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# Under Financing in Local Government Authorities of Tanzania: Causes and Effects: A Case of Bahi District Council

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**Keywords** : under financing, local government, funds, budget, participation.

## I. INTRODUCTION

The problem of under financing is very common in many parts of the world. According to the Organization for Economic Co-Operation and Development (OECD) it is reported that during 1990 to 2005, on average, annual aid disbursements in sub-Saharan Africa deviated from aid commitments by 3.4 per cent of GDP. Other regions also show deviations of disbursements and commitments in the range of 1.7 to 2.4 per cent of GDP during 1990 to 2005 (OECD, 2005). Such deviations of disbursements resulted into under financing of projects particularly in Local Government Authorities (LGAs) that relied on aid from the central government.

Under financing is a result of a variety of circumstances that include unpredictability of the aid and other sources of finances that result into the countries failing to plan their economies. According to Fosu(2001), the instability of the totality of foreign receipts which include export earnings and foreign aid has had detrimental macroeconomic effects. It has also been specifically reported that instability of foreign aid receipts, adversely affects economic growth and generally under financing of projects (Lensink and Morrissey, 2000).

In the context of Local Government in Tanzania, the reasons related to under financing of projects may be categorized in terms of the sources of funds. Such sources of funds are the community, council level sources, Central government grants and donor related sources. Therefore, there are several reasons for non-disbursement or delays of funds that result into under financing of projects. On the other hand, the reasons behind non-disbursement include (i) government failure to meet conditionality for the case of foreign aid dependency (ii) procedural delays in meeting government administrative-processing conditions on the recipient side; (iii) administrative difficulties on the donor side; and (iv) political problems on the donor side (v) having weak internal sources of funds due to frauds and poor administration (vi) Poor planning of resources. According to donors, the most common reason for late, under financing or non-disbursement is the recipient's failure to meet conditions (Knoll, 2006).

According to Lensink and Morrissey (2000), Tanzania government raised complaints that donors were slow at delivering what was promised. That has had negative impact on financing of different projects in the country. Thus, the timely availability of both internal and external resource commitments and disbursements in line with the national budget cycle is of vital importance to the Government's ability to effectively implement its development plans. Lack of timely and reliable information, funding delays, and partial or non-disbursement of committed funds undermines the integrity of the national budget planning and implementation process (URT, 2002).

From the discussions above, it is clear that Tanzania makes use of both domestic as well donor related sources to finance its activities. Recently the

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amount of fund from domestic resources accounted for 60%, while 40% of the national budget depended on foreign aid (MoFEA, 2009). It is therefore argued that dependency on donors to finance projects is risky in terms of sustainability of development. Most poor countries still depend on donors support due to a couple of reasons including poor public expenditure management, poor policies on mobilization of resources and political influences. It is presumed that if the LGAs can strategize effectively in terms of resource planning, then they can manage to finance all of their projects without even relying on donor or central government support (Detragiache *et al*, 2005). However, issues of frauds and failure to report timely has made under financing problem to grow.

Despite dependency of finances from the central government, yet Bahi District depends on other forms of sources to secure funds as outlined hereunder: Cash Fund or Sinking Fund: The Cash Fund receives money from donors, fines, royalties or any other source, either in one installment or in several tranches, and spends it according to the availability of money and approval of projects. All spending is done on a grant basis. Project monitoring can be carried out by the fund administration. When funds are exhausted, either the fund is replenished or, if it was designed as a Sinking Fund, it ends its operations. This is often the case with debt counterpart Funds (UNEP 2006). Apart from cash fund, there is also *potential mortgageable asset securitization* in which the Local Government Finances Act permits local governments to secure loans using assets. As many of the infrastructure projects undertaken by LGA will create tangible assets, this could make it easier to obtain loans and lower their cost (URT, 2004; PMO-RALG, 2007).

Lastly, the LGAs secure funding from such aspects as levies and taxes. The LGA may apply different number of levies on different items such as drinks, foods, income and so on so as to collect revenue. The most important aspect here is how such levies are administered and hence being able to generate more funds. Taxes too are a common method that is used by the central government to collect a lot of funds for domestic purpose. The issue here is the extent of tax rate, incidence associated with as well as the mechanism in which such taxes are collected.

Moreover, under financing has been noticed in many projects. For instance, the role of LGAs has been on extending financial services to rural residents at affordable rate. Therefore, Bahi District council has a program named Rural Financial Services Program (RFSP) that runs within the villages. In the year 2007/2008, the funds expected for such program were about 50 million, but the actual funding at the end of the year had been just 8million. The trends go in the same direction even for expenditures. When there is under

funding, then the expenditure is likely to be less (Bahi District Council, 2009).

