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## **AN OVERVIEW OF MUNICIPAL FINANCE SYSTEMS IN DAR-ES-SALAAM, TANZANIA**

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## **Overview of Municipal Finance Systems in Dar-es-Salaam, Tanzania**

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### **Introduction**

This paper considers the municipal finance systems in Tanzania, focussing in particular on the capital city of Dar es Salaam. The analysis is intended to contribute to the ‘Cities and Fragile States’ component of the Crisis States Research programme. The paper is largely based on desk-based research and information gathered over a short field study conducted in Dar es Salaam in July 2007.<sup>1</sup>

The paper sets out the macroeconomic context of Tanzania and then provides background on the framework for decentralisation and local government finances in the country. The subsequent sections analyse the municipal finance situation and the approach to infrastructure financing in Dar es Salaam. The paper ends with a summary of the key research findings.

### **Tanzania – macro-economic context**

Tanzania’s current population of 39 million is projected to reach almost 60 million by 2025. The country’s economic growth has averaged 6 percent in the period of 2000 to 2006, with growth projections of 6-7 percent for 2007 and 2008. This reflects Tanzania’s economic improvements and the positive outlook for resilient growth in the coming years. However, with a GDP per capita (in PPP terms) of about US\$500 in 2006, half of Tanzania’s population remains poor (AfDB/OECD 2007; IMF 2007; United Republic of Tanzania 2004). Government finances still suffer from issues related to domestic revenue mobilisation, on account of a weak tax administration.

A quarter of Tanzania’s population lives in urban areas. However, with urban growth rates twice the rural ones, UN projections estimate that the urbanisation rate will increase from 24 percent in 2005 to 38 percent by 2030, with more than 20 million Tanzanians living in urban areas (United Nations 2006).

Dar es Salaam is the largest city in Tanzania and has a population of nearly 3 million, of which nearly 94 percent is urban. Urban sprawl characterises the spatial growth of the city, which increases the costs of infrastructure provision to the newly built areas and maintaining services in the old inner city areas. The city contributes to over 15 percent of the country’s GDP. While 46 percent of economic activity continues to be based on agricultural activities, the industrial and services sectors are growing at a rapid pace. The main contributors to economic expansion are the manufacturing and construction sectors with growth rates of

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<sup>1</sup> This paper draws heavily on work commissioned by the Commonwealth Secretariat and published in Alam, M. (ed), [Municipal Infrastructure Financing: Innovative Practices from Developing Countries](#) (Commonwealth Secretariat Local Government Reform Series Number 2), London: Commonwealth Secretariat, forthcoming 2009. It is published as a CSRC Occasional paper on the LSE website by permission of the Commonwealth Secretariat.

about 12 percent and 9 percent respectively in 2006. The service sector grew at 7 percent in 2006, with tourism leading the growth (World Bank 2006).

### **Decentralisation framework**

The government's policy agenda recognises the local government's critical role in delivering economic growth and poverty reduction. In this context, decentralisation ranks high on the national policy agenda.

### **Local government legislation and structure**

The Local Government Act of 1982, setting out the framework for functional and fiscal decentralisation, has become a central theme of government policy. The government's vision of the local government system is set forth in the Policy Paper on Local Government Reform of 1998. A number of amendments to the Local Government Act in 1999 gave more authority to district and urban councils to approve their plans and budgets (United Republic of Tanzania 1999). In accordance with the Public Finance Act 2001, the Ministry of Finance is responsible for co-ordinating inter-governmental fiscal relations. The Prime Minister's Office – Regional Administration and Local Government (PMO-RALG) oversees the local government system and the decentralisation process; and the line ministries are responsible for regulatory and sectoral policies.

Tanzania has adopted a two-tier structure of decentralisation – through central government and local government authorities (LGAs). The LGAs have been awarded legal status enabling them to contract services and, subject to ministerial approval, raise borrowing. Tanzania has 114 LGAs, which are comprised of 22 urban councils and 92 (rural) district councils that have autonomy in their geographic area. The urban councils comprise two city, twelve municipal, and eight town councils. District councils coordinate activities of township authorities and village councils (CLGF 2007).

### **Functional and fiscal devolution of powers**

The policy of devolving local government functions and expenditures to the LGAs is enshrined in the Local Government Act and is based on the principles of subsidiarity and that 'finance should follow function'. LGA activities include a list of public services including general administration, education, social welfare, public health, housing and town planning, transport, environment, culture and economic affairs. The expenditure responsibilities range from concurrent functions, subject to central government policy, to purely local government services. Each of these is expected to be funded through different identified sources of financing.

