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## INNOVATION LAB FOR FOOD SECURITY POLICY

### TANZANIA

## Agricultural Sector Policy and Institutional Reform Strengthening (ASPIRES)

Policy Reform Briefs No. 1

November 2016

### SUPPORT TO E-PAYMENT PLATFORM FOR LOCAL TAXES

ASPIRES Team

#### Activity Overview

Local Government Authorities (LGAs) have historically administered their taxes using a paper based system. This system lacks transparency and leaves room for poor monitoring of tax records by LGAs. As a result, key information such as type of tax, commodity concerned if the tax is the produce cess, location of payment, and amount charged has not been easily available.

To address these challenges and in an effort to increase transparency, accountability and compliance, ASPIRES worked closely with President's Office – Regional Administration and Local Government (PO-RALG) to support the piloting of an electronic system for payment of all local Government taxes. Produce cess—a form of tax charged by Local Government Authorities (LGAs) on agricultural produce—is among the taxes paid in this way.

The piloting of the electronic system emerges from a series of recommendations in a study that MSU conducted at the request of the Ministry of Agriculture, Livestock and Fisheries and PO-RALG. The purpose of the study was to evaluate the impacts of produce cess on agricultural production and marketing and make recommendations for reform. Among the key recommendations was for LGAs to move from their paper based system to an electronic one.

#### Activity Impact

Below is a timeline of key achievements that have resulted from USAID funding:

##### April 2015:

Preparations begin for a pilot in Kilombero LGA.

#### Key Message

The e-payment system will allow Local Government Authorities (LGAs) to collect tax electronically, thus increasing transparency, accountability and compliance. After the successful piloting of the e-payment system in one district (Kilombero), the system was rolled out and in use by 45 LGAs as of October, 2016.

##### June 2015:

Funding for a national e-payment system is included in the Government's finance bill, requiring all LGAs to begin phasing in the system.

##### July 2015:

Government issues a directive for all LGAs to adopt the e-payment system and to begin phasing out old system.

##### August 2015:

The e-payment pilot launches in Kilombero; MSU through earlier USAID-Tanzania funding, supports the training of 135 private tax agents and ward leadership under the new system, including the Point of Sale Devices that are used to process payment.

##### May 2016:

The ASPIRES project commences and supports a public awareness campaign for the new system, using roadshow, awareness campaigns and local radio stations.

##### September 2016:

To date, the e-payment system has been adopted by 45 LGAs across the country.

Under the new system, traders will be able to pay produce cess after selling their products, something that they were not able to do under the paper based system, which in turn created cash flow difficulties for some. Going forward, ASPIRES will seek to monitor and analyze data generated by the system, and support capacity building to LGAs and service providers in seven zonal workshops.

Further, all the data from the new e-payment system will feed into the Government's newly integrated financial system and its Local Government Revenue Collection Information System (LGRCIS), thus providing unparalleled detail on the timing, level, source, and location of local tax payments.

This Policy Reform Brief is based on: David Nyange, David Tschirley, Hussein Nassoro, and Abeid Gaspar. 2014. Agricultural Produce Cess in Tanzania: Policy Options for Fiscal Reforms. *Feed the Future Innovation Lab for Food Security Policy Research Paper 1*. East Lansing; Michigan State University

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