Severe financial constraints faced by low-income countries, predictability of budgetary aid flows are an important condition for the planning and uninterrupted implementation of development programs (Dawe, 1996). In the case of Local Governments in Tanzania under financing generally results into poor social services delivery and failure to implement local projects that include agricultural sector.

Thus, the key questions that are answered by this study include; what are the key causes of under financing in LGAs? What are possible facets of effects of under financing? Are the sources of funds for the district adequate? What are such revenue sources?

## II. RESEARCH METHODOLOGY

This study was conducted in Bahi district, Dodoma region. This is due to the reason that contribution of the Local Government Authorities to the economy of the country is significant, and yet the impact and extent of under financing are not well documented. This situation causes Local Governmental Authorities fail to meet the goals targeted (Bahi District, 2009). In addition, Bahi district has been reported to experience under financing for some times (ibid).

Bahi district is among the six districts of Dodoma region in central Tanzania. The district was formerly part of Dodoma rural district, but in 2007 the Dodoma rural district was divided into two districts to form Chamwino and Bahi districts for improving administrative activities. The district is found on the southwest part of Dodoma region and has a total area of 5948km<sup>2</sup> extending between latitude 4° and 8° south and between longitude 35° and 37° East. *Gogo* is the dominant ethnic group in the area (Bahi District Council, 2009). The population of the district is about 179,724 where 94294 are females and 85430 are males (ibid). In addition, the projected population in Bahi district is about 238951, where 114697 are males and 124254 are females.

This study employed a cross sectional design that involved an investigation on the causes, impact and extent of under financing once in a time. A case study was adopted to have an in-depth examination of the problem of underfunding in Bahi District.

The sampling frame for the study was difficult to estimate, but the units for inquiry included households, donors, village leaders and some district officials.

The purposive sampling technique was used to get representatives from each department as there were few departments. Thereafter, in each department or a unit the employees were selected purposively to provide data related to status of financing projects.

On the case of the community members, the divisions were selected by purposive sampling as well as on the basis of having many projects going on. Thus

Bahi and Mundemu divisions were selected. Then 2 wards from each division were selected randomly to get a good representation of the population. In each ward, two villages were selected randomly to get a good representation of the respondents. In each village, 30 heads of households from the community were randomly selected to give their views on the progress of the projects under LGA. Therefore, a total of 115 community members were sampled randomly to respond to the study questions. On the other side of the community, heads of different departments in the level of village, ward and division were purposively selected to give views on the problem of under financing. The overall sample size of the study was 115 respondents.

Data collection in this study involved interviews, focused group discussion and documentary review. The interview method was adopted because it enabled the researchers to understand the respondents' inner feeling about the problem of under financing in Bahi district. Interviews were also applied to community and this method used Questionnaire to collect data from the sample size. The focused group discussion was employed for non community members such as village leaders, ward leaders, donors and district officials.

### III. RESULTS AND DISCUSSION

#### a) Causes of under financing in LGAs

Based on the study it was found out that 66% of the respondents reported that fraud was a big cause of under financing while 26% of the respondents said that donor dependency was a source of under financing. Other causes of under financing accounted for 5% and 3% on weak revenue sources and delays in reporting respectively. Therefore, the main cause of under financing in Bahi Council has been a result of many factors including fraud that is due to misuse of resources among staff. This ends up discouraging donors and hence making donors become hesitant to disburse funds either timely or reduce the amount of funds pledged by the donors for a particular intervention. In addition, despite the fact that several audits have been conducted and realized some frauds in some cases, yet no serious actions are undertaken. This still discourages the community and the central government who is the main financier. Figure 1 below summarizes various causes of under financing in Bahi District.

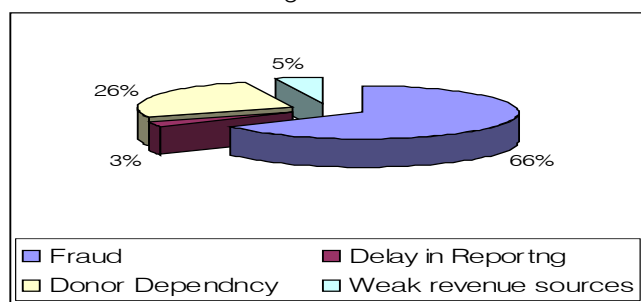


Figure 1 : Causes of under financing

#### b) Awareness of under financing in LGA

The findings of the study report that out of 115 respondents, about 66 %(76) of them said that they were aware of the problem of under financing in the council and only 33 %( 39) said that they were not aware of whether there was a problem of under financing in the council. The big number of respondents that were aware of the problem of under financing was mostly those involved in the planning process of the council activities especially the councilors, WEOS, teachers, and the heads of departments. The respondents who were interviewed and said that they were not aware of the causes of under financing, had the following reasons: First , about 73 %(85), reported that being not aware was due to weak sensitization campaigns on the progress of projects in terms of amount of collections and expenditure in a particular fiscal year. This is as shown in table 1 below that contains the reasons as to why respondents were not aware of the problem of under financing in the council.