Table 1 sets out, at a high level, the detailed expenditure assignments, and their planned source(s) of financing.

### **Local government revenues in Tanzania**

Local governments in Tanzania finance their assigned expenditures from three main sources: intergovernmental transfers, own-source local revenues and borrowing.

Table 2 provides an overview of the revenues across local governments in Tanzania for the period 2002 to 2006. The total amount of local government revenues has increased substantially since 2002, primarily driven by growth in intergovernmental transfers. Government transfers/grants account for nearly 90 percent of local government revenues.

Own-source revenues have declined in absolute and relative terms since 2002. They hardly comprise 10 percent of local government revenues. Local borrowing, although provided for in the law, remains negligible.

**Table 1: Assignment of LGA-expenditure responsibilities and financing sources**

Source: United Republic of Tanzania 2006a

Type of function	Local government activity	Planned source of financing
Concurrent functions (Locally provided 'national' public services)*	<ul style="list-style-type: none"> <li>• Primary education</li> <li>• Local health services</li> <li>• Water supply</li> <li>• Local roads and works</li> <li>• Agriculture extension and livestock</li> </ul>	<ul style="list-style-type: none"> <li>• Sectoral block grants</li> </ul>
Exclusive local government functions	<ul style="list-style-type: none"> <li>• Land use planning</li> <li>• Sewage and sanitary services (including solid waste collection and street cleaning)</li> <li>• Local parks and markets</li> <li>• Community centres</li> <li>• Other local amenities</li> </ul>	<ul style="list-style-type: none"> <li>• General purpose grants</li> <li>• Own source revenues</li> </ul>
Delegated central government functions	<ul style="list-style-type: none"> <li>• Outbreak of infectious diseases</li> </ul>	<ul style="list-style-type: none"> <li>• Ministerial subventions</li> </ul>
Local government administration	<ul style="list-style-type: none"> <li>• Council operations</li> <li>• Local planning</li> <li>• Local financial management</li> <li>• Village and street neighbourhood (Mtaa) administration</li> </ul>	<ul style="list-style-type: none"> <li>• General purpose grants</li> </ul>
Local capital development activities	<ul style="list-style-type: none"> <li>• Construction of new and rehabilitation of existing infrastructure across sectors including education, health, water, roads, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Own source revenues</li> <li>• Local borrowing</li> <li>• Capital development grants</li> </ul>

\* Central government sets policies, regulation and norms and controls financing.

**Table 2: Local government revenues in Tanzania, 2002 – 2005/06 in TZS million**

Source: United Republic of Tanzania 2007a

Revenues	2002*	%	2003*	%	2004/05	%	2005/06	%
Local grants (transfers)	247,027	81.0	313,873	86.5	386,768	89.9	452,831	89.9
Own source revenues	57,740	18.9	48,344	13.0	42,871	10.0	49,291	9.8
Local borrowing	225	0.1	443	0.1	549	0.1	1,496	0.3
<b>Total</b>	<b>304,993</b>		<b>362,659</b>		<b>430,188</b>		<b>503,618</b>	

\*Prior to 2004, revenue collections were reported based on calendar years and not fiscal years.

### Intergovernmental transfers

Transfers from the central government currently amount to around 90 percent of local government revenues. These transfers include formula-based recurrent (conditional) block grants and equalising general purpose grants. The conditional block grants help finance grant-aided sectors, including primary education, local health services, water, local road maintenance and agricultural extension. General-purpose grants combine the former 'current

administration grant’ and the ‘compensation grant’ (provided in compensation of own-source revenues abolished in 2003/4). The size of general-purpose grants is largely dependent on population and the number of rural residents.

In total, recurrent block grants account for about two-thirds of all intergovernmental transfers. It is worth noting that 75 percent of the total recurrent government transfers in 2005/6 were allocated to the health and education sector, 18 percent to administrative expenses, and 7 percent to roads, water and agriculture.

In addition to formula-based grants, local governments receive two additional sources of transfers (United Republic of Tanzania 2007a). These are formula-based ‘local government capital development grants’ (LGCDGs) and ministerial subventions. LGCDGs have been implemented since 2005/6 and provide discretionary funds to LGAs. Funding is linked to local government performance in key areas of financial management, participatory planning, and issues of transparency and accountability. LGCDGs have become the main funding modality for local capital infrastructure and amounted to about TZS 100 billion in 2005/6 (United Republic of Tanzania 2007b). Ministerial subventions are routed around the available formula-based grant allocation modalities.<sup>2</sup> In 2005/06, LGAs reported receiving TZS 77 billion in recurrent subventions from line ministries.

