LOCAL REVENUE ADMINISTRATION PROJECT

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An Assessment of the Revenue Generation Capabilities of Villages, Districts and Arusha Region: Some Policy Options

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PREFACE

This Report, prepared for the Regional Commissioner's Office, Arusha Region, is intended to be a Regional decision-making document. As such, the format used differs slightly from the traditional "consultant's report" often produced in such studies.

The Executive Summary has been written so that it can be used as the focus of debate at the Regional level. While the policies presented in the Summary are very straightforward, the Report is intended to provide a statement of the issues that must be raised when debating these policies. In each section of the text a general description of the setting for the particular revenue instrument under discussion is first provided followed by a review of the principle policy issues that must be considered, e.g., the allocative and equity effects of a revenue source as well as major administrative issues. Finally, a set of recommendations, quite similar to those found in the Executive Summary, are presented. It is hoped that in this manner, the entire document can lead to informed and intelligent debate of the major issues raised here while, simultaneously, providing readers not intimately knowledgeable about Arusha Region with a better understanding of the local finance problems it currently faces.

This study was made possible through the joint sponsorship of the Arusha Planning and Village Development Project (APVDP) through Development Alternatives, Inc. (DAI) and the Syracuse University Local Revenue Administration Project (LRAP). The former project is sponsored by the

Government of Tanzania and the United States Agency for International Development (USAID, Contract AFR-C-1556) while the latter is also a USAID project (Contract 936-5303).

APVDP was begun in 1979 and combines the regional planning process with simultaneous development and implementation of Village income generating and related development activities in Arumeru, Hanang and Mbulu Districts of the Arusha Region. The project is fully integrated into the regional planning process and has initiated numerous activities to test or help build the capacities of institutions to plan and carry out development projects.

LRAP was also initiated in 1979 with the intent of providing technical assistance to developing countries in improving the revenue administering ability of local governments. Short term technical assistance has been provided in Bolivia, Mali, Thailand and Rwanda while more comprehensive analyses and assistance have been completed in the Philippines and is currently underway in Peru, Upper Volta and Bangladesh. In addition, a set of review papers have been completed on such diverse topics as property tax mapping and voluntary efforts in local revenue generation.

While the study allowed me to spend only three weeks in on-site review of Regional, District and Village activities, I was aided greatly by numerous individuals. The resources and personnel of APVDP, especially Mr. Sweet and Mr. Johnston, were extremely helpful. But most importantly, I enjoyed the full attention and most capable assistance of Planning Officer, Mr. Shayo. In addition, officials at the Region, District, and Village levels were fully cooperative (a list of the individuals interviewed is found in Appendix C). The subject of finances is never an easy one to raise, especially when the questioner is simply a visitor; yet, all with whom I spoke were extremely helpful and open regarding this subject. I extend my thanks to all of you. I also wish to thank my colleague, Professor David Greytak, for comments he made on the original draft.

A first-time visitor to a country is likely not to ask all of the pertinent questions or can quite easily misinterpret the responses given. Thus any errors of fact or interpretation contained here are mine alone.

Larry Schroeder
July 1981

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EXECUTIVE SUMMARY

In its strategic planning for the next twenty years, Arusha Region has specified that one of its priorities will be the generation of additional resources for development purposes. This summary, based upon the full Report, provides a set of possible policy options which could be implemented now or in the future to help achieve that goal. The revenue instruments examined here include user fees and charges, contributions and taxes, credit financing and intergovernmental grants.

THE PROBLEM

While there are unnumerable development problems facing the Region, they are being addressed in a systematic and thorough manner and much has been accomplished. Still, one of the most pressing and most basic of the difficulties is a lack of sufficient financial resources. The Central Government continues to be the primary source of revenues for new development initiatives. But these funds are limited in total; are dependent upon Central Goverument decisions regarding distribution across regions; and have recently been allocated between development and recurrent purposes in a manner that creates the possibility that new projects will be completed without sufficient funds made available to maintain and operate either the new or existing facilities.

Foreign donors constitute another source of financial resources; but these funds, too, are limited. Furthermore, they are highly dependent upon political and economic events far outside the domain of the Region. To expect these resources to expand significantly in the near term is probably unrealistic.

The most reasonable approach is to rely more heavily upon the resources already existing in the Region. Thus, it is the mobilization of these resources that is the subject of the bulk of this paper.

Many of these issues are Regional or even national in scope and, for some, the solutions will take time with further study necessary before they can be implemented. For others the system and enabling legislation is already in place; for these, implementation is the immediate task. But again, the Region will have to take the lead in insuring that the steps are carried out.

VILLAGES (REVENUE) ACT 1979

This piece of legislation provides the legal basis for many of the policies addressed here. Under that Act, Villages are empowered to collect fees, charges, tariffs and rent; are made the recipients of the Business, Liquor and Forestry License Fees collected from within the Village as well as of the ces imposed on agricultural products and livestock; are allowed to obtain funds through contributions and grants-in-aid; and are given the power to borrow. Currently charges and fees are being used to some extent, but could be employed more extensively. The Business License Fee is being transferred to some Villages while neither the Liquor nor Forestry License Fee is being transferred. The ces is generating revenues, but this source could be broadened. Contributions are used, but again there is some question regarding their utilization. While Villages are borrowing money, credit activity seems to have fallen recently rather than risen.

The Villages (Revenue) Act 1979, then, contains the potential for considerably greater resource mobilization at the Village level than is currently being utilized. It appears that it is now up to the Region to help see that this potential is realized and that the funds raised are used in the most effective manner.

APPROACH

This study of revenue generation in Arusha Region was sponsored by the Regional Planning Office with support from the Arusha Planning and Development Project and the Local Revenue Administration Project (Syracuse University). The information used in compiling this report is based primarily upon interviews and data supplied by Regional, District and Village personnel as well as individuals in organizations directly associated with the issues addressed here. Secondary source documents were also consulted when necessary.

While it is the policy options outlined in this Summary that will likely obtain the greatest attention, debate of these options should not take place in a vacuum. Thus, the approach of the paper is to first describe briefly the setting for each revenue instrument and then to outline the kinds of issues that should be considered when discussing the relative merits of the policy alternatives. Because of this, the policy options are integrated directly in the text of the paper rather than as a separate concluding section.

THE FINDINGS

Organizational and Management Issues

While policies associated with the revenue instruments are of primary interest here, there are two aspects of Village revenue administration that should, and can, be addressed immediately. As additional Village Resources are generated, there will be even greater need for adequate financial management, e.g., basic accounting and account management skills. But this requires abilities that not all Village accountants yet possess. Furthermore, the Ujamaa and Cooperative Development Officers who oversee these accounts could become even more skilled at financial management such that they can provide guidance to the Villages. Thus:

> Policy Option 1. The Region will establish a standardized Village management and accounting system and provide increased training for Village accountants and Ujamaa and Cooperative Development Officers for implementing this system.

By design, Villages are small in area and population. But this often means that a single Village is unable to generate sufficient demand to support some development projects, e.g., bus transport. Yet combinations of 3-4 Villages may provide the necessary base to initiate and economically operate such a project. Thus:

> Policy Option 2. The Region will explore and test alternative organizational and financial arrangements, e.g., "joint ventures", when feasibility studies indicate insufficient demand for a project in a single Village.

User Fees and Charges

Arusha Regiona and its Villages already impose user fees and charges. The question, therefore, is not whether they can be imposed, but on what services are they feasible and desirable and, where appropriate, what charges should be levied. The issue of feasibility centers on the ability to determine who benefits from the service and the ability to exclude non-payers. Desirability is more judgmental, but focuses on the equity issues of excluding from use of the service those who are unable to pay. In the end this may come down to a hard choice: is it better to exclude some who are unable to pay than to risk losing the entire project because no revenues are being generated? Finally, of course, if the costs of administering the fee system exceed the revenues generated, user charges would be inefficient. Thus:

> Policy Option 3. Whenever a project is proposed, serious consideration should be given to the implementation of user fees. The feasibility, desirability, and administrative costs of such arrangements should all be included in this decision.

Once the decision to employ user charges has been made, the question arises as to the price. While there exist numerous pricing policies (with several outlined in the paper), probably the most reasonable one for general usage is where users bear the average cost (but fully computed) of the project's operation. Thus:

> Policy Option 4. In general, projects should be priced so that total costs will be covered by the charges. Average cost pricing may be the most reasonable, although alternative pricing policies and their implications should always be explored.

There is a corollary to Option 4. Average costs are not everywhere equal. Thus:

> Policy Option 5. Regional and District price determinations for site-specific projects should not always be standardized but, at least for some projects, should reflect local costs.

Policy Option 4 also reinforces the first Option presented (financial management training) since the task of estimating project costs will likely fall on the shoulders of Village accountants. Furthermore, the planning and implementation of development projects that are to be self-supporting through user fees require that the likely costs and revenues associated with such projects be accurately estimated. Thus:

> Policy Option 6. Realistic feasibility studies should always be performed on income-generating projects. The Region should implement training to insure that such studies can be carried out. Since project feasibility studies should be carried out on all projects, officials at all levels, from Village to Region, should be so trained.

Each of the previous options can be implemented immediately. Such is not the case for the Region. While it does collect fees, e.g., water consumption and connection charges, these revenues are a part of the Region's appropriation-in-aid netted out from its recurrent expenditure budget. Because of this feature, there is little direct Regional incentive to increase these revenues. Thus, over the longer term:

> Policy Option 7. The Region encourages the Central Government to allow the Region to retain at least 50 percent of the revenues collected for such services as market stalls and water connection and consumption fees. These funds will remain at the Regional level to be used at its discretion.

There are currently services provided without charge but for which user [illegible] are feasible and possibly desirable so as to offset the recurrent costs, e.g., cattle dips. Furthermore, many of these services could be administered, possibly more efficiently, at the Village level. Thus, again of a longer term nature:

> Policy Option 8. The Region encourages the Central Government to provide it with greater flexibility in choosing services for which to charge fees; furthermore, current service responsibility arrangements should be alterable when services could be provided more effectively by Villages on a fee basis.

Options 3-8 deserve further study than that provided in this paper. Especially impor ant are studies of services for which charges are not currently being imposed but for which they would be feasible, determination of the most appropriate pricing scheme to be applied to these services and the resource allocation and equity implications of these charges. Thus:

> Policy Option 9. The Region will conduct studies of the application of user charges for services currently provided without charge. Among the services of particular interest will be cattle dips, water supply to Villages, and the effects of increased fees on veterinary and medical and dental services. The allocative, equity and revenue effects of these fees will be emphasized in these analyses.

Contributions and Taxes

Since the Region has no taxing power of its own and it would require an extremely substantial alteration in the Central Government tax structure to provide it, attention is focused in this section of the Report on Village contributions and taxes using the Village (Revenue) Act 1979 as the underlying foundation for the analysis. The revenue sources examined include contributions, the Business License, Liquor License and Forestry License fees,[1] and the ces.

Contributions to help finance projects have apparently worked well in the Villages. Thus:

> Policy Option 10. Contributions as a source of funds for development projects should be continued. However, sound financial practices dictate that before this financing technique is employed, any excess balances (above those needed to meet contingency needs) in any other Village account should be utilized first. The Region encourages such practices.

While contributions work and have minor disincentive effects, there

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[1] As is argued in the text, these are more accurately viewed as taxes rather than fees or charges for which specific services are provided.

are questions regarding their equity implications. Thus:

> Policy Option 11. To achieve greater equity in contributions consideration should be given to differential rates if either (a) there are substantial differences in villagers' abilities to pay or (b) the project is such that only small and identifiable segments of the villagers will derive the bulk of the benefits. The Region encourages such consideration.

The Villages (Revenue) Act 1979 places little limitation on the ability of Villages to raise revenues. Thus:

> Policy Option 12. The Region urges Villages to imaginatively apply the revenue-raising powers granted them under this Act. For example, fees charged on local brewing operations or on privately-owned shops can add to Village revenues.

Estimates provided in the paper suggest that the Business License Fee will not yield substantial revenues to Villages. But in part, this is due to the change in the structure of that fee (effective 1980/81) from a turnover-based levy to a flat-rate charge. This has decreased revenues, has lowered the potential growth of the yields and can be considered inequitable. Thus:

> Policy Option 13. The Region encourages the Central Government to re-establish turnover as the basis of the Business License Fee.

The Liquor License Fee, too, will provide relatively small amounts of revenues to Villages. But again, in part, this is due to relatively low rates currently set at the District levels. One major reason for these lower rates may be the lack of incentive provided District officials since Liquor License Fees have, in the past, been a part of appropriation-in-aid revenues (see Policy Option 7). Thus:

> Policy Option 14. The Region encourages Districts to increase license fees since the revenues will be retained by Villages.

Even with higher rates, the Business License and Liquor License Fees are unlikely to generate substantial Village revenues. Furthermore, under current arrangements, these revenues together with Forestry Fees will be distributed in a manner such that those Villages with greater business activity will obtain a greater proportion of the funds. Given these two features it would seem to make sense to pool these resources on a Division or District basis so that all Villages could share the receipts. Thus, as a longer term policy:

> Policy Option 15. The Region proposes an amendment to the Villages (Revenue) Act 1979 that would provide the opportunity for the Business License Fee, Liquor License Fee, and Forestry License Fee to flow into a District-administered revolving fund to be used by Villages to support projects which have been shown to be economically feasible.

The agriculture produce ces is, at least for some Villages, a significant revenue source. Yet, given that it is a flat rate revenue source (e.g., 9¢ per kilo for NMC grains regardless of commodity), the question arises as to whether it treats all Villages equitably. Thus:

> Policy Option 16. The Region encourages the imposition of a 2¢/kilo flat rate ces to cover handling costs plus a percentage rate applied to the producer price of the crop so as to increase the equity and growth of the ces. Percentage rates would differ by crop.

The greatest inter-Village inequity in the ces system concerns pastoral Villages since they have no comparable funds yet have similar pressing development needs. One possible solution would be to impose a ces, with similar economic implications as the present system, on livestock marketing. Thus, a longer term plicy:

> Policy Option 17. A livestock ces added to the purchase price of all stock intitally sold through the TLMC should be imposed with the revenues reverting to the Village of the seller.