Table 1 : Reasons for Lack of Awareness of under Financing in LGA

| Reasons          | n          | Percent      |
|------------------|------------|--------------|
| No sensitization | 85         | 73           |
| Weak involvement | 30         | 26.1         |
| Delay reporting  | 38         | 33.0         |
| <b>Total</b>     | <b>115</b> | <b>100.0</b> |

Another issue that was dealt with in this study was the question of awareness among the respondents on the misuse of funds if any in the council. According to the findings from non community members, it was reported that 76 % of the respondents were aware of the misuse of funds and just 25% of them revealed that they were not sure whether there was any misuse of funds in the council.

Table 2: below shows the possibility of the existence of the misuse of funds in the council from the side of households. Out of 115 respondents that were visited, 52.1% (60) reported that the misuse of funds was most likely in the public sector. The reasons for this response include, among other factors, low salaries that the government offers to the staff, inadequate auditing exercise and poor reporting system as well as lack of transparency and accountability among staff.

Table 2 : Likelihood of Misuse of Public Funds

| Response     | n          | Percent      |
|--------------|------------|--------------|
| Very likely  | 60         | 52.1         |
| Likely       | 28         | 24.3         |
| Not aware    | 27         | 23.5         |
| <b>Total</b> | <b>115</b> | <b>100.0</b> |

### c) Extent of under financing in LGA

In the course of this study, the sample of 115 respondents was visited and out of that 42% (48) said that the extent of under financing of the activities in the council was very high. This is due to the poor reporting, delays in reporting and frauds that tended to discourage the funders, in addition poor accomplishment of some projects and political reasons were mentioned to be key drivers of the extent of the under financing. On the other hand, 13.9 % (16) of heads of households pointed out that the underfinancing is low and 21.7 % (25) of them were not aware of the incidence of under financing in the district.

Table 3 : Extent of under Financing

| Opinion      | n          | Percent      |
|--------------|------------|--------------|
| Very high    | 48         | 41.7         |
| Low          | 16         | 13.9         |
| Not aware    | 25         | 21.7         |
| <b>Total</b> | <b>115</b> | <b>100.0</b> |

In addition to the reported high extent of under financing in the district, yet there are a number of sectors that in one way or another have been affected by the problem of under financing in the council. The most affected sectors include water, education and agriculture. This is due to the fact that many donors are interested in financing such sectors of the economy since they are directly linked to the community needs. Thus, when the funders of such projects withdraw for some reasons, or delay to provide funds, then these sectors become negatively affected significantly.

### d) Sources of Funds Employed in LGAs

This study intended to know the different types of revenues that the council relies upon. The first part intended to test the awareness of respondents on the sources of revenue in the council. The study found out that 64 % (74) of respondents were aware of the different sources of revenue. This is due to the fact that , the planning process of the council applies various approaches such as *Opportunities and Obstacles to Development (O and OD)* that requires people to play part in the designing, implementation as well as evaluating the impacts of projects. This in turn, keeps the community aware of the sources of funds for their projects. It was only 36% of the respondents who could not recall on the sources of revenue for the district.

Moreover, the respondents were asked to mention different sources of revenues in the council. Based on figure 2, out of 115 respondents, about 68% of them reported that the council depends much on levies and central government funds as sources of revenue. On the other hand, 30% of the respondents reported that the district depends on donor support. Other sources of revenue such as levies only (1%) and

Tax and levies (1%) received less rank. This is true based on the fact that the government budget by 40% relies on foreign support while own source is about 60%.