### **Own-source revenues**

Besides intergovernmental transfers, own-source revenues raised by local governments are limited and include: property taxes and rent; charges from solid waste collection, vehicles, markets, etcetera; fees, including taxi registration, bus stands, etcetera; and licences, including road and liquor.

Various amendments to the Local Government Acts in 2003 and 2004 significantly reduced the revenue-raising authority of local governments.<sup>3</sup> In 2003, the Ministry of Finance announced the abolition of the development levy, as well as a number of additional ‘minor’ local revenue sources, while also limiting the local rate-setting discretion for other local revenue sources. To compensate for the fall in own-source revenues, the General-Purpose Grant (GPG) was introduced. Consequently, local revenue collection declined since 2003, and has only recovered since 2005/6 with a number of reform measures instituted to transform the current system of local government revenues. These include measures to strengthen administration of revenue collection and improved revenue mobilisation (United Republic of Tanzania 2006c).

### **Local government borrowing**

As shown in Table 2, borrowing currently accounts for a negligible 0.3 percent of local funds and is primarily from the Local Government Loans Board (LGLB), a government-supported financial intermediary.

The LGLB is largely funded from the contributions of LGAs and grants from the central government. LGAs are requested to contribute a minimum compulsory reserve equal to 10 percent of own-source revenues, which serves as a reserve with the LGLB. LGAs are

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<sup>2</sup> The allocation process is widely flagged for reform in order to develop the transfer system towards a more efficient, transparent and equitable one (Tanzania 2007a).

<sup>3</sup> Prior to 2003, each local government was generally allowed to define its own revenue structure, including determining its own tax base and rates. However, the system of local taxes and revenues was widely considered inefficient, inequitable and poorly administered. As a consequence, local discretion in setting own-source revenues was significantly constrained in 2003.

eligible for borrowing only if the requested reserve is maintained. However, with own-source revenues remaining weak and many LGA being unable to contribute their minimum reserve requirement, the LGLB has been unable to cater to the level of loan applications. The level of new loans issued in 2006/7 amounted to only TZS 598 million, with loan applications being much higher at TZS 1,144 million.<sup>4</sup>

### **The case of Dar es Salaam**

One of the fastest growing cities in Sub-Saharan Africa, Dar es Salaam is Tanzania's industrial, commercial and governmental centre. With an estimated 3 million people, Dar es Salaam is seven times larger than the country's second largest city. Some estimates place the population as high as 5 million at daytime. Dar es Salaam comprises three municipalities – Ilala, Kinondoni and Temeke – which are in parallel districts of the Dar es Salaam region, and 73 wards (see Annex). In February 2000, Dar es Salaam city was restructured into the three municipal councils with a lean city council to coordinate joint activities (Ilala Municipal Council n.d.).

Based on the 2002 Population and Housing Census, Kinondoni had the highest population, followed by Temeke and Ilala. Population figures and recent urban growth estimates are shown in Table 3 (DSM CC 2004).

**Table 3: Municipalities in the Dar es Salaam Region, current and projected population**

Source: DSM CC 2004

<b>Municipality</b>	<b>2002</b>	<b>2003</b>	<b>2005*</b>	<b>2007*</b>
Kinondoni	1,083,913	1,130,520	1,229,835	1,337,875
Ilala	634,924	662,225	720,401	783,687
Temeke	768,451	801,493	871,904	948,498
<b>Dar es Salaam</b>	<b>2,487,288</b>	<b>2,594,238</b>	<b>2,822,140</b>	<b>3,070,060</b>

\*Projected population figures

The city population is growing at about four percent and attracts 100,000 migrants annually. Although there is a strategy aiming to achieve 'a city without slums' by 2015, some 70 percent of the population currently live in unplanned and un-serviced settlements (DSM CC 2004). The urban sprawl in the city as a result of this unplanned growth increases the burden of providing infrastructure services.

### **City administration and allocation of responsibilities**

Dar es Salaam has a regional administration headed by the Dar es Salaam regional commissioner. In addition, Dar es Salaam has a city council, headed by a mayor. Each of the three municipal councils has been given an administrative jurisdiction area in the city. The City Council comprises eleven elected councillors, including those from the three municipalities.