Still, neither Policy Optioas 16 nor 17 brings the agricultural sector into the direct taxpaying population. To do so is desirable both on the grounds that it would mobilize more resources for development purposes and that, as direct local taxpayers, this segment of the population would have a greater vested interest in how the funds were spent. Thus, over the longer term:

> Policy Option 18. The Region encourages the imposition of a producer ces on both agricultural products and livestock. It would be added to the current system in the case of agricultural commodities and the system proposed in Policy Option 17.

Several of the contribution and tax options presented here require further study than was possible for this Report. Of critical importance in such a study is an analysis of the (a) specific incentive or allocation effects of such levies (e.g., would they discourage agricultural production and, if so, to what extent), (b) the equity implications that such policies would have on different segments of society, (c) the revenue yields that could be expected for different Villages under such an arrangement and (d) the administrative costs of imposing these levies. It is especially important that such a study adaress these questions for policies 15-18.

However, for such studies to be carried out, considerably more must be learned about the current status of Village finance. As a first step, what is needed is an inventory of Village Finances within the Region (Appendix B of the Report contains the outline of how such a study could be conducted). Only then could an adequate study of the questions posed above be undertaken. Thus:

> Policy Option 19. The Region will conduct studies of the effects and costs of alternative contribution and tax schemes. The first step in this process will be the undertaking of an inventory of Village finances within the Region based upon a random sample of Villages located throughout the Region.

Credit Financing

Many questions associated with credit financing are far beyond the terms of reference hrer, e.g., the effects of Central Government fiscal and monetary policies and international monetary conditions on credit availability. There are, however, certain aspects regarding the use of credit that are applicable at the Regional level or its Districts and Villages.

There was 70 percent decline in the number of agriculture production loans granted by the TRDB between 1979/80 and 1980/81 (from 81 to 24). This decline may have been due to (a) lack of demand for these loans, (b) Village mismanagement of the prior loans or (c) TRDB policy. The first alternative seems unlikely. Thus:

> Policy Option 20. To the extent that "mismanagement" of past production loans has helped cause the dramatic decrease in their number, there is a need to insure (a) that Village financial management techniques are strengthened (see Option 2) and (b) that agents of the Ministry of Agriculture are providing the most useful advice to farmers so that production output can expand to meet the expectations implicit in loan applications.

> Policy Option 21. If TRDB policy is at the heart of the decline in production loans, the Region should press TRDB national headquarters to alter its loan requirements.

In the area of project loans, again there is the question of Regional, District and Village practices as well as the question of the current lending practices of the major financial institutions. The second of these is already being addressed in a current study of these institutions. Thus, it is important to determine if project management is at the root of the reason why there are currently very few TRDB agricultural project loans outstanding in the Region, e.g., no godown nor transport loans and only 7 farm machinery loans. Thus:

> Policy Option 22. Based on the findings from the financial institution study, the Region should determine if Regional, District or Village policies regarding projects should be altered. The encouragement of joint venture projects or alternative arrangements (Option 2) would, for example, increase the likelihood of obtaining certain loans under current TRDB policy.

Finally, for successful project management and avoidance of default on project loans, the previously-stated recommendations of realistic feasibility studies (Policy Option 6) and financial management training bear reiteration here. Both are crucial to credit-financed projects.

Intergovernmental Aid

Under decentralization, the lower levels of the governmental structure play crucial roles in the budgeting process. One of the potential problems with this system is the possibility that important spending needs of the Region are ignored when the final form of the budget is constructed. The other is the fact that it may not provide sufficient flexibility for the Region to meet pressing operating and maintenance expenditures on existing projects.

To help overcome this potential problem a longer term policy initiative of the Region might be the creation of a system of grants that would flow from the Central level to the Regional level in lieu of a portion of the current system of recurrent and development expenditures. In such a system there is the desirability that the monies be allocable as the Region sees most effective; that the Region know how much it would derive from such funds at least two years in advance so that effective planning can be used in allocating these resources; and that the amounts so allocated, while small during the initial phases of the system, be allowed to expand over time to better meet growing Regional needs. Thus:

> Policy Option 23. The Region encourages the Central Government to create a block grant system. This system would consist of: (a) block grants usable at the Regional level for either direct development purposes or the recurrent costs associated with such projects; (b) the national block grant fund would consist of some proportion of internal revenues collected three years previous; and (c) a formula be used to allocate these funds to all Regions with the formula not based simply of population but, in keeping with the long-term development goals of the nation, e.g., the percent of the population engaged in agriculture in a Region should be included in the formula to help insure attainment of the goal of food production self-sufficiency.

Overall Strategy

This list of policies is a long and diverse one containing initiatives that can be undertaken immediately as well as others that are, obviously of a much longer perspective. While some of these options can be undertaken without costs, e.g., tax rate changes, others will require a commitment of Regional resources. Thus as a final policy to be carried out immediately:

> Policy Option 24. The Region shall adopt a strategy and implementation plan with specific components to realize the intent of the Villages (Revenue) Act 1979.

AN ASSESSMENT OF THE REVENUE GENERATION CAPABILITIES
OF VILLAGES, DISTRICTS AND ARUSHA REGION:
SOME POLICY OPTIONS

In its paper on "Strategies and Priorities for the Year 2000" the Arusha Region included among its four principle strategies: the Region will make "new efforts to obtain additional resources for development." Furthermore, among the policies enumerated in that long term planning paper were greater reliance upon both user contributions and borrowing as well as upon Central Government funding. The focus of this paper is in keeping with that policy initiative.

More specifically, this Report considers four different areas in which Village governments might derive greater resources for use in development projects--user fees and charges, contributions and taxes, credit financing and utilization of intergovernmental grants. Obviously, each of these is an extremely broad topic with any in-depth investigation well beyond the time and resources made available to this study; thus this analysis is little more than a scratching of the surface of this very important policy issue.

The Report begins by reviewing the setting including a brief review of the manner in which public services are provided in the Region and a discussion of the needs and availability of resources to meet those needs. Since the Village (Revenue) Act, 1979 is the major piece of existing legislation on which to build this increase in revenue performance, Section I closes with a synopsis of this Law. Section II considers the organizational and management issues that must be addressed simultaneously with any consideration of increased resource mobilization since it would be unproductive to increase the flow of revenues if there is a lack of ability to administer them. Section III focuses upon increased utilization of user fees and charges with Section IV devoted to contributions and taxes, including an analysis of the revenue effects of the license fee features of the Village (Revenue) Act. Section V looks briefly into the utilization of credit by Villages, concentrating on several administrative aspects of this alternative source of revenue while Section VI examines the arguments and alternatives surrounding the possibility of using block grants in lieu of the current system of transferring resources from the Central Government to its Regions, Districts and Villages. The Report closes with an outline of the planning strategies that can be implemented to carry out the numerous recommendations made.

I. THE SETTING

There is no need to document here the institutional linkages, actors and policy-making procedures used within the Tanzanian system of government. First, it is well understood by the policy-makers who constitute the principle audience of this paper and, second, it has been well documented elsewhere.[1]

[1]See Garry Thomas, "Center and Peripheey in Arusha Region: Institutional Capacities and Development Initiatives in the Context of Existing Governmental Structures and Village Organizations," (Washington: DAI, November 1980).

Suffice it to say that the Central Government currently collects the bulk of all public finances and expends these funds under the authority of the Annual Recurrent Expenditures Budget and the Annual Development Expenditures Budget. Within each of these budgets there is spending authorized both for central'zed Ministries and, by Region, for decentralized Ministries. For the Regional portion of the Budget, an elaborate system of planning is initiated at the Village level and proceeds upward culminating in the final Regional Budget Vote submissions which may be altered at the Central Government level before final approval by Parliment.

Implementation of this budget then involves both the centralized Ministries and decentralized Ministries, with the latter maintaining administrative offices at the Regional and District levels with operations taking place down to the Village level. For example, the Ministry of Education is decentralized in the administration of primary education. It maintains administrative offices at the Regional and District levels, coordinators at the Division and Ward levels with education services provided at the Village level.

Role of Villages

So as to provide a bit more background to readers without extensive knowledge of the service responsibilities of Villages within the Tanzanian system it may be reasonable to briefly describe this lowest level of government. Villages are spatially-defined units usually containing from 250-650 households (there are currently approximately 445 Villages in Arusha Region). The bulk of them are nearly 100 percent devoted to some type of agricultural production with only a minimal commercial or small industry base.

Traditional "government" services, e.g., education, health services, water, roads, cultural opportunities as well as agricultural and livestock development extension services are provided by the Central Government. However, under the system of decentralization and development of Ujamma Villages, the Village itself is to take on additional responsibilities, many of which are services provided by the private sector in some countries. Thus Villages are currently developing their own Village shambas (farms) and dukas (shops). Likewise, Villages are providing a diverse range of services from tractor projects to the supplying of credit to Villagers. (Many of these are discussed more fully in Section III.) Nearly all of these activities are designed to develop the economic potential of the Villages and, thus, of the nation as well as to insure that goods and services are distributed equitably.

The Village thus forms the foundation of the decentralized system of planning and budgeting in Tanzania. But, maybe more importantly, the Village also provides the setting for some of the more important economic development projects that can increase the overall quality of life of the villagers and, as well, allow the Region and country to reach its longer term planned goals. Finally, for many villagers the Village constitutes the sole opportunity to interact with and provide input to the operation of the public sector. It is therefore crucial that the Village remain strong.

Resource Needs

With its expanding population,[1] increases in prices and expected growth in economic activity, there is quite obviously likely to be a need for greater resource mobilization within the public sector of the Region over

[1] The Region's population is expected to double by the year 2000 unless [illegible] "Year 2000"

the remainder of this century. These resource needs will occur in both recurrent and development spending and at the Village, District and Regional levels.

While the likelihood of obtaining these resources is considered briefly below, a comment is in order concerning the extreme importance of recurrent expenditures associated with projects at either the Regional or Village level. Even if Villages and the Region are successful in attracting additional internal or external resources to finance development projects, the costs of operating and maintaining these projects must be met for continued operation. And the data at the Regional level would suggest that the past several years have seen quite substantial increases in this form of spending that is unlikely to slow in the near future.

Although not a definitive statement on the recurrent cost problem in Arusha Region, the data in Table 1 illustrate the kinds of cost increases faced today. Shown there are the absolute levels of spending over the past three years (1978/79 actuals, 1979/80 and 1980/81 estimates) as well as the percentage change between 1978/79 and 1980/81 for the several sub-votes in the recurrent budget for the Arusha Region. While the particular sub-vote changes reflect, at least in part, changes in budgetary initiatives (e.g., agricultural development was to be increased greatly while preventative health spending experienced a cut), the overall increase (23.4 percent for the period) illustrate the extent of the recurrent cost issue. Furthermore, the fact that it may constitute a problem is suggested by the considerably smaller increases (13.5 percent) in Appropriation-in-Aid.[1]

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[1] These are monies collected within the Region from the sales of goods and services; revenues from public property; fines, fees and penalties; water consumption and connection charges; supervision fees; liquor licenses; consumption taxes; forest royalties; and game and fishing licenses. These revenues, compiled by the District Accountants, are netted out in determining the total recurrent expenditure amount to be provided to the Region for the sub-votes shown in Table 1

TABLE 1

ARUSHA REGION: TOTAL EXPENDITURES - RECURRENT
(in Shs. 1,000)

Sub-Vote	Description	Year 1978/79 Actual	1979/80 Estimated	1980/81 Estimated	Percent Change 1978/79 - 1980/81
500	Administration	14,894	19,656	21,092	41.6
501	Agricultural Development	613	2,559	3,268	433.1
502	Livestock Development	6,940	6,476	9,513	37.1
505	Commerce	1,109	129	491	-55.7
506	Administration - Education	990	961	1,690	70.7
507	Primary Education	35,145	42,390	39,871	13.4
508	Adult Education	2,052	4,137	2,980	45.2
509	National Culture	554	3,097	1,418	155.9
510	Curative Services	16,088	15,128	18,840	17.1
511	Preventative	3.461	1,295	1,839	-75.8
512	Rural Health	2,016	2,105	2,742	36.0
513	Dispensaries/Clinics	3,135	3,626	4,524	44.3
514	Road Services	6,202	6,309	6,942	11.9
515	Accommodations	1,400	1,723	1,760	25.7
516	Plant/Transportation Maintenance	1,297	1,253	2,221	71.2
517	Rural Water	4,483	3,939	7,401	65.1
518	Urban Water	1,363	2,601	2,917	114.0
519	Surveys/Mapping	644	600	924	43.5
520	Land Management	383	404	501	30.8
521	Valuation	99	69	136	40.4
522	Game Operations	1,422	1,479	1,990	39.9
523	Fisheries Operations	373	307	478	28.2
524	Forest Management	1,239	972	1,368	10.4
525	Ujamaa and Cooperatives	1,605	1,369	2,192	36.6
526	Town Planning	201	193	275	36.8
	TOTAL	111,348	122,777	137,372	23.4
	Less Appropriation-in-aid	9,780	10,111	11,097	13.5
	Net	101,558	112,666	126,275	24.3

SOURCE: Estimates of Public Expenditure Supply Votes (Regional), 1 July 1980 to 30 June 1981, Vol. III.

One potential weakness in the preceding argument is that the data, although derived from the recurrent budget, are not fully reflective of purely operational spending since they include both current spending as well as items usable over several years, e.g., equipment. Since labor constitutes at least one-half of all recurrent budget expenditures, Table 2 provides another perspective on the recurrent cost question. Shown there are total personal emoluments in the recurrent budget (by sub-vote) for the years 1978/79 (actual), 1979/80 (estimated) and 1980/81 (estimated) together with the 1978/79-1980/81 percentage changes. The overall increase is not as dramatic as that shown in Table 1. Nevertheless, a 13.9 percent overall increase cannot be considered unimportant. If similar increases are associated with the operation and maintenance of Village projects, resources will obviously have to be mobilized to support these needs.

Resource Availability

What can Villages and the Region expect in the form of resources to be but at their disposal in the intermediate term future? It seems unlikely that conditions have changed drastically since Morss concluded that the Region cannot expect extremely large increases in recurrent monies from the Central Government.[1] Furthermore, while arguments can be made that the Region should obtain larger portions of the national development budget (Policies 24 and 25 in the previously-cited "Strategies and Priorities for the Year 2000"), to expect these requests will be granted may be unrealistic. The Central Government is unlikely to

[1]Elliott R. Morss, "Financial Resources Available for the Development of the Arusha Region: A Look Into the Future" (Report prepared for APVDP, 1980).

