOOD SECURITY POLICY

TANZANIA

Agricultural Sector Policy and Institutional Reform Strengthening (ASPIRES)

Policy Reform Briefs No. 2

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SUPPORT TO REFORM THE LOCAL GOVERNMENT FINANCE ACT

ASPIRES Team

Background

Following over two years of sustained collaborative effort with local stakeholders, the Local Government Finance Act (LGFA) stands on the verge of amendments stemming from work by Michigan State University and local colleagues on the issue. This would count as a major success in the USAID-Government of Tanzania partnership to improve agricultural- and rural policy.

Policy research

Michigan State University first engaged on issues of local finance in 2014, when the Ministry of Agriculture, Live-stock and Fisheries and the President's Office – Regional Administration and Local Government (PO-RALG) requested that it examine the issue of produce cess, a tax charged by Local Government Authorities (LGAs) on the gross value of agricultural produce. Based on extensive interviews and analysis of revenue data at LGA level, and building on an earlier study by Agricultural Council of Tanzania, Nyange *et al* (2014) confirmed several old findings and revealed new ones. Key among all these were that evasion of the cess was quite common, that only 28% (at most) of potential revenue was collected, and that cess rates were highly variable across LGAs (Table 1). The study also showed that, while cess is a small share of total revenue for most LGAs (most revenue coming from central government), it accounts for as much as 90% of locally-generated revenue for several rural LGAs. Because this revenue is very flexible (it does not come with the spending dictates that accompany central government transfers), it is highly valued by local authorities, and losing it would be a major problem for such LGAs.

Key Message

At the request of President's Office – Regional Administration and Local Government (PO-RALG), Michigan State University conducted a study which examined the issue of produce cess. This study paved the way for important reforms of the Local Government Finance Act (LGFA).

Key features of the proposed amendment, which is set to go to cabinet by end of 2016, include: (a) reduction in cess on traditional cash crops from 5% to 3%; (b) reduction on food crops from 5% to 3%, then later to 1%; (c) stipulation that rates be equal across LGAs, (d) reduction in the number of rates for non-agricultural products, and (e) establishment of a national Local Government Tax Appeals Board to hear taxpayer complaints regarding all local taxes.

Stakeholder Engagement

Applying its model of Systematic Stakeholder Engagement (SSE), MSU held an open stakeholder forum prior to launching the study, engaged in regular interaction with stakeholders over the course of the study, and then organized a major workshop in October, 2014 to discuss findings, review options, and forge agreement on the way forward. The key outcome of the workshop was agreement by all stakeholders, including LGA representatives, that cess rates should be reduced and harmonized across LGAs. It was also proposed, in the study and during this workshop, that the government pilot an e-payment system for produce cess as a way of reducing transactions costs and increasing transparency in tax administration.

Timeline of reform

Elections in 2015 made concrete progress on the Act impossible. During this time, MSU remained engaged with stakeholders, especially PMO-RALG, to maintain agreement on key reforms. With a new Government in place in February, 2016, activities picked up again:

February 2016

Policy Advisor to MALF, David Nyange meets with key stakeholders and made a presentation on cess rates.

February 2016

At PO-RALG's request, MSU expands its review scope to the LGFA to include non-agricultural sectors.

March 2016

PO-RALG produces a draft amendment of the LGFA to include

- (a) reduction in cess on cash crops from 5% to 3%;
- (b) reduction on food crops from 5% to 1%;
- (c) stipulation that rates be equal across LGAs;
- (d) reduction in the number of rates for non-agricultural products, and
- (e) establishment of a national Local Government Tax Appeals Board.

Table 1:

Examples of differences in cess charges in neighbouring LGAs

Crop	LGAs and Produce Cess Charges			
Paddy	Tshs 1000 per 100 kg (Mvomero DC)	Tshs 2000 per 100 kg (Kilolo DC, Lushoto DC)		
Maize	Tshs 500 per 100 kg (Babati TC)	Tshs 1000 per 100 kg (Babati DC, Sumbawanga MC)	Tshs 1800 per 100 kg (Lushoto DC)	
Beans	Tshs 1000 per 100 kg (Handeni)	Tshs 2000 per 100 kg (Moshi DC)	Tshs 3000 per 100 kg (Muheza DC)	Tshs 4000 per 100 kg (Lushoto DC)
Sugarcane	Tshs 200/ton (Kilombero)	Tshs 1410/ton (Mvomero)		

Source: Nyange et al, 2014

April 2016

The Policy Advisor to MALF, David Nyange held meetings to finalize the amendment of the LGFA.

April 2016

Policy Advisor to MALF submits a report to PO-RALG on stakeholders' opinions regarding the amended LGFA.

May 2016

The ASPIRES project commences.

Aug 2016

PO-RALG and ASPIRES hold a three-day technical workshop with key stakeholders and produce an agreed version of the proposed amended LGFA.

September 2016

ASPIRES continues to provide assistance to PO-RALG as it completes documentation for the Government of Tanzania and Parliamentary approval.

Next Steps

Anticipating passage of the amended LGFA, ASPIRES during FY 2017, plans to organize a workshop jointly with PS3, ENGINE, and Africa-LEAD, to build the capacity of LGAs for the implementation of the bill. This training will run concurrently with training on the e-payment system for local tax collection.

Reference

David Nyange, David Tschirley, Hussein Nassoro and Abeid Gaspar (2014), *Agricultural Produce Cess in Tanzania: Policy Options for Fiscal Reforms*.

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