In the early 1990s, the city faced numerous challenges of urban development. In order to address these issues, the elected City Council was replaced with a City Commission appointed by the Prime Minister in June 1996. The Commission set in place a decentralised

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<sup>4</sup> Interview with PMO – RALG and Local Government Loan Board.

city administration with three autonomous municipalities and a proper revenue-collection system. The Commission further implemented several infrastructure improvement initiatives (UN-Habitat, UNEP 2004). The Commission was dissolved in January 2000 and the new proposed administrative structure was put in place.

There is a clear split of responsibilities between the city council and the three municipalities. Dar es Salaam City Council (DCC) performs a coordinating role and attends to issues cutting across the three municipalities and matters of interdependency such as inter-district road networks. In contrast, each of the three municipal councils is responsible for providing the bulk of infrastructure and public services, such as primary health and education, solid waste management, urban transport and local community development (UN-Habitat, UNEP 2004).

The sub-composition of the three municipalities in terms of their administration is illustrated in Table 4. The three districts of Ilala, Kinondoni and Temeke are divided into divisions, which are in turn divided into wards. The wards are composed of villages in the rural areas, and streets in the urban areas. At times, villages are broken down into hamlets, which are the smallest administrative units (DSM CC 2004).

**Table 4: Administrative units of the municipalities in the Dar es Salaam Region**

Source: DSM CC 2004

Municipality/ District	Division	Wards	Streets	Villages	Hamlets
Kinondoni	5	27	114	14	14
Ilala	3	22	65	9	37
Temeke	3	24	97	15	62
<b>Total</b>	<b>11</b>	<b>73</b>	<b>276</b>	<b>38</b>	<b>113</b>

## City planning

The practices of urban city planning in Dar es Salaam date back to the British colonial days, when the first ‘master plan’ was drawn up in 1949. Since independence, two more masters plans have been developed, in 1968 and 1978, financed by donors and undertaken by foreign consultants. However, these plans were heavily criticised for not addressing the local issues of economic development, population growth and administrative capacity.

In 1999, under the remit of the Sustainable Dar es Salaam Program (SDP), a Strategic Urban Development Framework for the city was developed. This framework was considered a substantial improvement over the master plan approach. For a start, it covered a much larger planning area,<sup>5</sup> and was driven by wide and participatory consultations with stakeholders across all strata of society. Moreover, it was based on managing the city’s expected physical development in terms of servicing city expansion, upgrading unserved settlements and facilitating urban renewal. The analytical basis of such urban management rested on the adoption of improved management systems and digitised mapping techniques using geographic information systems, which were developed during the 1990s. The framework also envisioned the revitalisation of the role of local government authorities as a key agent in the urban development process (Sliuzas 2004).

<sup>5</sup> The planning area in 1999 was 1350 square kilometres, vis-à-vis 448 square kilometres in 1978 and 404 square kilometres in 1968.

## Municipal revenues

The own-source revenues in the Dar es Salaam region amounted to a total of TZS 17,300 million in 2005/6, equal to 30 percent of total local government revenues. A further increase to about TZS 21,000 million was expected in 2006/7.

### *Dar es Salaam City Council*

The DCC has limited revenue powers, given its role as a primarily coordinating institution, and limited expenditure responsibilities. Table 5 describes the composition of its revenues. The City Council does not raise its own taxes like the municipalities, and the bulk of its own-source revenues are from parking and bus stand fees. Intergovernmental transfers comprise the majority of the Council's revenues and are mostly general purpose grants for recurrent expenditures. The 2006/7 budget indicates a nearly three-fold increase in general purpose grants to the CC. In addition, the City Council has not raised any borrowing.

**Table 5: Revenues of Dar es Salaam City Council, in TZS million**

Source: United Republic of Tanzania 2007c; Local Government Information 2006, 2007.