TABLE 2

ARUSHA REGION: TOTAL PERSONAL EMOLUMENTS - RECURRENT
(in Shs. 1,000)

Sub-Vote	Description	Year 1978/79 Actual	1979/80 Estimate	1980/81 Estimate	Percent Change 1978/79 - 1980/81
500	Administration	7,650	12,591	13,773	80.0
501	Agricultural Development	1,682	2,031	1,656	-1.6
502	Livestock Development	3,982	3,575	3,900	-2.0
505	Commerce	139	174	263	89.2
506	Administration - Education	604	741	1,210	100.3
507	Primary Education	16,402	20,340	23,426	42.8
508	Adult Education	824	2,314	1,891	22,9
509	National Culture	385	394	706	83.4
510	Curative Services	6,342	6,556	7,202	13.6
511	Preventative	657	1,071	1,459	122.1
512	Rural Health	874	1,365	1,474	68.6
513	Dispensaries/Clinics	2,227	2,769	3,577	60.6
514	Road Services	1,645	1,629	1,446	87.9
515	Accommodations	916	923	787	-14.1
516	Plant/Transportation Maintenance	1,255	1,204	2,022	61.1
517	Rural Water	2,180	2,326	2,350	7.8
518	Urban Water	543	564	636	17.1
519	Surveys/Mapping	572	514	670	17.1
520	Land Management	241	288	282	17.0
521	Valuation	26	35	78	200.0
522	Game Operations	740	1,169	1,368	84.9
523	Fisheries Operations	203	208	296	45.8
524	Forest Management	940	756	902	-4.0
525	Ujamaa and Cooperatives	1,200	1,070	1,440	20.0
526	Town Planning	172	161	177	2.9
	TOTAL	52,401	64,768	72,991	13.9
	Total Personal Emoluments As A Percent of Total Recurrent Expenditure	47.1%	52.8%	53.1%	

SOURCE: Estimates of Public Expenditure Supply Votes (Regional), 1 July 1980 to 30 June 1981, Vol. III.

have significant resources available in the immediate future to accomplish this together with their other pressing needs.[1] Foreign donors may be forthcoming with significant additional resources (and the policy of directing these funds into particular areas, Policy 29 of the "Strategies" paper, is to be applauded); however, it must also be recognized that these nations, too, face resource constraints that may limit their willingness to expand international assistance greatly. It would, therefore, seem reasonable that increased reliance upon self-help remains an important third alternative to additional resource mobilization. What appears most viable is a system that may still rely greatly on external or credit assistance to provide for a large portion of the initial development expenditures (supplemented by credit and local monetary and in-kind resources) but with recurrent costs of operating and maintaining the service a primary responsibility of the local units.

Although we have not reviewed the events leading to passage of the Villages (Revenue) Act, it may well be that it was the recognition of these same financial issues that provided its impetus. Under Section 23 of the original Villages and Ujamaa Villages (Registration, Designation and Administration) Act 1975 the Minister responsible for Villages and Ujamaa Villages enumerated fees, gifts, grants, and "such sums as may in any manner become payable" and borrowing as the sources of Village revenues.[2] On

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[1] The World Bank's recent "Economic Memorandum on Tanzania" (Report No. 3086-TA, January 23, 1981) notes that for the first time in its history the Government has budgeted a deficit on its recurrent account. Furthermore, it suggests that holding the deficit to its projected level "will be difficult" (p. 37). Finally, in a newspaper report obtained on the last day of the on-site review, it was reported that the actual 1980/81 recurrent budget deficit was Shs.1,372 million rather than the anticipated Shs.331 million.

[2] The Villages and Ujamaa Villages Regulations, 1975, Section 9 (Government Notice No. 162, 22 August 1975).

23 May 1979 the Villages (Revenue) Act 1979 was enacted which specified several methods by which Villages were empowered to raise revenues (Appendix A contains the text of the Act). Among its most important features were (1) the specific recognition of receipts from Village activities as a legitimate revenue source; (2) transferral to the Village of business and liquor licensing fees as well as forest produce fees; (3) specification of the ces as a Village revenue and (4) "any other money lawfully derived by a Village Council." These provisions, then, should provide the potential conditions for increased resource mobilization at the Village level. It is, of course, another issue as to whether the Villages can or will utilize this potential.

II. FINANCIAL ORGANIZATION AND MANAGEMENT

While the Villages (Revenue) Act 1979 provides the potential for greater resource mobilization on the part of Villages and the following sections of this Report present specific policy recommendations to this end, effective utilization of these resources require a consideration of the financial organization and management capabilities of these entities.

Village Financial Management

Each Village employs an individual as bookkeeper or accountant whose responsibility is to maintain the accounts of the Village. Part IV A, Section 17B, Item (3) of the Villages (Revenue) Act specifies that separate funds are to be maintained for any "trade, industry, works, service or undertaking carried on or belonging to a Village Council..."; but, examination of the books of several Villages suggested that this is still not fully implemented. Yet, as is emphasized in the discussion of user charges, such fund accounting is a necessary first step in the administering of self-financing projects.

The accounts of each Village are reviewed approximately every year by the District Ujamaa and Cooperative Development Officer who, in turn, submits the records for review by the Regional Ujamaa and Cooperative Development Officer. Final audits are prepared by the Audit and Supervision Fund at the national government level.

While the individuals performing these reviews at the District and Regional levels have training in financial management and accounting, nearly everyone with whom we spoke recognize the need for further training of the Village bookkeepers. There has been some training of these individuals under the Nordic Project for Cooperative and Rural Development over the past several years; however, its technique of focusing on only a relatively small number of pilot Villages (15-20) has recently been abandoned as having too small an impact. The Prime Minister's Office also provides a 5-week training course, but again this apparently has been too short a period to train fully these individuals who play such an extremely important role in the financial management process.

If the financial importance of Villages is to be increased, the necessary first step would then appear to be more comprehensive training of these Village bookkeepers. It is therefore recommended that the Region place this task among its priority items as it prepares its 1982/83 budget and, as well, attempt to obtain foreign donor assistance in carrying out this project.

Furthermore, since the major lending institutions, e.g., the Tanzanian Rural Development Bank (TRDB), and certain parastatals, e.g., National Milling Corporation (NMC), must also utilize these records, they may be willing to contribute to such a project.

Closely related, but still quite feasible, is the preparation of standardized forms and financial record-keeping formats to be used in conjunction with such training. Not only might this improve the ability of Village bookkeepers to carry out their duties, but as well, would greatly aid the auditing processes performed by the District and Regional Officers.

Organizational Realignments

The Village is to constitute the basic building block for development efforts in Tanzania. Yet, cursory examination of these units suggest that their size and current financial condition may constitute a constraint to these efforts. That is, Village demand may be insufficient to support some projects. In such cases, the use of joint venture projects involving two or more Villages, an entire Ward or even the Division should be encouraged. Indeed, such joint ventures are currently underway in Arusha Region, e.g., lorry and bus transportation projects. We would recommend that this form of ad hoc organizational scheme be encouraged through the efforts of District Ujamma and Cooperative Development Officers. Such arrangements, if entered into with caution, can improve the overall economic feasibility of projects.

At the same time there are several caveats that should be appended to this recommendation. First, bigger is not necessarily better; therefore, before any joint venture project is undertaken, the feasibility study should recognize constraints inherent in joint projects. While at first glance it may seem that, for example, a tractor to be owned jointly by two villages would "pay for itself", if harvest periods are such that the tractor would be used to capacity at harvest and still not adequately serve both Villages, then the project, at least as a joint venture, may not prove successful. (Although, given the relatively small size of most Village farms, this example may be far-fetched.)

A second issue concerns the administrative aspect of such ventures. Questions surrounding the siting of immobile projects such as godowns can involve major inter-Village disputes since its location will determine the relative ease with which different villagers can use the facility. While strong party and administrative leadership at the Ward or Division level can smooth some of these difficulties, the question must be addressed.

A third, but related issue concerns the financial administration of such projects. If contributions are to be used, how are they allocated across Villages? Furthermore, who is to act as the financial manager of such projects and, if successful, how are the proceeds to be distributed across participating Villages or villagers? While none of these issues is insurmountable, they do suggest that joint ventures are not without problems.

III. USER CHARGES AND FEES

The Villages (Revenue) Act specifically empowers Villages to collect "fees, charges or tariffs specified by any by-law made by the Village Council." Indeed, Villages (as well as the Region) are already collecting fees for particular activities and projects. The question addressed in this section is whether there is potential for greater efforts to be made in collecting this form of revenue.

For our purposes we will define a user charge of fee to be any monies paid by the user of a particular service. This fee may or may not be equal to the full cost of supplying the service; indeed, it may even exceed the full cost (pricing techniques are discussed below). This definition of charges and fees distinguishes them from contributions or taxes which are not tied to the use of a specific service.

The rationale for user charges is two-fold. First, it helps allocate scarce resources in the sense that only those who are willing and able to pay can use the service. Second, it aids in covering the costs of providing the service.

Current Situation

User fees and charges are currently being utilized by Villages in Arusha Region. Furthermore, there are also charges paid for Central Government-provided services and credited to the Region in the form of appropriation-in-aid. Here we briefly review the utilization of user charges at both the Village and Regional level.

Villages. Table 3 contains a partial listing of Village projects for which user fees are charged.[1] As shown there, user fees are employed in many of the projects undertaken by Villages.

The projects shown in the Table represent a broad spectrum of activities--from acting as a quasi-banking institution to managing a tractor. The bit of financial data obtained also suggest considerable differences in profitability of the projects. For example, the maize mill in Usa River has recouped nearly two-thirds of its initial costs in only two years of operation while the Village shop in Magugu experienced a small "loss" in 1980. It is also interesting to note the differential charges associated with common Village projects--maize milling prices varying between 20¢, 25¢ and 30¢ per kilo.

The rural credit scheme is an especially interesting project undertaken with the cooperation of the National Bank of Commerce (NBC). Villagers earn 5 percent interest on their savings with the Village earning an additional 1 percent which compensates it for administering the granting of credit to villagers. It also, of course, provides a low cost way of mobilizing savings at the Village level.

Another intriguing project, not included in the Table, is the establishment in some Villages of "building brigades". Under this scheme several individuals are trained to build houses; individuals then contract with the "brigade" to construct a building with the bulk of the proceeds used as compensation of the trained builders but apparently some "profit" maintained by the Village.

[1] Table 3 is based on information gathered in site visits, thus, is greatly limited by the extremely small sample.

TABLE 5

EXAMPLES OF VILLAGE USER CHARGES

Village	Activity	Comments
Usa River (Arumeru)	Maize Mill	Fee = 20c/Kilo Original Cost Shs. 120,000 (1979) Profit since installation, Shs. 83,000
	Village Market	One market day per week Fee = Shs. 10-15/day if numerous goods to be sold; Shs. 2/day if few goods.
Singisi (Arumeru)	Maize Mill	Fee = 25c/Kilo (50c/Kilo for Millet)
	Rural Credit	Savers earn 5% interest, Village earns 1% Borrowers pay 6-12% depending on amount of loan: short-term loans only
Magugu (Hanang)	Brewery	Fee = Shs. 70/drum (maximum capacity of 3 drums/day) 1980 Income = Shs. 32,895 Expenses = Shs. 10,991
	Shop	1980 Income = Shs. 235,573 Expenditure = Shs. 236,883 (spent 228,474 on merchandise and 8,409 on wages)
	Hotel	1980 Income = Shs. 85,230 Expenditures = Shs. 82,238
Endakiso (Hanang)	Maize Mill	Fee = 30c/Kilo
	Tractor	Purchased 1976; original cost Shs. 158,426 Fee = Shs. 180/acre plowing Shs. 100/acre harrowing Shs. 60/hour harvesting

SOURCE: Compiled by author.

Region. Arusha Region, too, collects fees. But the set of chargeable services and, to some extent, the fee structure is determined by national policy. Table 4 displays the amounts of selected fee revenues collected in the Region (excluding Arusha town) during the 1977/78 - 1980/81 period. While on a per capita basis the amounts are not large, the data do suggest an extremely high rate of growth in revenues actually collected over the two year period 1977/78 - 1979/80. These increases, which are well in excess of the rate of increase in population and inflation, would imply that user charges are, in fact, being emphasized. Even these increases are limited by the fact that water-related charges and market fees are levied only in more urbanized Villages. If such charges were extended to all Villages, even greater revenues would be forthcoming.

Whether or not this potential is likely to be realized depends in part on the incentives associated with the application of such charges. The revenues shown in Table 4 are included as appropriations-in-aid in the Annual Recurrent Budget of the Region. Estimates of these revenues are then deducted from total budgeted recurrent expenditures of the Region to derive the net recurrent expenditures which are supported by the Central Government. Thus, if one assumes that total recurrent expenditures are essentially taken as given, there is little incentive for the Region to increase collections of the user charges. To do so simply decreases the flow of net recurrent expenditures to the Region.[1] Some alteration in this system then would seem to be in order if incentives are to be improved.

[1] We have not had the opportunity to study the workings of the annual budget process in any great detail; but, if the preceding argument is accurate, it would suggest an important disincentive inherent in the system.

TABLE 4

ARUSHA REGION USER FEES ON SELECTED SERVICES: 1977/78-1980/81
(in Shs.)

Service	1977/78	1979/80	Estimated 1980/81	Percent Change 1977/78-1979/80
Veterinary Charges[a]	112,844	628,422	1,177,174	456.9
Market Stall Fees[b]	15,965	110,984	102,820	595.2
Medical/Dental Charges[a]	7,140	23,112	90,516	223.7
Water consumption[b]	336,540	530,969	604,734	38.8
Water connection[b]	3,261	19,402	62,680	495.0
Total	475,750	1,312,889	2,037,924	175.0
Per Capita[c]	0.57	1.57	2.44	
Universal Primary Education, Parents Contributions	1,466,640	1,196,825	1,318,856	-18.4

[a] Charges based only on materials.

[b] Levied only in urbanized areas.

[c] Based on 1978 population estimates.

SOURCE: Regional Accounts Office.