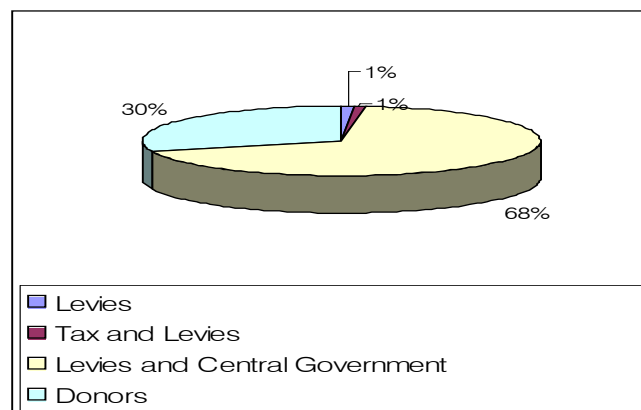


Figure 2 : Sources of Revenue for the council

Despite the availability of different sources of revenue for the council, the main internal sources of revenue are categorized in terms of Tax, Central government Funds and Levies and Fines. Apart from the general sources of revenue for the council, there are community based sources of revenue that are generated by community members especially in form of labor input. However, the dependency on donor support is still a critical challenge in most districts. This has contributed to the delay and under financing in particular when the district fails to meet donor conditions.

### e) Impact of Under Financing on Social Service Delivery

This study analyzed the effects of under financing in the council. It was therefore found out that 52 % (60) of the respondents reported that there were effects as a result of under financing. Only 40% of the respondents had no opinion. This is due to the fact that many of the community members interviewed much involved themselves in the planning process of the council activities, so they were aware of the financial situation of the council.

Based on the results in table 4, about 53.9% (62) of the respondents reported that under financing resulted into failure to provide optimal goods and services to the society. Specifically, it was found that whenever there was under financing in the council, the following impacts were likely to occur, firstly, it would be difficult to meet the goal of the projects and hence the welfare of the society would be jeopardized; secondly, the production of goods such as agricultural, forest and mining would be low (2.6%), thirdly, there would be more health problems (6.1%) as a result of having poor health facilities.

Table 4 : Effects of under Financing

| Negative Effects                           | n          | Percent      |
|--------------------------------------------|------------|--------------|
| Failure to reach targets                   | 20         | 17.4         |
| Failure to delivery services               | 62         | 53.9         |
| Life hardship                              | 19         | 16.5         |
| Poor agricultural and livestock production | 3          | 2.6          |
| Weak economy                               | 4          | 3.5          |
| Increase in health problems                | 7          | 6.1          |
| <b>Total</b>                               | <b>115</b> | <b>100.0</b> |

The study also revealed that out of 115 respondents who were interviewed on the impact of under financing, about 60 % (58) reported that under financing would retard the efforts to reduce poverty in Tanzania. On the other hand, the rest had no opinion on the matter.

#### IV. CONCLUSION AND RECOMMENDATIONS

##### a) Conclusion

Based on the discussions made above in relation to the problem of under financing in Local Government Authorities, this study concludes that underfunding in Bahi district has been a result of many factors including fraud that is due to misuse of public resources. This ends up discouraging funders thereby making them hesitant to disburse funds either timely or reduce the amount of funds promised for particular interventions. The study concludes further that the majority of respondents are aware of existence of misuse of funds.

The study also reveals that the extent of under financing of projects in the council has been very high. This is due to poor reporting and delays in reporting frauds that tend to discourage the funders, poor accomplishment of some projects and political reasons.

Lastly, the study concludes that under financing results into failure to provide optimal goods and services to the society.

##### b) Recommendations

Based on the findings and discussions made above, this study recommends the following policy initiatives to be undertaken to address the problem of under financing in LGAs.

- o Donors should make more realistic forecasting of disbursements when making commitments, taking into account their own historical experience. Expected error of the predicted disbursement could also be shared by giving a realistic lower and upper bound of amount of money to be disbursed. Any

assumptions underlying disbursement forecasts should be shared with the Ministry of Finance.

- o The council and the government as a whole should take actions to reduce the problem of volatile, pro-cyclical and unpredictable aid flows. More realistic short-term aid and domestic revenue forecasting can be conducted. As much as possible forecasting of aid disbursements should be used to weigh donor commitments.
- o The council/ government should develop budgets with a margin allowed for contingencies, forecast monthly cash flow requirements, carry out regular review of the timing of revenue receipts and implementation of expenditure plans and identification of 'core expenditures' to ensure that any cuts that become necessary are focused on lower priorities.
- o The council should strengthen the auditing units so as to improve financial control and accountability. In addition, staffs who commit fraud should be sued for public interest.
- o The council should improve the reporting system so as to encourage the donors to disburse the fund timely to avoid under financing problem.
- o The council should improve the use of internal sources of funds and reduce dependency on foreign aid. This shall ensure that the projects are sustainable.

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