Revenues	2005/6 actual	%	2006/7 budget	%
<b>Own source revenues, of which</b>	<b>2,004</b>	<b>47.1</b>	<b>2,371</b>	<b>29.9</b>
Fees and charges	1,607	37.8	1,892	23.9
Service levy	99	2.3	80	1.0
Other revenues	298	7.0	399	5.0
<b>Intergovernmental transfers, of which</b>	<b>2,249</b>	<b>52.9</b>	<b>5,553</b>	<b>70.1</b>
Total recurrent grants	2,219	52.2	5,297	66.9
General purpose grants	1,634	38.4	5,031	63.5
Roads	246	5.8	146	1.8
Health	75	1.8	120	1.5
Local admin	264	6.2	0	0
Development grants	30	0.7	256	3.2
Local borrowing	-	-	-	-
<b>Total revenues</b>	<b>4,253</b>	<b>100.0</b>	<b>7,924</b>	<b>100.0</b>

## Municipalities in Dar es Salaam region

The core revenue-raising powers and expenditure responsibilities at city level are assigned to the three municipalities of Ilala, Kinondoni and Temeke. Table 6 sets out the aggregate revenue sources of the three municipalities.

In contrast to other local governments, the urban municipalities in Dar es Salaam mobilise greater levels of own-source revenues. These constitute 29 percent of local revenues – three times higher than the national average. The primary source of revenue in the three municipalities is service levy, which constitutes more than 40 percent of own-source revenues. The service levy, raised as a 0.3 percent charge on business turnover, has risen from

TZS 3,000 million in 2000 to more than TZS 8,000 million in 2006/7.<sup>6</sup> In addition, property taxes are collected by each municipality.<sup>7</sup> However, properties in Dar es Salaam were last fully valued in 1994 and there is a need to strengthen administration of local property rates in order to improve local resource mobilisation.

Similar to the national trend, the three municipalities have lower own-source revenues following the abolition of the development levy and other ‘nuisance’ taxes in 2003. Miscellaneous fees and charges are a growing source of own revenues, with parking and billboard fees being a significant source of income.

**Table 6: Revenue sources, municipalities in Dar es Salaam Region, in TZS million**

Source: United Republic of Tanzania 2007c; Local Government Information 2006, 2007.

Revenues	2005/06 actual	%	2006/07 budget	%
<b>Own source revenues, of which</b>	<b>15,383</b>	<b>28.7</b>	<b>18,820</b>	<b>22.3</b>
Service levy	8,201	15.3	8,361	9.9
Property taxes	2,723	5.1	5,031	5.9
Fees and charges**	3,095	5.8	3,005	3.6
Hotel levy	187	0.3	212	0.3
Licenses	76	0.1	101	0.1
Produce cess*	30	0.1	2	0.0
Land rent	0	0.0	50	0.1
Other revenues	1,071	2.0	2,058	2.4
<b>Intergovernmental transfers, of which</b>	<b>38,298</b>	<b>71.3</b>	<b>65,736</b>	<b>77.7</b>
Total recurrent grants	29,215	54.4	40,017	47.3
Education	15,536	28.9	21,954	26.0
General purpose grants	4,842	9.0	8,996	10.6
Health	5,066	9.4	7,824	9.3
Local admin	900	1.7	1,390	1.6
Agriculture	1,147	2.1	592	0.7
Water	496	0.9	359	0.4
Roads	1,229	2.3	292	0.3
Subventions & basket funds	4,995	9.3	9,192	10.9
Development grants	4,088	7.6	16,528	19.5
Local borrowing***	-	-	-	-
<b>Total revenues</b>	<b>53,681</b>	<b>100.0</b>	<b>84,556</b>	<b>100.0</b>

\* Charges on agricultural and livestock produce

\*\* Includes parking fees, billboard fees, bus stand fees

\*\*\* No municipal borrowing, other than a small loan to Ilala municipality from the LGLB has been reported.

<sup>6</sup> Business-related taxes have a stronger economic base in an urban context. In contrast to a national trend where own-source revenues constitute a mere 10 percent of local government revenues, the Dar es Salaam region is better off and is able to tap on its more vibrant local economy and property market.

<sup>7</sup> A current bill is due in parliament that will centralise taxation power for local revenue sources like property tax and the service levy (Interviews DSM City Council, PMO RALG).

With respect to intergovernmental transfers, similar to the country-wide level, recurrent grants constitute about 50 percent of total local government revenues and are largely sector-specific. Education and health sectors receive most of the funding.