The Universal Primary Education (U.P.E.) Parents' contributions are also shown in Table 4. While this contribution (set at Shs. 20 per year per child attending) has the appearance of a user fee to offset partially the costs of primary education, it is recognized that it is, indeed, a contribution rather than a true user charge. That is, there apparently is no attempt to restrain non-contributors from attending. While this policy is in keeping with the stated national goal of attaining universal primary education, it does have the effect of treating payers and non-payers inequitably. Furthermore, as parents become increasingly aware that not complying involves no negative consequences, they will likely lower their compliance rates. This may help account for the 18 percent *decline* in contributions between 1977/78 and 1979/80.

Policy Issues

There are several issues that arise when considering user charges including: when are they appropriate; if appropriate, what fees should be set; and how can they be administered?

When Appropriate. There are two subquestions that must be asked when considering the appropriateness of user charges--is it feasible and is it desirable?

a. *Feasibility*. User charges work only when it is possible to exclude non-payers from the use of the service. For example, there may be a large water-hole or lake from which livestock can drink. While one may ask that all users pay a fee, it is unlikely that it would be feasible to enforce such fees since non-payers may simply avoid the area in which the fee collector is located. In a similar manner, attempting to levy a user charge on a road, where there exist low-cost and non-toll alternative routes, will simply result in users traveling these other roads. In each of these cases the costs of administering the user charge and making it work is likely to be greater than the fees collected.

A slight variation on the previous argument arises when the service in question is such that non-payers can still benefit from the service. For example, in urban areas households may be asked to pay fees for the provisions of police protection to the entire town. In this case non-payers will still benefit from any resultant decrease in criminal activity even though they have not aided in bearing its costs. In these situations taxes or contributions which are borne by the entire population are the more feasible method of financing the service.

b. *Desirability.* There are instances in which user fees are entirely feasible but it is deemed to be in the best interest of all not to use them. When services are priced (i.e., user charges are employed) some potential users may be unwilling or unable to pay and, therefore, do not use the service. If it is felt to be in the best interest of the entire population that these non-payers not be excluded from the use of the service, some more general form of finance, such as taxes, may be preferable. The previously-cited example of the UPE Parents contribution would be applicable here. While it is perfectly feasible to exclude the children of non-contributors, the goal of achieving an educated population may be deemed more important.

Village clinics or health centers are other services where charges could be used but are not under the view that it is more important that any ill villager obtain medical services rather than making sure each user pays his "fair share".

It is important to realize, however, that the previous argument against user charges can be taken to this extreme. Obviously, any provision of a service is NOT free--someone must pay; the question is who. Suppose a Village decided to provide maize mill services free of charge under the argument that to impose a fee would exclude some Villages from the service. There are, nevertheless, costs associated with operating and maintaining the mill. In the absence of contributions or subsidies from external sources or other Village projects, a breakdown in the mill would mean that no one, including those who had been willing and able to pay for the service, would be able to utilize it.

There is, unfortunately, no clear cut answer to the question of desirability of user fees. It is a value judgement as to whether it is in the best interest of the community to have a service be provided without charge (with the service financed through some other mechanism such as taxes or general contributions) or whether it is preferable to have those that use the service pay for it.

What Price? Once deemed feasible and desirable, the question arises as to the level of the fee. The economist's simple answer is that the price should be set equal to the marginal or additional cost associated with the provision of the service. Thus, if it costs an additional 25¢ to mill a kilo of maize, the appropriate price is 25¢.

Unfortunately, as with many economic issues, this "answer" is often easier to state than to carry out. In the absence of fairly sophisticated accounting systems, true marginal cost pricing is unlikely to to be feasible. Thus some second-best alternative is more likely. Nevertheless, the objective of the resulting system should be to cover the costs of operating the project but in a manner which is not overly costly to administer.

The most reasonable approach is likely to be some form of average cost pricing. Under such a system the estimated total cost of operating the facility, say for one year, can be divided by the estimated number of units of service, e.g., kilos of maize to be milled. The resulting estimated cost per unit can then be used as the price.

If the estimates are accurate, the facility will just pay its own way, i.e., it will not have to be subsidized nor will it subsidize other Village projects. But the use of average cost pricing implies that prices should differ according to differences in costs of operation both for different services performed and across Villages if costs differ spatially. The tractor rental fee charged in Endakiso (Hanang) is a good example. Since plowing requires greater fuel and, possibly, greater maintenance costs than harrowing a differential fee is rational.

There are, however, other issues related to average cost pricing that complicate the procedures somewhat. Probably the most complex is the decision of how to handle the coverage of the initial investment cost of a project. To aid the discussion consider the following numerical example (even though the specific numbers used may not be terribly realistic). Say a Village wishes to purchase a maize mill. The mill costs Shs. 150,000 and is expected to last for ten years. The Village does not, however, have sufficient balances in its accounts to buy the mill outright but, instead, must borrow funds. Through contributions the Village is able to raise Shs. 50,000 thus finds it necessary to borrow Shs. 100,000. But this loan must be repaid within three years and a compound interest rate of 7.5 percent will be charged meaning that the Village must repay approximately Shs. 124,000 or Shs. 41,333 per year.[1]

The issue here involves the difference between economic costs and cash outlays. The former are spread over the entire life of the machine and may not coincide with the latter. Yet it can be argued that, in the example, users over the entire ten years should pay for the operation and upkeep costs on the machine plus pay annually one-tenth of the total 124,000 shillings (or Shs. 12,400 per year) that it will cost to finance the project. But under this approach there will not be sufficient funds available during the first three years of the project to pay off the loan. Several responses to this dilemma are possible. One is to include the Shs. 41,333 amortization costs as a part of the operating costs, but only for the first three years of the project, then decrease the fee in the fourth through tenth year of operation. While this would permit the project to be self-financing, it does involve an intertemporal inequality since current users are subsidizing later users. Possibly a better alternative is to include the amortization costs during the first three

[1]The imposition of credit terms with amortization periods considerably shorter than the life-length of the capital is considered in Section V.

years as a part of the full costs of operation but then keep prices basically at the same level (adjusted only to reflect increased operating costs if prices of inputs such as fuel increase). It is quite likely that maintenance expenditures on the mill will grow as the machine ages, thus these expenditures will use some of the "profits" generated during years four through ten. But, furthermore, the excess revenues from this development project can be accumulated and used either to help finance other Village projects or to help create a sinking fund so that when the current machine finally wears out in year ten, a replacement can be purchased, possibly without the need for further contributions or credit financing.

A second issue inherent in determining costs (and hence price) concerns estimating the costs of what are essentially overhead items. For example, the Village Accountant allocates a portion of his time to each of several different Village projects. Under a full average cost pricing scheme, the costs of this time should be charged to each project. Without full costing of projects, attempts to determine the "success" of the ventures, i.e., determining whether they have, in fact, paid their own way, will not be accurate.

While average cost pricing of projects may be, in general, the approach to use, there also can be projects for which prices in excess or below average costs are desirable. In the former case the project would be able to subsidize other Village activities while in the latter case the project will have to be subsidized either from the General Account or through contributions. Subsidies are in order when the project is seen to produce benefits that even non-users of the project can enjoy. For example, if a rural health center helps decrease the incidence of communicable diseases, these services are strong candidates for subsidization. On the other hand, there may be some low cost projects where the demand is sufficiently great that the project can be used to supplement other Village-wide activities. This is especially appropriate if the project results in costs which non-users must bear. An example here is of the brewing facility operated in Magugu (Hanang) where there is apparently a high demand (the data in Table 3 suggest that around 470 drums were brewed in 1980), operating costs are low and, possibly, non-users of the facility find that users impose costs on them when the product is consumed.

Administrative Issues

There are several administrative issues that should be considered when imposition of user charges is contemplated. The first is simply developing the ability to administer such fees. As was noted above, the costs of detecting and excluding non-payers must be considered in the overall costs of projects for which fees are charged. If these costs are excessive, user charges may end up being more inefficient than do no fees at all.

In a similar manner there must be the ability to impose charges that reflect differential uses and costs of the project. Yet this objective need not be perfect since user charges that only approximate the relative costs of production may be preferable than no fees at all. For example, an irrigation system may serve only a relatively small proportion of Villagers; on equity grounds it is most reasonable to charge users for what they use rather than require all Villagers to pay for the maintenance expenses on the system. Since it is likely to be costly to measure the exact amount of water used by each farmer utilizing the system, a preferable alternative is to allocate costs on the basis of the relative number of acres each farmer has under irrigation. In this way it is the users who pay, yet administrative costs can be kept low.

A second issue, implied in the discussion of pricing, concerns the burden a well-administered set of user fees will place on the accounting system. While it is certainly not outside the capabilities of trained Village accountants, it does add an urgency to the recommendation made about that the abilities of these individuals be upgraded and the accounting system be improved.

Finally, it must be recognized that some of the activities listed in Table 3 are quite different from the traditional activities of these basically rural jursidictions, e.g., running a bus service. Such pursuits are relatively complex enterprises or, at the very least, involve substantial sums of public monies. This means that it is crucial that such facilities be well managed lest they fail, not due to lack of demand, but simply due to poor management. For example, if an unqualified driver is hired, the Village may find itself the owner of one wrecked, but still unpaid for, bus. While one does not wish to be overly cautious here, the responsibility for management and administration cannot be ignored.

Recommendations

The general policy recommendation here simply echos Policy 26 of the "Strategies and Priorities for the Year 2000" paper: It is recommended that both the Region and its Villages actively pursue implementation of charges and fees placed on the users of government supplied services. More specifically:

1. It is recommended that whenever a Village considers a new project, be it as simple as a once-a-week market or as complex as the purchase and operation of a 7-ton lorry, user charges should be seriously considered to help finance the project. So as to aid in implementing this recommendation, District Officers as well as other personnel who work directly with Villages should be encouraged to promote the use of charges on all projects for which they are rendering advice.

This does not necessarily mean that every new project will employ user fees since it is recognized that they are not always administratively feasible nor desirable on equity grounds. Nevertheless, the use of prices should never be dismissed out of hand. They play a role not only in financing a project but, as well, help to allocate scarce resources more efficiently.

This emphasis on user charges should also be as pragmatic as possible. For example, if a livestocks watering facility is provided to a Village by the Region but the Village is itself responsible for its operation and maintenance, user charges could still be tailored to meet these expenses. Since the owners of livestock would be its principal beneficiary, the annual costs of operation and maintenance could be prorated across all livestock owners on the relative number of head each owns.

2. When planning development projects, Villages should carry out realistic feasibility studies whether or not credit financing is to be used. Again the role of advisors from the District level and below must be emphasized. To the extent that the Office of Ujamma and Cooperative Development participates in project planning, its officers should stress the importance of well-done feasibility studies.

While this recommendation goes beyond the topic of user fees, it is certainly related. Any project will consume scarce resources. If use estimates are inflated, for example by assuming crop yields will always be at their maximum levels rather than at a longer term average, economically infeasible projects may be undertaken. This results in using resources that could have been used more effectively elsewhere. Similarly, underestimating the true costs of projects can also prove to be a waste of scarce resources.

3. It is hard to generalize about the appropriate pricing scheme since much depends upon the particular cost and demand relationships associated with specific projects. Yet, if there is no reason for a project to be subsidized by non-users nor to subsidize other projects, an average cost pricing policy will likely be the most feasible to implement. But even this policy can be pursued only after analysis of the cost characteristics of the project and the villagers' willingness and ability to pay for the service.

If it is felt that the resultant price will exclude a portion of the population that is especially in need of the services, prices below average costs may be used. However, it must also be recognized that in this case some other form of financing will be necessary to insure that the project remains viable.

Similarly, there may be projects for which the demand is quite great, yet consumption of the service imposes costs on non-users. In these cases prices in excess of average costs may be justified; still, the equity effects of such a policy should be considered.

4. Given the differences in costs and demands across Villages, it is probably not appropriate to impose District-wide prices on all Villages. At the same time, the question of pricing is sufficiently complex that even this policy recommendation should be thought through specifically for different services. One aspect that must be kept in mind is that if the price of a service in one Village is considerably greater than in a close-by Village, the actions of the market will be to increase usage at the lower-priced facility and decrease use at the higher priced one.

5. Under the heading of longer-range policy initiatives it is recommended that the Region urge the Central Government to:

(a) alter its policy on the application of user fees in the budget; and,

(b) allow Regions to pursue independent pricing policies.

The first change is necessary if there is to be any incentive in pursuing (b). Under the current system additional user fees simply decrease the amount of Central Government monies in the Region's recurrent expenditure budget. If the Region were allowed to "keep", say, one-half of these revenues to be spent as the Region sees fit, there would be an incentive to increase revenue collections from user charges.

It is recognized that because of national goals, e.g., universal primary eduaction, this policy change may have to be limited in scope. Nevertheless, the Region should stress to national policy-makers the inherent strengths of user charges as revenue-raising instruments.

6. Closely related to recommendation 5 is the consideration of a change in the provision of some services, currently provided without charge but for which users would likely be willing to pay and which could be administered

quite possibly at the Village level more effectively than is currently the case. For example, users of cattle dips can easily be charged for the operating and maintenance costs of the dips (and according to some informal surveying of users, the stock owners would be willing to pay since they derive observable benefits from this service). Furthermore, more effective administration of these dips may be possible if the responsibility for their operation were transferred to the Village level.[1] There very well may be other services for which a similar shift to the Village level with charges placed on service usage is possible, e.g., rural water provision, in turn truely decentralizing public service provision in the Region. This recommendation, too, will require a change in Central Government policy--but a change that can quite easily be defended.

7. Each of these recommendations, especially the previous two, carries implications that, due to the short term nature of the current study, could not be pursued here. Further study is in order to: provide Villages with simple general guidelines in ascertaining the economic feasibility of projects; determine how, within the current system of accounts, average costs can be estimated; and estimate the potential revenue effects at both the Regional and Central levels of a more liberal user charge policy.

[1] The case for Village-operated cattle dips is not original here. The same proposal was made in Kiteto District, "Development Planning Framework for 1981/82 and the Future: Issues, Strategies, and Supporting Action" (Area Commissioner's Office, January 1981) where it is stated that, "The Village or Villages should operate and maintain the dips. This includes paying their dip attendants, emptying their dips and meeting all costs of repair work to their dips. This can be achieved through charging small amounts of money from the users as they agree among themselves." (p. 23).

IV. CONTRIBUTIONS AND TAXES

Other than user charges, locally-raised revenues of Villages consist primarily of contributions and taxes.[1] Contributions are payments of money by households to the Village after the Village Council and Village Assembly have reached an agreement that such a levy is to be assessed. As is discussed more fully below, these assessments are lump-sum amounts levied on each registered resident of the Village.