As for capital investments, all three municipalities fulfilled the eligibility criteria for development grants in 2006/7. These grants are largely discretionary and are the main sources of finance for infrastructure investments (United Republic of Tanzania 2007b; Interview, Dar es Salaam City Council, Kindononi municipality). Funding amounted to over 7 percent of local revenues in 2005/6 and was expected to increase to about 20 percent of total local revenues (TZS 16,500 million) in 2006/7. The grants include funds from the community infrastructure upgrading window of the World Bank's Local Government Support Project.<sup>8</sup>

### Revenue-enhancement plans

As part of the ongoing Local Government Support Project, Dar es Salaam is implementing a revenue-enhancement plan to strengthen its own-source revenues. The city aims to increase its own-source revenues by TZS 28,900 million in the coming years from the current level of TZS 21,000 million. A major focus is on widening the revenue base. There are also other reforms being undertaken to support overall capacity building of the local governments, including procedures for financial management, human resource management and good governance (United Republic of Tanzania 2006b).

### Municipal expenditures

Tables 7 and 8 show the expenditures of the DCC and the three municipalities (aggregated) respectively. Since the City Council mainly plays a coordinating role, its expenses are limited and essentially comprise recurrent expenditure such as salaries and local administrative expenses. The aggregate expenditure of the municipalities is much higher in comparison. With municipalities being autonomous, their expenditure control makes up more than 90 percent of the local government funds in the Dar es Salaam region.

**Table 7: Local Government expenditures, Dar es Salaam City Council, in million TZS**

Source: United Republic of Tanzania 2007c, Local Government Information 2006/7

Expenditures	2005/6 actual	%	2006/7 budget	%
<b>Recurrent expenditures, of which</b>	<b>3,512</b>	87.2	<b>6,263</b>	79.3
Local admin.	365	9.1	3,241	41.0
Roads	47	1.2	146	1.8
Health	121	3.0	120	1.5
Water	290	7.2	0	0.0
Other local spending*	2,689	66.8	2,756	34.9
<b>Development expenditure</b>	<b>514</b>	12.8	<b>1,638</b>	20.7
<b>Total expenditure</b>	<b>4,026</b>	100.0	<b>7,901</b>	100.0

\*Including part of the salaries of administrative staff

As observed from the budgets of the municipalities, recurrent expenditure accounts for the majority of their expenditure. Since responsibility for most municipal functions are devolved,

<sup>8</sup> Funds benefit 31 communities in basic infrastructure provision.

the bulk of recurrent funds are allocated to payment of salaries in the education and health sectors (in addition to local administration expenses). The results of a national household budget survey by the National Bureau of Statistics (2002) highlight the track record of municipal education and health services. Dar es Salaam has the highest proportion of adults with some education. About 60 percent of adults have primary education, whilst only 16 percent complete secondary education. The performance of the public health sector is more mixed. Take-up of government healthcare services is lowest in Dar es Salaam, where a majority prefers the private sector.

Development expenditures, including funds for infrastructure developments and rehabilitation, constituted only about 15 percent of the 2005/6 expenditure.<sup>9</sup> However, for 2006/7, a strong rise in the absolute and relative share of capital expenditures was expected as the modalities and process of the new capital-development grant system became established and the capacity of financial management further improved (Interviews, Dar es Salaam City Council, Kinondoni Municipality).

**Table 8: Local expenditures, municipalities of Dar es Salaam Region, in TZS million**

Source: United Republic of Tanzania 2007c, Local Government Information 2006/7

Expenditures	2005/6 actual	%	2006/7 budget	%
<b>Recurrent expenditures, of which</b>	<b>34,274</b>	85.3	<b>59,498</b>	64.8
Education	17,013	42.3	25,257	27.5
Local admin.	8,728	21.7	16,461	17.9
Health	5,454	13.6	8,647	9.4
Roads	513	1.3	742	0.8
Agriculture	231	0.6	669	0.7
Water	313	0.8	497	0.5
Other local spending	2,022	5.0	7,225	7.9
<b>Development expenditures, of which</b>	<b>5,908</b>	14.7	<b>32,306</b>	35.2
Education	1,778	4.4	7,314	8.0
Admin.	92	0.2	5,841	6.4
Roads	2,130	5.3	4,060	4.4
Health	464	1.2	2,836	3.1
Water	29	0.1	100	0.1
Agriculture	11	0.0	96	0.1
Other	1,404	3.5	12,059	13.1
<b>Total expenditure</b>	<b>40,182</b>	100.0	<b>91,804</b>	100.0

## Expenditure controls

Ongoing reform of expenditure controls at local government level intends to ensure that funds provided are used for their intended purposes. There are also efforts to improve expenditure

<sup>9</sup> This was much lesser than the 30 percent budgeted for development expenditure.

management and strengthen expenditure tracking and monitoring. The government also plans to increase developmental spending to improve infrastructure services across sectors (AfDB/OECD 2007).

### **Private sector participation (PSP) in sub-national infrastructure**

At the sub-national level, successful practices of private sector activities in infrastructure provision have so far been limited to contracting out specific municipal services. The most notable examples of contracting out municipal services include solid waste management, parking services, a bus terminal and the operation of local markets. However, an attempt to operate the local water supply system under a leasing agreement was terminated with the management of water services reverting back to the state-owned operator, Dawasco.

Since 1992, the city's solid waste management system has been reformed and contracted out to private sector operators. The programme, focussing on the privatisation of waste disposal, community waste collection, refuse recycling and composting, is considered a notable success. To facilitate the privatisation process, Dar es Salaam instituted a new by-law – Dar es Salaam City Collection and Disposal of Refuse (UN-Habitat, UNEP 2004; Rutsch 2001). Solid waste collection has been fully contracted out by the municipalities and is tendered competitively. There are currently 23 different operators and the collection rate of solid waste has increased from 2-4 percent in 1992 to currently 45 percent of the city area. The DCC monitors the quality of services and manages the disposal facilities (Interview, Dar es Salaam City Council).

Similarly, the city's central bus terminal is managed by a private operator. Not only does the bus terminal raise more than TZS 600 million from fees annually but it creates more than 1,000 jobs. In addition, parking services in Dar es Salaam are privately operated, and the City Council receives a certain percentage from fees collected. The operation of local markets is also tendered on an annual basis and successful contractors pay the DCC a fee (Interview, Dar es Salaam City Council).

On the other hand, the city's experience with PSP in water and sanitation services was not successful. This sector in Dar es Salaam has been particularly constrained with limited capital investments for thirty years, with the facilities failing to keep pace with population growth. In 2002, a British-German-Tanzanian joint-venture ('City Water Services') was awarded the tender for a ten-year lease contract to manage the technical and commercial operation of the water and sewerage system in the city. The infrastructure assets remained in government hands and the consortium entered the contract for the implementation of the 'Dar es Salaam Water Supply and Sanitation Project' with the Dar es Salaam Water and Sewerage Authority (DAWASA). Effectively, the private operator would be responsible for routine maintenance, billing and tariff collection under an 'operating lease contract'. The World Bank and other donors awarded US\$143 million for repairs, upgrades and expansion of the water and sewerage infrastructure. However, in May 2005, the government terminated the contract and transferred the responsibilities back into the public sphere. The stated reasons for contract termination were the operator's failure to deliver on its contractual investment obligations, to pay the lease fees to the government and to contribute to the fund to improve water supplies to the poor, as well as overall feedback from the residents of deteriorating water services in the city. The city's water supply and sewerage has since then been managed by Dar es Salaam Water and Sewerage Corporation (Dawasco) (IPP Media, May 14, 2005; World Bank 2003; WaterAid 2003).

Looking forward, the city is planning some of its future new infrastructure developments in the form of public-private partnerships. Urban transport in Dar es Salaam is generally considered inefficient, and of poor quality and safety. Public sector operators only hold a 10 percent stake in the market, while transport is largely run by private bus operators on an ad-hoc basis. The World Bank is currently spearheading the implementation of the Dar es Salaam Rapid Transport Project to improve public transport in the city. Under the auspices of the Dar es Salaam Rapid Transit Agency, a separate lane rapid bus system modelled on the successful Bogota TransMilenio project is being envisioned (Interview, World Bank Office Tanzania, transport specialist; DSM City Council, finance officer). Similarly, several new properties are being developed for commercial and residential purposes, with the explicit objective of attracting private sector developers and financiers. An example is the proposed property development in Kinondoni municipality, where private sector developers are to invest on a joint venture basis with the municipality, in the development of a new business district accommodating office and residential buildings.

The DCC and its three municipalities are also implementing a city-wide strategy, in partnership with the private sector, to address problems of unplanned and unserved urban settlements, in order to tackle the slums in the city by 2015. The strategy aims to prevent the development of new slums and regularise land tenure by issuing residential certificates – and thereby also shore up the tax-revenue base. The DCC is also designing a long-term financing strategy to support the upgrading of these informal settlements (Cities Alliance 2006).