Taxes are meant to include any revenue-raising instrument for which payment is not directly linked to a particular service. Furthermore, under this definition we include both liquor license fees, business license fees and forestry licenses since each has the characteristic of a tax rather than a charge or fee, i.e., the payment is for the privilege to sell liquor, do business or process forestry products rather than as payment for specific services rendered.

Finally, for the purposes here we include the ces under the heading of a contribution or tax recognizing that it can also be interpreted as a fee paid to the Village by an agricultural marketing parastatal for services that the Village renders. This is spelled out in more detail in the following section where the several types of Village and region-specific contributions and taxes are described.

Current Contributions and Taxes

Here we attempt to describe briefly the form and structure of Village Contributions; the business license, liquor license and forestry license fees that, under the Villages (Revenue) Act 1979 is to revert to the

[1]Village projects, where the outputs are sold outside the Village, e.g., Village farms or small scale industries, is a third revenue source but is not locally-raised and, therefore, is not considered here.

Villages; and the ees.

Village Contributions. Under this scheme the Village Council recommends an amount to be paid by all Villagers.[1] This is then debated and acted upon by the Village Assembly (which includes all Villagers 18 years of age or older). If approved by the majority of the Assembly, the levy becomes the "law" of the Village. Given that the Villages range in size from approximately 250-650 households, it is apparently not too difficult for these amounts to be collected (although for this study we were unable to analyze the problem of delinquency). There is, furthermore, a legal recourse in the event that some persons are unwilling to contribute under the charge that the noncomplier is "acting contrary to development purposes."[2] It is likely that, given the size of the Village units, the principal determinants of the success of contributions as a revenue-raising technique is the leadership role played by the Village Chairman and the members of the Village Council (which cannot number more than 25).

This technique for mobilizing resources is most often used to accumulate funds necessary for down-payments on projects. Furthermore, since the bulk of these projects are broad-based (affect nearly all Villagers directly or indirectly), there may be no inherent inequity associated with the flat rate fees; but this is discussed more fully below.

As can be seen from the data in Table 5, the level of contributions assessed in these several Villages vary greatly--from Shs. 10-230 per member. From Johnston's estimates that by 1980 approximately 47 percent of

[1] Villages do, at times, apparently also accept contribution in the form of payment-in-kind, e.g., volunteer labor. We did not, however, have the opportunity to study this form of contribution in detail (subsequent analysis should do so). Suffice it to say, the same policy issues discussed below are applicable for this form of contribution.

[2] Apparently punishment can even include expulsion from the Village.

TABLE 5

EXAMPLES OF VILLAGER CONTRIBUTIONS

Village	Total 1978 Population	Project	Amount Requested
Usa River	4433	Lorry	Shs. 200/member (if wealthier) Shs. 120/member (if average wealth)
		Farm	Shs. 120/member
Singisi	3450	Shop	Shs. 10/member
Magugu	2797	Shop	Shs. 50/member
		Maize mill	Shs. 30/member
Mwada	1715	Shop	Shs. 22/member
		Maize mill	Shs. 60/member
Endakiso	2230	Lorry	Shs. 35/member
		Tractor	Shs. 230/member [in 1976]

SOURCE: Compiled by author; Population Estimate from Johnston, "Population Profile of Arusha Region," (APNDP, 1980).

Arusha Region population would be at least 20 years of age[1] one might assume that 50 percent of the population shown would be potential contributors. Thus, for a Village the size of Usa River (a more urbanized area) contributions of Shs. 120 per member could yield up to Shs. 265,000--a fairly substantial sum. On the other hand, the low contribution levels imposed, for example in Singisi, would have provided at most only about Shs. 17,000 to support the Village shop.

Yet when contributions are agressively used, substantial sums can be accumulated. For example, in 1979/80 the Village of Endakiso (Hanang) had a total of Shs. 183,166 in 13 different project contribution accounts. Given that the total revenue of that progressive Village during 1979/80 was Shs. 545,421, this level of contribution is outstanding. It also shows that there is the capacity for this revenue source to be tapped by at least some Villages.

Business, Liquor and Forestry Fees. The Villages (Revenue) Act 1979 together with the amended Business Licensing Act, 1972 (Section 8) the Intoxicating Liquors Act 1968 (Section 101) and the Forests Ordinance (Section 10) provides that the revenue from each of these fees for license "granted within the area of jurisdiction of the Village Council" are to revert to the Village. While the base for each of these taxes within the essentially rural Villages is not substantial, they can provide for a continuous source of funds. Indeed, as the examination of the base and rates of these fees below shows, they could produce even greater revenues.[2]

[1] Alan Johnston, "Population Profile of Arusha Region," (APUDP, 1980).

[2] It should be noted, however, that to the extent that socialization of the private sector proceeds, these revenues will decline in importance. The 1980-81 Development Expenditure Budget of Arusha Region, Public Expenditure Estimates for the 1980-81, Vote 70: Arusha Region, Part I states that "by April next year (1981) no private business should exist in any Village." It would appear, however, that this goal has not yet been reached.

a. *Business License Fees.* This fee is a flat rate to be paid by a wide variety of businesses and professions. The current (1980/81) rates, determined at the Central Government level, are shown in Table 6. The rates are extremely interesting, especially when viewed in the historical contex of the Tanzanian Business License Fee. Under the flat rate fee there is no differentiation made between size of businesses. That is, a 100-room hotel pays the same fee as a 5-room guest house (if each has a liquor license--Shs. 1,000). This is a substantial change from the rates in effect prior to 1980-81 where turnover or gross receipts also determined the amount of the fee. It can be argued that by treating all businesses within a class the same, an inequity has been introduced into the system. The primary argument in favor of the change would appear to be that it greatly simplifies the administration of the levy, i.e., it is no longer necessary to examine the gross receipts records of the business when determining the fee.

A second interesting feature of the fee schedule is that the highest rates are placed on professional occupations rather than businesses per se. The Shs. 5,000 fee is to be paid by all lawyers, doctors, accountants, etc. even if employed in a large business establishments. (It was not possible to determine the extent to which this fee is directly borne by the employee or employer.) One wonders about the underlying rationale for this provision in rates and the extent to which the incentives inherent in it have been analyzed.[1]

[1]An unsubstantiated suggestion was made that the fee has been imposed to discourage well-trained individuals from leaving government service (where no fee is charged) for more lucrative private-sector opportunities. Such artificial constraints do, however, have inefficiency effects that should be recognized by rate-makers.

TABLE 6

1980/81 BUSINESS LICENSE FEE STRUCTURE

Type of Business	Amount
Group A	
(i) Village Trade	Sh. 175
(ii) Cooperative Society Trade	175
(iii) District or Regional Development Corp. Trade	175
Group B	
(i) Insurance Trade	1,000
(ii) Insurance Agent Trade	1,000
(iii) Bank Operation Trade	1,000
(iv) Restaurant, hotel, lodging and boarding or guest house trade	
(a) With liquor license	1,000
(b) Without liquor license	500
(v) External Livestock Trade	1,000
(vi) Auction Trade	1,000
(vii) Ship Loading and Unloading Trade	1,000
(viii) Electricity Supply Trade	1,000
(ix) Airtransport Trade	
Group C	
(i) Custom Duty Agent Trade	1,000
(ii) Producer Agent Trade	1,000
(iii) Estate Agent Trade	1,000
(iv) Broker Trade	1,000
(v) Motortransport Trade	1,000
(vi) Travel Agent Trade	1,000
(vii) Ship Service Trade	1,000
(viii) Ship Service Agents Trade	1,000
(ix) Clearing and Forwarding Trade	1,000
Group D	
Building Contractors	2,000
Group E	
Professionals	5,000
Group F	
Not elsewhere classified	500

SOURCE: Translated from "Fomu Ya Maombi Leseni Ya Biashara," (Business License Fee Application Form), 1980/81.

The Business License Fee did show considerable bouyancy or growth at least in some Arusha Region Districts, over the 1977/78 - 1979/80 period (Table 7). While we cannot explain the considerable fluctuations in the actual revenues in several of the Districts, the overall growth of over 55 percent in two years is impressive and likely due, in part, to the rate structure used at that time. As businesses' turnover grew, they were placed in higher fee brackets. The expected revenue effect of the change in rate structure is also dramatic (although revenue estimators world-wide seem to have a penchant for underestimating receipts). There was an expectation that revenues would be cut by more than one-half in the Districts between 1979/80 and 1980/81 (and by over 80 percent in Arusha town).

The question of relevance here, however, concerns what these revenues might mean for Village finance. Table 8 addresses that question in two ways--on a per capita basis (using 1978 population estimates) and on a Village basis. The amounts that would have been transferred to Villages, are generally small. For example, using the higher 1979/80 rates, the per Village average is only Shs. 1,526.[1] Thus, if this provision of the Villages (Revenue) Act was to aid substantially the revenue flow to Villages, it cannot be considered a success. Added to this is the fact that the changing of the rate structure reduces even more the income flow to Villages from this source.

[1]Furthermore, even these estimates are inflated since some Districts contain urbanized areas that, while not officially towns, are also not organized under a Village Council hence fall outside the Villages and Ujamaa Villages Act, 1975, e.g., Babati (Hanang). And it is these more urbanized areas that contain proportionately more commercial activity within a District.

TABLE 7

BUSINESS LICENSE FEE REVENUES, BY DISTRICT:
1977/78 - 1980/81
(in thousands of Shillings)

District	1977/78 Actual	1978/79 Actual	1979/80 Actual	1980/81 Estimated	Percent Change 1977/78-1979/80
	Years				
Arumeru	91	116	69	60	-24.2
Hanang	124	170	291	120	134.7
Kiteto	45	64	58	20	28.9
Mbulu	84	150	110	40	30.9
Monduli[a]	74	77	122	60	64.9
Total	418	527	650	300	55.5
Arusha Town	1,302	1,443	1,200	235	-7.8

[a]Includes Ngorongoro District, formed in 1979.

SOURCE: Regional Finance Officer, Arusha Region.

TABLE 8

BUSINESS LICENSE FEE REVENUES PER CAPITA AND PER VILLAGE, 1979/80 AND 1980/81
(in Shillings)

District	Per Capita 1979/80	Per Capita 1980/81[a]	Per Village 1979/80	Per Village 1980/81[a]
Arumeru	0.29	0.25	527	458
Hanang	1.26	.52	2,598	1,071
Kiteto	.96	.33	1,115	385
Mbulu	.57	.21	1,279	465
Monduli[b]	1.05	.66	2,068	1,017
Region Average[c]	.78	.36	1,526	704

[a]Estimated.

[b]Includes Ngorongoro District.

[c]Excludes Arusha Town.

SOURCE: Table III-3 plus population and Village information contained in "Arusha Region Today: 1981," Tables 3 and 7.

It should be noted that this portion of the Villages (Revenue) Act has begun to be implemented. District Finance Officers have been instructed to transfer the business license fees to Villages. And they are doing so, except in cases where there are problems with the Village accounts with the National Bank of Commerce.

b. *Liquor License Fees.* The second "tax" to be transferred to the Village level under the Villages (Revenue) Act is the Liquor License Fee. This fee is charged to any establishment selling intoxicating liquors.

The administration of this fee is quite "decentralized" and seems to be rather complex. In at least one District applications are filed at the District Trade Office; acted upon by the Village Council in which the establishment is located; if approved, acted upon by the District Planning and Development Council; if approved there, sent to the District Trade Office which sends them back to the applicant who, in turn, remits the fee to the District Accountant. The revenues are then deposited in the Regional Development Director's account and become a part of the Region's appropriation-in-aid and are used for recurrent expenditures of the Region (see discussion on page 5).

The rates for this fee are determined at the District level. There are, however, statutory minimum and maximum rates that can be charged; furthermore, the license is also based upon the type of establishment. The statutory limits together with the rates currently being used in Hanang District are shown in Table 9.

TABLE 9

LIQUOR LICENSE RATES[a] BY ESTABLISHMENT TYPE:
STATUTORY LIMITS AND ACTUALS IN HANANG
(in Shs.)

Type of Establishment	Minimum	Maximum	Hanang
Retailers (Off Premises)	200	2,000	525
Retailers (On Premises)	750	4,500	750
Retailer (Non-Spirit; Off)	100	2,000	750
Retailer (Non-Spirit; On)	150	750	750
Restaurant	300	4,500	2,250
Railway Station	200	1,000	n.a.
Railway Car	200	1,000	n.a.
Passenger Vessel	200	1,000	n.a.
Aerodrome	200	1,000	n.a.
Theatre	200	1,000	n.a.
Club--beer	20	100	n.a.
Canteen	20	20	n.d.
Temporary	100	100	n.d.
Extended Hours	10	100	n.a.
Transfer/Removal of License	10	10	n.d.

n.a.: not applicable; n.d.: no discretion

[a]All rates are 6-month.

SOURCE: Hanang District Trades Officer.

The rates chosen for this particular District range within the limits from the minimum charged for on-premises retailers to the maximum for on-premises (non-spirit) retailers while restaurants pay one-half the maximum. One might ask--why not always charge the maximum? There are two possible reasons for this, both of which relate to incentives. If maximum rates are used, the establishment owners has a greater incentive to avoid the licensing process entirely and it may actually drive some establishments from business (since retail prices are basically fixed). More important, however, is the fact that these revenues are currently not really revenues of the District nor the Region; they are simply appropriation-in-aid. As in the case of user charges, there is likely no real local incentive to raise additional revenues since the funds are not under the control of those setting the rates.

The Liquor License Fee collection record by District for 1977/78 through 1980/81 is shown in Table 10. Again there is substantial differences in the rates of growth of this revenue source across the several Districts. Whether this is due to different enforcement policies, rate changes or growth or erosion in the number of establishments could not be ascertained. Nevertheless, the overall growth of over 100 percent between 1977/78 and 1979/80 has to be considered impressive.

More explicit information on the Village revenue effects of transferring the liquor license revenues is found in Table 11. But again, on a Village basis, the provision in the Villages (Revenue) Act is not likely to prove to be a significant revenue source--at least in its present form and using the current rates. However, under the new Act there should be a greater incentive to raise the rates.

TABLE 10

LIQUOR LICENSE FEE REVENUES, BY DISTRICT: 1977/78-1980/81[a]
(in Shs.)