## **Summary**

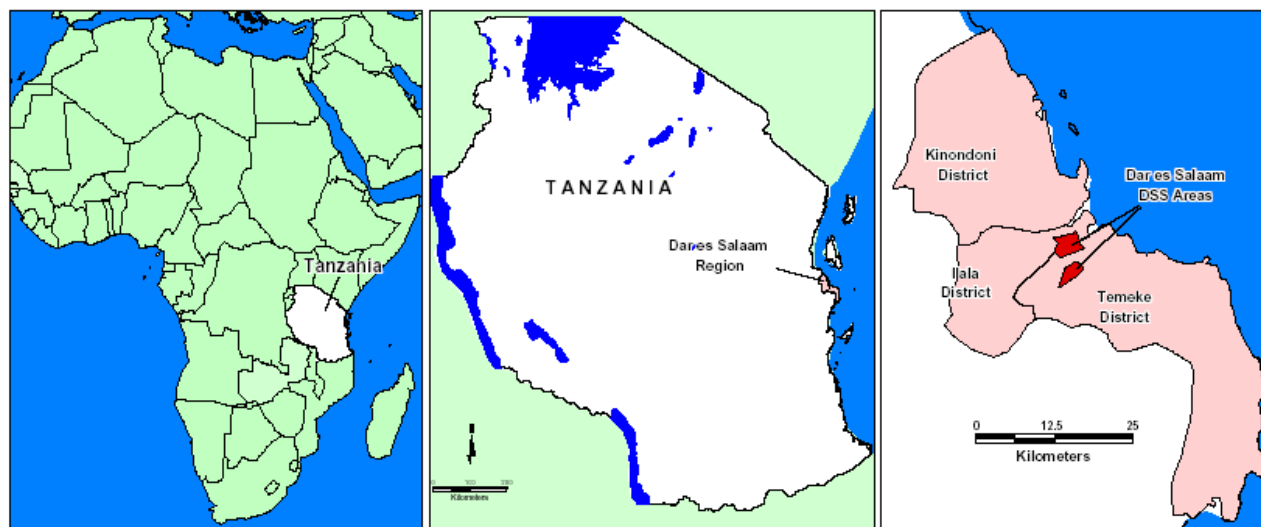
Tanzania has experienced strong economic growth over the last decade. Urbanisation drives the country's economic transformation with 30-40 percent of the urban population living in Dar es Salaam, the capital city of 3 million. Decentralisation is high on the government agenda, and municipalities are responsible for providing the bulk of infrastructure and municipal services. Dar es Salaam comprises three municipalities to which the core of revenue-raising powers and expenditure responsibilities have been assigned. The Dar es Salaam City Council only performs a coordinating role.

While other local governments in Tanzania depend almost exclusively on central government transfers (90 percent), Dar es Salaam municipalities mobilise a greater level of own-source revenues (about 30 percent of their budgets) than at the national level. The main sources of own revenues are service levies and property taxes. Wide-ranging revenue-enhancement plans are currently being implemented. These are aimed at strengthening own-revenue sources, largely business service levies and property taxes, which are expected to double by 2011. Nonetheless, budgets are still largely supported by government transfers, including recently introduced discretionary capital development grants, which are expected to increase significantly. An increase in capital investments is very much needed, since the city's infrastructure provision is found to be inadequate and 70 percent of the population continues to live in informal settlements.

As regards alternate provision and financing of municipal infrastructure, PSP activity is fairly nascent both at the national and municipal level. PSP has so far been limited to contracting out of specific municipal services like solid waste management system, bus terminals and parking services. An attempt for PSP in the water and sanitation sector failed in 2005. Future projects to attract private participation include a World Bank-funded mass urban transit system with private operators, and large-scale property developments for commercial purposes – for example in Kinondoni municipality in the Dar es Salaam region.

Municipal borrowing for infrastructure investments has not taken hold, and local governments need central government permission to borrow. Although the Local Government Loans Board acts as a specialised public municipal lender, loans to local governments remain negligible at 0.3 percent of total revenues. Several reform measures to expand lending have been proposed, but have not been implemented yet. At the same time, the financial sector is evolving and demand for government securities is strong. In 2006, the Bank of Tanzania Act and the Banking and Financial Institutions Act (BFIA) was passed, to reinforce central bank autonomy and accountability (AfDB/OECD 2007). The Bank of Tanzania is currently considering financial sector reform and measures to develop a municipal bond market in order to supplement the traditional sources of municipal revenue.

## Annex – Map of Dar es Salaam and its municipalities



Source: Dar es Salaam DSS Project report, Phase 2

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