District	1977/78 Actual	1979/80 Actual	1980/81 Estimates	Percentage Change 1977/78-1979/80
Arumeru	43,834	376,621	413,076	690.8
Hanang	71,698	111,622	87,636	55.7
Kiteto	21,405	33,112	48,108	54.7
Mbulu	85,870	55,255	108,648	-35.6
Monduli[b]	106,379	124,189	na	16.7
TOTAL	329,186	700,799	---	112.9

n.a.: not available

[a]1978/79 data not available.

[b]Includes Ngorongoro District.

SOURCE: Regional Accounts Office.

TABLE 11

PER CAPITA AND PER VILLAGE LICENSE FEE REVENUES: 1977/78 AND 1979/80
(in Shs.)

District	1977/78 Per Capita[a]	1977/78 Per Village	1979/80 Per Capita[a]	1979/80 Per Village
Arumeru	.19	335.	1.60	2,875.
Hanang	.31	646.	.48	1,005.
Kiteto	.36	535.	.55	828.
Mbulu	.44	1,010.	.29	650
Monduli[b]	.92	1,803.	1,07	2,105.
TOTAL	.39	772.	.84	1,645.

[a]Based on 1978 population estimates.

[b]Includes Ngorongoro District.

SOURCE: Computed by author.

e. *Forestry License Fees.* Unlike the Liquor License Fee, rates for the Forestry License Fee are determined nationally so provide no opportunity for Regional or District decision-making. The rates (some examples are shown in Table 12) depend upon the variety of timber that is cut and is levied on the volume of wood used. The licenses are permits to cut and are issued by District or Regional Offices of the Forestry Department which is a part of the Natural Resources Ministry.

The collection history of these fees is shown in Table 13 with the data displayed in per capita and per Village terms in Table 14. Again there are considerable differences in the growth rates across the Districts; but maybe more important from the standpoint of equity is the extreme difference in the yield of this fee across the several Districts (due primarily, of course, to the spatial distribution of forested lands).

The data in Table 14 suggest that this potential Village revenue source also is not likely to prove a productive one. Even in Hanang District, the Forestry Fee in 1979/80 would have yielded the average Village only slightly more than Shs. 1,300 in additional revenues.

In sum then the revenue potential of Items 1(d) - 1(f) of Section 17A of the Villages (Revenue) Act, 1979 cannot be expected to be a major revenue producer; although, as the the previous discussion has suggested, alterations in the rates would help increase these revenues a bit. Had these three features of the Act been in effect in 1979/80, the data in Tables 8, 11, and 14 suggest that, on average, Villages in the Region would have gained Shs. 3,867 in revenues with the range from Shs. 2,216 in Kiteto to Shs. 4,923 in Monduli and Ngorongoro. Furthermore, as noted before, the smaller Villages would share proportionately less in these averages given the urban-bias of both the Business and Liquor License Fees.

TABLE 12

EXAMPLES OF FORESTRY LICENSE FEES AS OF LATE 1980

	Types	Fee Per Cubic Meter Under Bark
I. Logs	I A[a]	423/60
	I B[b]	150/00
	II	84/70
	III A	84/70
	III B	49/40
	IV	49/40
	V A	49/40
	V B	17/65
	VI	17/65
		Fee Per Meter
II. Poles	I (greater than 15 cm. diameter)	1/20 for bush poles 70¢-1/ for plantation poles
	II (10-15 cm. diameter)	1
	III (5-10 cm.)	40¢
		Fee Per Cubic Meter (Stacked)
III. Firewood	Bush	3/50
	Plantation	3/90 - 7/00
IV. Charcoal	2/00 per bag	

[a]The fee structure includes the specific varieties, e.g., East African Balckwood.

[b]An example of a Type I B tree is teak.

SOURCE: Regional Natural Resources Office.

TABLE 13

FORESTRY FEE REVENUES BY DISTRICT: 1977/78-1980/81[a]
(in Shs.)

District	1977/78	1979/80	Estimated 1980/81	Percentage Change 1977/78-1979/80
Arumeru	5,040	5,759	18,168	14.3
Hanang	71,503	145,468	137,244	103.4
Kiteto	3,777	10,914	25,380	188.9
Mbulu	54,184	90,157	74,196	66.4
Monduli[b]	40,208	44,234	96,143	10.0
TOTAL	174,712	296,532	351,131	69.7

[a]1978/79 data not available by District.

[b]Includes Ngorongoro District.

SOURCE: Regional Accounts Office.

TABLE 14

PER CAPITA AND PER VILLAGE FORESTRY FEE REVENUES: 1977/78 and 1979/80 (in Shs.)

	1977/78		1979/80	
District	Per Capita[a]	Per Village	Per Capita[a]	Per Village
Arumeru	.02	38.	.02	44.
Hanang	.31	488.	.63	1,310.
Kiteto	.06	94.	1.69	273.
Mbulu	.28	637.	.46	1,061.
Monduli[b]	.35	681.	.38	750.
Regional Average	.21	410.	.35	696.

[a]Based on 1978 population estimates.

[b]Includes Ngorongoro District.

SOURCE: Computed by author.

The Ces. Considerably more significant as a Village revenue source is the ces currently paid to Villages which act as agents of national marketing parastatals including the National Milling Corporation (NMC), The Tanzanian Cotton Authority (TCA), Tanzanian Pyrethrum Board (TPB) and the Coffee Authority of Tanzania (CAT).[1] Given the relatively short on-site time available for the current study and because the NMC ces is especially important in Arusha Region, we have concentrated on it.

The NMC constitutes the principle legal outlet for a wide variety of grains grown in the Region. The marketing arrangement is as follows: at the start of the harvest period the NMC advances money to each Village in the relevant marketing area. The Village then serves as an agent for NMC--purchasing the crop from the farmer and storing it until it is delivered by NMC to one of the NMC depots (one depot is maintained in each District). The advance to the Villages does not occur in one lump sum; but instead, a small advance is provided, then additional increments are added as the Village purchases additional grain.

Under this procedure the Villages have two responsibilities--transacting with the farmers and storing the grain until it is picked up by NMC. The NMC provides fire and theft insurance as well as tarpaulins to Villages without proper storage facilities. Nevertheless, the Village role in this marketing procedure is crucial. Thus, one interpretation of the ces is that it is a payment to the Village in its role as purchasing agent.[2]

[1] More detail on all of the agricultural parastatals is provided in Donald S. Humpal, "Arusha Regional Agricultural Sector Review." A Discussion Paper for AP/VDP and RIDEP--Arusha (Regional Commission's Office: Arusha, 1980).

[2] There apparently has been some pressure for Villages to charge NMC for storage costs for any period of grain storage beyond 15 days; however, this has not occurred.

The NMC ces consists of two parts--a 2¢ per kilo and a 7¢ per kilo component. The former is included in the advance the Village receives from NMC; the latter is paid only after the marketing process is completed. Yet the total ces of 9¢ per kilo is based only upon the amount of grain that is actually delivered to the NMC depot--not on the amount that the Village purchases from the farmers. Thus, any loss associated with the handling or storage of the grain will directly lower the amount of ces earned by a Village.

The role of storage in this marketing system is crucial; yet there is apparently considerable confusion regarding who is liable for losses that occur between the time the grain is delivered to the Village and when it finally reaches the depot. In any case, the general practice has been to pay the ces on only that grain actually delivered. To provide a crude, but illustrative, example of the revenue losses associated with this "shrinkage" consider the following. Grain production in Hanang District averaged 501.8 metric tons per Village in 1978-79.[1] This, in turn, would have yielded the average Village Shs. 2.25 per capita. Assuming that the average household consists of five persons, the estimated loss is equivalent to Shs. 11.25 per household which, when compared with Table 5, would be a substantial proportion of some of the contributions requested for projects.

Many Village officials contend that the delay before final NMC payment is excessively long after the end of the harvest period--often about 6 months. NMC argues that it takes that amount of time to determine exactly what they owe the Villages. This computation involves deducting from the total 9¢ per kilo ces any excess advance NMC had paid the Village,

[1]The crop production data are taken from Humpal, Ibid., but even he is unsure whether they are the amounts delivered to the depot or the amount purchased by the Villages for NMC.

the value of commodities provided to the Village, e.g., scales, credit that had been extended, and the 2¢ ces which had already been included in the advance. Given all these items, together with the state of some Village accounting systems, some passage of time to complete all of these computations is natural. However, whether or not it should take up to six months is a question we were not able to answer.

One other aspect of the ces is that it is payable only on those commodities that pass through the Village to NMC. Thus, to the extent that producer price controls create "parallel", but illegal, markets, these locally produced goods create no direct revenues for the Village.

A question of importance for the recommendation section below is whether or not the ces can be considered a tax rather than simply a reimbursement to the Villages for their efforts. To the extent the 9¢/kilo amount exceeds the costs, one can argue that this excess over costs is a tax.[1] The question then arises as to who pays the bulk of this tax--the farmer or the consumer. Under NMC pricing scheme, it appears that the consumer bears the burden of this tax. NMC bases consumer prices (for crops other than maize where the price is controlled by the Central Government which, in turn, subsidizes NMC for its losses) on their expected average costs (including the ces) plus a 5 percent profit. Since the ces is included in this costing base, one can argue that it is the consumer who ultimately pays the tax (see the following section for an elaboration on this point).

[1]Economists might term it a "rent" in the sense that it exceeds the opportunity costs of providing the service; however, using the previous definition of a tax as being a payment to a public body in the absence of specific services rendered, the term "tax" seems most appropriate.

While one can argue the ces is a tax, the fact that it is a fixed amount (9¢ per kilo) and that the prices of crops vary means that it is levied at differential rates. Table 15 shows both the 1980-81 and 1981-82 producer prices of the eight crops currently under the authority of NMC. The wide variation in producer prices (which, except for maize, will be reflected in consumer prices) means that the tax component of the ces will vary across these cereals.

Of what importance is the NMC ces to Village revenues? In the grain-growing portions of the Region it is considerable. For example, we found that in Endasiso (Hanang) the NMC ces (Shs. 223,162.15) accounted for 40.9 percent of the Village's 1979-80 revenues of Shs. 545,421. Of course, the NMC ces flows only to those Villages which happen to be located in surplus grain-growing areas.

There are, however, analogous revenue sources for Villages producing commodities for the other agricultural marketing parastatals. For example, the Coffee Authority of Tanzania (CAT) has an arrangement with Villages in the coffee-growing areas quite similar to that of NMC. Under this scheme the Village purchases the coffee from farmers (using an advance provided by CAT) at a price of Shs. 9 per kilo of parchment coffee and 1.80 per kilo for sharry. The parchment coffee is stored for only a few days in the Village before the CAT transports it to its curing center in Moshi. For their action as agents for the Coffee Authority the Village Council receives 25¢ per kilo of parchment coffee. The Village must, however, provide a 3-member committee to oversee these activities and, as well, must hire casual labor. There would seem to be less risk associated with storage losses with this commodity than in the case of the NMC since CAT pick-up is, apparently, quite timely.

TABLE 15

NMC PRODUCE PRICES: 1980/81 and 1981/82
(in Shs.)

Crop	Price Per Kilo 1980/81	Price Per Kilo 1981/82
Maize	1.20	1.50
Bull Rush Millet	1.00	1.00
Finger Millet	1.50	1.50
Paddy	2.00	2.30
Wheat	1.65	2.20
Sorgham	1.00	1.00
Beans		
#1	3.50	3.50
#2	2.75	2.75
Casavva		
#1	.70	.70
#2	.50	.50

SOURCE: NMC

Again, this ces can yield reasonably large revenues for Villages in the coffee-growing areas of the Region. For example, the Village of Singisi (Arumeru) earned Shs. 78,458 (or over Shs. 22 per person in the Village) from the CAT ces for the 1980 crop.

Issues in Contributions and Taxes

When debating the policy options regarding contributions and taxes there are four principle issues that should be kept in mind--the allocative or incentive effects of these instruments; their equity implications; their potential yield and its growth over time; and their administrability. We briefly consider each here.

Allocative or Incentive Effects. Since a tax or enforced contribution, especially if it is tied directly to some form of economic activity, alters relative costs, it has particular incentives or allocative effects that may or may not be desirable. For example, if a Village were to require that owners of all-white cattle were to contribute an additional Shs. 50 per head owned but no additional contribution is required for other colors of cattle, owners would have the incentive not to own all-white cattle (or in some way attempt to alter the color of their all-white animals). While that example is far-fetched, the current business license fee system contains other, quite obvious incentives. For example, under the 1980/81 business tax structure an individual, if the profitability of the two pursuits are equal, would choose to pursue those trades shown in Table 6 which are taxed at Shs. 1000 rather than the construction trade which is taxed at Shs. 2000. Similarly, since private professionals, e.g., private practicing lawyers, are taxed at Shs. 5,000 whereas lawyers in the Government are not so taxed, there will be an incentive to leave private practices as long as the income differential between the public and private sectors is less than Shs. 5,000.

High income tax rates also have disincentives--in this case to earn income. If 60¢ from each additional shilling of income is taxed away, some individuals will decide it is not worth the effort to earn the additional 40¢ they are allowed to keep.[1]

Sales or consumption taxes, too, can alter behavior. Imposing high import duties discourages the consumption of imports in favor of domestically produced goods. This then might be an example of a favorable use of the disincentive effects of taxes if a country is having balance of payments and currency problems.

The imposition of taxes can have differential disincentive effects, depending on the responsiveness of the decision-maker to the changes in relative costs. This is especially important in determining the potential yield of a tax. Obviously, if consumers simply pay the tax without decreasing consumption much at all, the revenue yields will be considerably greater than if they cut back substantially in their buying. This is one reason why taxes on liquor are often considered desirable revenue instruments.[2]

[1]There are, of course, also incentives to avoid the tax illegally; these are discussed under the topic of administrability.

[2]A second reason for their desirability is that it may be a goal to decrease consumption; to the extent drinkers do cut back, this goal is reached.

If liquor consumers are willing and able to pay the new higher price due to the tax, the revenues (tax per bottle times number of bottles produced or sold) will remain high.[1]

The previous examples illustrate another important issue of taxation--who pays or bears the burden of a tax. In the liquor example, it is probably the consumer, whereas, in the case of the import duty that decreases imports greatly, the bulk of the "burden" of this levy is on the foreign-country producer. That is, the foreign producer finds that it can no longer sell as many goods as prior to the imposition of the duty.

This same analysis can be applied to the agricultural ces. In that case, the ces is added to the consumer's price.[2] Under the reasonable assumption that the demand for these grain products is price inelastic, i.e., consumers do not substantially decrease their consumptions of these goods, it is the consumer who bears the bulk of this tax.

Two other items should be mentioned under the heading the incentive effects. One is that exactly the same arguments regarding elasticities of demand hold when applied to the effects of user charges. The second is that flat rate contributions of the form traditionally used at the Village level have little or no such economic disincentives since the principle alternative to contributing is to leave the Village--a very costly means of avoiding the levy. This instrument does, however, have potential negative equity implications.

[1]Economists term this low responsiveness of consumers to a price change a low "elasticity of demand".

[2]More accurately, the "tax" consists only of that portion of the 9¢ per kilo which exceeds the costs of handling the crop before it is transported to the depot.

Equity Effects. There are two alternative ways of judging equity--according to the benefits obtained from the use of the revenues and according to the ability of different persons to pay. Unfortunately, at times these principles can conflict.

Under the benefit principle, contributors or taxpayers should bear the costs of a public service in proportion to the benefits they derive from that service. This is the equity principle that also underlies user charges--he who uses more, pays more. While a tax or contribution can be designed to satisfy this criteria, it takes careful planning to design a benefit-based levy since they are generally levied on the bulk of a jurisdiction's population. Yet, if the principal beneficiaries of a project can be identified, it might be possible to impose benefit-based contributions on a select component of the residents of the Village. For example, the contributors to an irrigation system could be limited to those farmers directly served by the irrigation water.[1]

Neither the Liquor nor Business License Fee structures would appear to be in accord with the benefit principle. It is unlikely, for example, that professional accountants derive five times the benefit from public services that hotels obtain.

Instead, it may be that the ability-to-pay principle of equity provided the rationale for that structure (although, this too is unlikely given the flat rates imposed). Under an ability-to-pay criterion, those with greater

[1]One can argue, however, that an irrigation system will improve overall crop yields in a Village; this, in turn, should increase the amount of grain sold which will mean that the Village will earn greater revenues from the cess. Since these revenues are available to all Villagers, the benefit principle could be interpreted to mean that all Villagers should contribute towards the irrigation project.

resources at their disposal should contribute more towards the raising of revenues. In the irrigation example above this might mean that villagers with greater resources would be required to pay a larger portion of the initial costs of the project.

Under the system of contributions to projects commonly used in Villages, each registered villager is asked to contribute equal amounts. Such a system, to the extent that villagers are not all equally wealthy, violates the ability-to-pay principle.[1]

Revenue Yield and Growth. A third, and possibly overriding, objective of any revenue system is to raise revenues. Furthermore, it is preferable that as the expenditure needs of the jurisdiction expands, the revenues generated will grow automatically rather than requiring an upward discretionary adjustment in rates. This is especially important when recurrent costs of services increase due to the dual effects of inflation and greater demands for the service being provided.

The current and previous business license fee structures illustrate well the extremes in satisfying the automatic growth criterion. Under the old system, with its higher fees on firms with greater turnover, as the business activity of an area increased due to increased population, increased buying power of consumers or increased prices, a firm would pay higher fees thus helping to meet increased recurrent costs of supplying public services.

[1]We did observe in Usa River (Arumeru) a system whereby those more able to pay were asked to contribute Shs. 200 per Village member towards the purchase of a lorry while the average villager contributed Shs. 120 (Table 5).

The old system was therefore "elastic" or responsive to changes in the incomes of firms. Just the opposite is true of the new system with its flat rates. Currently the only automatic growth in revenues occurs when new businesses are formed; any additional increase in revenues will be possible only through an upward adjustment in rates.

While the ces is directly linked to the level of production in a Village, it does not grow proportionately with farmers' income. This is because it is tied to the quantity of crops produced rather than to their value. For example, maize prices were recently increased. But if production remains constant, maize farmers will realize a 25 percent increase in incomes while the Village will obtain no additional revenues.

The lack of growth in the ces may be less important in the context of Village revenue generation than the fact that for Villages without a crop surplus, it generates no revenue at all. That is, in the pastoral areas of the Region, Villages must rely exclusively on self-help projects, contributions, and credit for their revenues. This greatly limits their financial stability for it means they have no relatively large and fairly certain source of annual revenues. We return to this issue in the recommendations section below.

Administrability. By this we mean that the tax or contribution can be collected in a low cost way while still insuring that the payer knows exactly how much he is to pay, i.e., that collectors cannot be capricious in their administration of the levy, yet still insuring that all who are to pay actually do so. The Village contribution system probably satisfies each. It requires no employment of additional collectors; once the amount is set by the Village Assembly, all know it; and, since it is to be used for a project which will aid the community, Villagers have the incentive to comply. Furthermore, given that the Villages are small, the pride from public announcements regarding who has paid or the embarrassment of public lists of non-payers can greatly increase the incentive to pay.

The costs of determining the total tax liability as well as collecting and enforcing the tax are also major aspects of the administrability of a revenue source. As we noted above, one possible reason for the change in the business license fee structure was the administrative cost of determining a firm's turnover. On the other hand, enforcing both the business and liquor license fees is relatively low cost since the establishment can be required to display the license.

The ces would seem to get reasonably good marks in costs of administration since it is determined in a straight-forward manner. From a Village standpoint, an advantage of the ces is that the administrative costs are primarily borne by the parastatal (and ultimately by the purchasing public). Furthermore, the ces is certain and, subject to the discussion in delays in payment, is apparently remitted accruately.

Recommendations

Based on the preceding and the fact that contributions and taxes are the most direct path to mobilization of Village resources, a fairly substantial list of policy recommendations can be made.

1. The apparent success which the Villages have had with contributions suggest they should be continued and approximately in the manner which has proven successful (but see 2 below). That is, as plans for development

projects arise, contributions can be used either as the sole source of funds for the down payment on credit-financed schemes or in conjunction with fund balances in existing accounts. This second alternative also points out an important principle of financial management. It is wasteful of resources to allow balances in accounts to lie idle. Thus, even before resorting to contributions to finance a project, existing balances in other accounts should be drawn down to a safe level (an amount that will provide for possible contingency needs) through the use of inter-account transfers. For example, suppose the purchase of a lorry costing Shs. 300,000 is planned and the lending institution requires that one-quarter (Shs. 75,000) of the cost be directly supplied by the Village. Rather than immediately recommending that villagers contribute the full Shs. 75,000 towards the project, all other accounts of the Village (project accounts and the General Account) should be surveyed to determine if they contain balances in excess of what is really necessary for prudent financial management. In any event, should such a contingency arise, e.g., a major repair is necessary to keep the Village tractor running, a contribution scheme can then be devised to meet the emergency. The point here is that while mobilizing resources is desirable, those same resources are useful to the villagers when they remain in the villager's pockets.

2. When there are reasonably large differences in the abilities of villagers to pay contributions or when projects will affect certain segments of the Village and only very indirectly aid all villagers, serious consideration should be given to differential rates of contribution. In the former case the ability-to-pay equity principle will be served if those with greater

resources at their disposal be required to pay more than those with few resources. In the latter case the benefit equity criterion is at issue--those deriving the benefits should bear more of the costs.

3. The Villages (Revenue) Act (Section 17B, Item 2) is an extremely broad item of enabling legislation. It implies that the greatest limitation to Village revenue raising may be the imagination of the Village Council.

The example of the brewing fee charged in several Villages in Hanang District is appropriate here. Even if the brewing equipment is owned by a private villager, there appears to be no reason that the use of this equipment could not be taxed, e.g., a fee of Shs. 20 per brew could be charged. It is likely to provide a source of continuing revenues, i.e., Shs. 20 is unlikely to be so high as to be a disincentive to brew and it may even be in line with the ability-to-pay equity criterion, i.e., those more able to brew are also more able to pay. The only potential problem would seem to be its administration. However, in small Villages all that may be required is that the Village accountant check daily to see if the brewing equipment is in use and, if so, collect the required fee.

A second possible revenue source is a fee assessed on each privately-owned shop in the Village. In part this would provide revenues but, in addition, based on the disincentive effects of taxes discussed above, may hasten the exodus of privately-owned shops.

There may be arguments that each of the previous fees are not legal. While this investigation has, admittedly, not included a thorough search of the relevant statutes, it would seem that the way to proceed is to try these measures. If found illegal, so be it (although such a finding would seem to be contrary to the spirit of the Villages (Revenue) Act); if found legal, the resources of the Village Council would be expanded.

4. While the data in Table 8 suggest that Villages will not profit greatly from the remission of the Business License Fee, it too can supply a reasonably certain small source of revenue. As was discussed there, however, the change in tax rates for 1980-81 have contributed to the small size of revenues. It is therefore recommended that the Region press the Central Government to reimpose a fee that is based on turnover and type of business rather than the flat-rate fee. Such a change would be in accord with the ability-to-pay criterion and would make the revenue source more elastic while still not containing overly severe disincentive effects. While more costly to administer, history suggests such administration was feasible.

5. The conversion of the Liquor License Fee to a Village revenue source also may not prove especially lucrative (Table 11). While this may always be the case, one simple change would help. Under the old system where these fees were part of the Region's appropriation-in-aid there was little incentive to levy high fees. But this incentive has now changed--the revenues are not to be netted out against the Region's recurrent budget contribution from the Central Government but, instead, are to accrue to the Villages. Now the only argument against higher fees would be the possible incentive higher fees might have for liquor establishments to evade the fee by not being licensed.[1] The current list of license holders would, however, aid in detecting such evasion.

[1]We are assuming here that higher fees will not be sufficient to force establishments to close--a reasonable assumption if prices were flexible since the demand for liquor does not respond greatly to price changes. Given price controls, this assumption may be more questionable.

6. There is little in the way of short-term alterations in the structure of the Forestry License Fee that are feasible at the Regional level given that it is currently set nationwide. While this source, too, will not yield substantial Village revenues (Table 14), the Region may wish to press for a more complete study of these rates to determine the effects a rate increase would produce.

7. The three previous points noted the relatively small amounts obtainable from the Business License and Liquor License and Forestry License Fees. Another issue must also be addressed here--the maldistribution of these funds. Even on a District-wide basis, the data in Tables 8, 11, and 14 show considerable differences in average Village revenues. Within Districts these dispersions may be even greater since Villages differ significantly in the extent of their commercial base--from those with but one or two small shops to community trading centers which have more commercial economic activity. Under the Villages (Revenue) Act the former Villages will get next to nothing while the latter will get considerably more.[1]

Given this maldistribution and relatively small per Village revenue yield from these three sources, the following longer term (since it would require statutory changes) policy option is presented. Rather than have the revenues flow directly into the Villages, they could be accumulated in a revolving fund to be administered at a higher level in the organizational structure--possibly the District level. This revolving fund would be used only for development projects carried out at the Village level.

[1] It is interesting to note that apparently it was exactly this maldistribution of revenues and services that helped lead to the decentralization. See, World Bank, "Tanzania: Fiscal Aspects of Decentralization," (Report No. 587-TA, March 19, 1975), pp. 6-8.

The fund would be administered by the District Development Director. When a Village had designed a project it would apply for use of a portion of the revolving fund and would have to contribute itself no less than, say, 25 percent of the total project cost. The Village would then be given time, e.g., five years, to reimburse the revolving fund but would not be required to pay interest. The revolving fund would, in effect, be a low cost alternative to the more traditional credit sources (see Section V). So as to provide repayment incentives, a Village would be restricted to a single project financed through the Fund at any point in time.[1]

The purpose of this recommendation is two-fold. First it allows consolidation of the tax revenues that otherwise would be spread very thinly over all Villages and in a way that is contrary to the redistributive spirit of decentralization. Second, it provides another source, albeit small, of revenues dedicated to development purposes.

8. The produce ces is, at least for some Villages, a significant source of revenues and definitely should be maintained. The only question would seem to be whether the levels of these sources, e.g., the 9¢ NMC ces and 25¢ Coffee Authority ces, are reasonable and equitable?

While answering these questions cannot be accomplished without considerably more study, it does appear that even the NMC ces would not treat two Villages with different composition of crops similarly. Consider the following, obviously contrived, example. Two Villages have the same number of acres under cultivation but Village A specializes in maize while Village B

[1]A prototype fund has already been created as a part of the AP/VDP project; this could serve as the basic model for administering the revolving fund. It is important, however, to manage this fund in a manner such that financial resources paid back into the fund are not allowed to lie idle.

specializes in wheat. Recent crop records suggest that average output per hectare of maize (approximately 1.5 tons) exceeds that of wheat (about 1.2 tons).[1] If both Villages market all of their production through NMC, Village A will earn approximately 25 percent greater NMC ces revenues than Village B.

It is not possible to conclude what is equitable. Yet it is important to learn more about the underlying rationale of the agricultural crop ces system so that it can be analyzed in terms of its incentive and equity implications and altered if the analysis so indicated. For example, analysis may show that a 2¢ NMC ces could be levied on a per kilo basis to cover the Villages' costs of handling any type of grain. The remainder of the ces could be set as a percent of the producer price, e.g., 5 percent of the price of maize. In this manner, as producer prices rise and generate more incomes to the villagers, the ces would also rise. While obviously very tentative, the example suggests that alternative systems do exist and should be considered as a longer run policy action.

9. Possibly a greater inequity across Villages in Arusha Region concerns the relative treatment of pastoral versus agricultural-based Villages. The latter Villages earn the different commodity ces revenues described above while the former have no similar revenue source. It would appear that a change in the system is, therefore, in order.

The discussion above suggested that the agricultural ces constitutes a tax placed on the consumer. One recommendation would be to apply a similar tax on the consumers of livestock products.

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[1] Based on estimates contained in M.S.D. Bagachwa, S.S.A. Vgware and I. Shao, "The Third Five Year Plan (1976-1981): Programme Impelemetation and Evaluation in Arusha Region," (Washington, D.C.: Development Alternatives Inc., 1980), p. 37.

Under such a system, each head of livestock sold initially (i.e., not resold) through the Tanzanian Livestock Marketing Co. (TLMC) would have a ces added to the purchase price which would be transferred to the Village of the seller. This ces could be set at some very low percentage of the selling price of the animal, e.g., 1 percent. This would mean that steers currently selling for from Shs. 2,000-3,000 would yield Shs. 20-30 per head, bulls might yield about Shs. 15 per head and goats around Shs. 2 per head. This "tax" would thus be a small one yet it would provide a continual source of revenue to the pastoral Villages.

There is a possible disincentive inherent in this policy option. According to TLMC about 90 percent of the marketed animals pass through its markets.[1] Whether a 1 percent price difference would lower this proportion substantially is difficult to ascertain. The plan would, however, have low administrative costs and, given the likely low responsiveness of the demand of meat to price changes, should not significantly lower quantities demanded. Furthermore, it parallels the current agricultural commodity ces system. In addition, implementation of such a system might not require any statutory changes. To work, however, it would have to be applied to the livestock of all Villages lest an artificial price differential be created between Villages with and without a livestock ces.

10. A final policy option, again of a longer term nature, would quite dramatically alter the ces system.

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[1] Other sources indicated, however, that the percentage is probably nearer 60-70 percent.

It has been noted that the present fiscal structure of Tanzania has allowed the agricultural sector to remain untaxed directly.[1] While it is recognized that such a situation may be in keeping with the country's desire to speed agricultrual development, taxing some of the wealth from that sector but using those funds locally for development purposes may speed the process, e.g., by allowing for improved storage of grain or more efficient transportation of the products to their markets. Furthermore, it is often argued that to bring a segment of the population into the taxpaying sector (so that they have a vested interest in how the funds are spent) will, at the very least, increase their interest in the entire governing process.

As has been noted several places above, the current ces is borne principally by consumers as would the previous policy option regarding a livestock ces. This could easily be altered, however, either by substituting a ces on the producer in place of a portion of the current ces, e.g., 3¢ of the current 9¢ NMC ces, or by adding a producer ces to the current system. The latter is to be preferred if revenue gains are the objective. The former would provide for slightly lower consumer prices.

What are the implications of such a plan? First, it would have some slight disincentive effect since it would mean lower net producer prices. But since the revenues would remain locally, this may help alleviate such a supply response. When applied to livestock marketed

[1] See World Bank, "Tanzania Basic Economic Report, Annex I - Domestic Finance and Resource Use" (Report No. 1616 - TA, December, 1977), p. 211.

through TLMC there could be two disincentives. First, it might encourage avoiding this formal marketing outlet and, second, it might encourage livestock growers to keep stock they would have otherwise sold. The extent of these effects would, of course, depend on the rate applied and needs further analysis.

With respect to equity, a producer ces would be in line with the ability-to-pay criterion since those with greater incomes would pay more. Whether it would satisfy the benefit principle depends on the types of projects for which the funds were used, but the initial answer would seem to be in the affirmative for most Village development projects. It would yield a fairly continuous source of Village revenue and, if the rate structure employed was based on value of products sold, the revenues would respond to increased incomes.

Finally, it definitely should be administrable. It would simply be attached to the current system which works reasonably well with low administrative costs.[1] It would be certain and, except for the incentives to avoid the levy mentioned above, should have a reasonably high level of compliance (again, in part, because the funds would be retained for Village use).

While it is not seen as the solution to Village development problems, such a system deserves careful consideration. Furthermore, the Villages (Revenue) Act would seem to provide exactly the proper vehicle for it to be applied.

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[1] Apparently the TLMC has already appl[illegible]ch a system to derive livestock ces revenues for a District project. In that case the ces was definitely borne by the seller. This means, too, that some data are available for analysis of the disincentive effects of such a system.

V. CREDIT

The question of credit as a resource mobilization tool for Villages is an extremely broad one, too complex for any in-depth analysis here. The full range of issues extend beyond Arusha Region since credit availability is intimately tied to macroeconomic issues of Central government fiscal and monetary policies as well as international finance and the availability of foreign exchange.[1]

Thus the questions to be addressed here are much simpler, but incomplete ones, of: how is credit financing organized and carried out; how extensively is it used and for what purposes; what issues arise when using credit financing; and finally, what policy options are deserving of consideration within the parameters noted above.

The Setting

There are several institutions that provide credit financing to Villages for either production loans or project loans. Among these are the Tanzanian Rural Development Bank (TRDB) and the National Bank of Commerce (NBC) as well as more specialized institutions such as the Tanzanian Housing Bank (THB) and the Small Industries Development Organization (SIDO). In what follows we concentrate upon the loan activities of TRDB since it is possibly the most important institution granting both production and project loans in this agricultural area.[2]

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[1] A very good and up-to-date review of these issues is contained in M.S.D. Bagachwa, "The Financial Infrastructure in Tanzania: Perspectives, Problems and Policy Strategies," (Regional Commissioner's Office, Arusha, 1981). Initial Draft.

[2] See Bagachwa, Ibid. for more detailed information on credit policies of these institutions.

The TRDB was established in 1971 with the express purposes "to mobilize domestic and external finances in order to provide loans for the financing of various economic projects in rural areas."[1] Not only does TRDB extend credit to Villages, but as well to public corporations and small cooperatives.

There are basically three types of loans extended: (1) production loans for the growing season, (2) medium term project loans of from 1-5 years, and (3) long term project loans of from 6-15 years duration.

Production loans are currently granted to Villages at 8 1/2 percent interest and are due after harvest. Repayment history on these loans has not been particularly good with the uncertainties of the weather playing an extremely important role in determining repayment success. According to TRDB officials, it is willing to lengthen the loan by rescheduling payments if there is good reason for default, e.g., a drought. This is, of course, crucial in any agricultural community which does not contain sufficient local resources to finance the large expenditure requirements associated with planting.

Regional production loan activity data would suggest that there has been a dramatic decrease (at least as granted by TRDB) over the past two years. According to the TRDB the number of production loans over the past three years is:

1978/79:	87
1979/80:	81
1980/81:	24

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[1] United Republic of Tanzania, Third Five-Year Plan for Economic and Social Development, 1 July 1976-30 June 1981, Volume I, Part One, p. 100.

There are several possible reasons for this extremely large decline. The agricultural sector may have generated sufficient capacity to become self-financing; possibly it has discovered other sources of credit; past defaults on production loans may have convinced TRDB that the Villages are poor risks; or perhaps there simply has been a change in TRDB policy. We doubt that self-financing is the key to this decline and have not discovered other major sources of production loans. The most likely reason probably lies with some combination of past Village performance in repaying these loans and TRDB policy. TRDB officials indicated that they have become considerably less tolerant of default and have applied more strict qualifications regarding loan approval. It was mentioned that another factor has been recent farm input price increases, e.g., the price of some seed has increased six-fold over the two-years, 1978/79 to 1980/81, such that these activities are now less profitable and, hence, more risky. Whether the recently announced increases in producer prices of maize, wheat and paddy will loosen these requirements remains to be seen.

With respect to project loans, the data in Table 16 describe both the current terms and current activity of TRDB in this area. The interest rate data in the Table together with other TRDB-supplied information, indicate that these are, in fact, subsidized loans. For example, TRDB extends farm machinery and transport credit to the private sector at 10 percent rates and private small scale industry loans at 9.5 percent. Apparently, the NBC applies even more stringent terms--one-half down payment, 18 months to pay at an annual rate of 11-12 percent. Thus TRDB is, in fact, a source for "low-cost" loans--if they can be obtained.

Although the interest rates are subsidized, the loan repayment periods may be too short. For example, if a maize mill (a small scale industry) has a life-length of at least ten years, requiring the loan to be repaid in three years is inefficient. Furthermore, as the discussion in Section III suggested, short repayment periods can create cash-flow problems for Villages and increase the likelihood of default. Longer repayment durations will increase total interest costs; however, they also lower the cash requirements in any single year thus making repayment more feasible.

The more disappointing data in Table 16 are the number of loans outstanding. Given the obvious need for godowns for proper grain storage and the apparent demand for better transport capabilities, observing no loans in these two areas suggest problems somewhere in the system.[1] Possibly it is due to the lack of availability of the necessary equipment--a national problem associated with international finance difficulties.[2] Perhaps it is due to TRDB--its policies or procedures. They may be experiencing a shortage of loanable funds. Or possibly they have found preferable investments in other segments of the economy.[3] Or it may be that their administrative procedures are overly lengthy and complex so that Villages simply do not apply.

On the other hand, the blame may rest on the Villages themselves (and the Offices responsible for providing them guidance)--lack of knowledge of the loan application process; previous failures in meeting loan repayment

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[1] At the same time, data in Bagachwa (p. 18) suggest that in 1978/79 nationwide TRDB loans for storage and rural transport constitued only 1.2 percent and 3.5 percent, respectively, of their total portfolio.

[2] For example, we were told in Usa River (Arumeru) that TRDB had approved their loan application for an 8-ton lorry costing Shs. 300,000 with the Village supplying one-half as down payment. They are, however, awaiting delivery of the truck.

[3] Bagachwa notes that "the export crop sector and particularly the World Bank financed projects have been absorbing a higher proportion of TRDB loans than the food sector over the past nine years." (p. 16).

TABLE 16

TRDB TERMS FOR PROJECT LOANS AND NUMBER CURRENTLY OUTSTANDING IN ARUSHA REGION[a]

Type of Project	Interest Rate	Duration (Years)	Payment Schedule	Number in Region[b]
Farm Machinery	7.5%	1-5[c]	1/year	7
Transportation	9.0	1-5	12/year	0
Small Scale Industry	7.5	1-5	12/year	35 (approximately)
Storage	7.5	6-15		0
Mining	9.0	6-15		0
Livestock/Fishing	7.5	6-15	monthly or quarterly	3[d]

[a]All projects shown require a minimum 25 percent downpayment.

[b]As of June 1981.

[c]Usually 3 years for machinery.

[d]Two ranches and one dairy farm.

SOURCE: TRDB

schedules; poor initial feasibility studies so that the likelihood of approval is quite low; or the unwillingness to incur debt. Most likely it is some combination of all these factors.

If a Village decides to pursue credit financing through the TRDB, a feasibility study is carried out through the joint efforts of the Village, appropriate Government Offices and TRDB. The loan application process has the application transferred from the Village to a District Office of TRDB (they maintain two--one in Hanang and one in Kiteto), then to the Regional Office and (at least for large loans) finally to the TRDB headquarters office. This procedure may be overly lengthy and unwieldy. While TRDB does not feel that is the case, Villages have apparently experienced waitting periods as long as 18 months for final approval. On the surface this would appear overly long.

With respect to loan requirements TRDB, of course, feels that their standards are realistic. For example, they require that a Village have at least a 200 acre farm before they are willing to grant a tractor loan--probably a reasonable requirement. They estimate their approval rates have been on the order of from 50-60 percent.

Loan default by Villages has been a continuing problem faced by TRDB, although we were told that they have experienced fewer problems with transport and small scale industry credit. The cyclical fluctuations in agriculture have created the most severe default problems on loans granted for farm machinery. One might suspect that national pricing policies and difficulties with the importation of spare parts have also contributed to the problem.

Issues

While national and international money and credit constraints are basically outside the influence of the Region, there are several administrative issues to be recognized when considering credit as a resource mobilization device.

One of the most important of these issues concerns a realistic determination of the economic feasibility of a project. While lending institutions may aid in this process, the Village in cooperation with the appropriate offices of Central Government Ministries can do much themselves before calling in the assistance of the institution. If an agricultural project is planned, what have yields been over the past several years (or why might they be expected to inc ease and by how much) and what will the operating costs likely be (here is where the Ministries can supply helpful data based on similar projects)? If it is a small scale industry, what is the competition (which provides some idea of projected price and usage) and, again, what operating costs will be incurred?

A second point has to do with the credit terms. While a 25 percent downpayment is the maximum for TRDB loans, it can be exceeded and, as such, may improve the likelihood of project approval. The specific mix (between downpayment and loan) to be chosen should depend on the amount of idle balances in the other accounts of the Village and alternative opportunities. If idle balances are minimal, the maximum loan should be pursued (rather than requesting large contributions from villagers). This is because at interest rates of 7.5 - 9.0 percent the opportunities foregone are minimized by not eroding villagers' wealth.[1] On the other hand, to the

[1]The implicit assumption here is that rates of return to villagers on their own investments exceed 9.0 percent.

extent that there are excess balances (greater than contingency needs) in other accounts, these amounts can be used to lower the amount of the loan and thus raise the likelihood of successful repayment.

Good financial practices dictate that loan default should be avoided primarily because it is likely to diminish the likelihood that loan requests will be granted in the future, even if the subsequent project is relatively risk-free. To avoid default the first alternative is to alter the terms of the loan by extending the repayment period. Credit institutions nearly always prefer this approach since it provides a way for them to minimize losses. A second alternative is to use other resources. Again, idle balances should be the first candidate as a source of funds; the next best approach is to solicit contributions. In any event, the underlying reason for default should be ascertained. To the extent that management practices have been faulty, these should immediately be remedied.

Policy Options

Given the lack of Regional control over a major portion of the credit allocation process, the policy options and recommendations presented here contain few policies with an immediate payoff. Nevertheless, the credit question is of sufficient importance to warrant Regional discussion.

1. The question of credit availability for production loans in agricustural areas is an absolutely crucial one. While any production process requires inputs to produce outputs, the lack of credit in a sector as crucial as food production cannot be allowed to continue. The decrease in TRDB production loans from 81 in 1979/80 to only 24 in 1980/81 (a 70 percent decline) is alarming.

If the decrease in loan activity has been due to previous mismanagement of loans by the Villages, the problems can, and should, be remedied. This may mean aid in implementing better farming practices by the agents of the Ministry of Agriculture; or it may mean improved Village financial practices with the Ujamaa and Cooperative Officers insuring that they are implemented.

On the other hand, it may be due to Central Government and TRDB policy. If so, it would seem to be ill-advised. Furthermore, in the case of crop failure due to the weather there is even greater need for extension of production loans since it is exactly during those periods that the villagers are most in need of resources. While the Central Government, its Ministries and the TRDB are certainly aware of that fact, it is the Region's responsibility to press for relief actions.

2. In the case of project loans there would seem to be several policies to be pursued at both the Regional and Village level. The role of realistic feasibility studies cannot be overstressed. Personnel of the District Ujamaa and Cooperative Offic s must be trained in the rudiments of such studies to insure that the Villages are given adequate guidance.[1]

The discussion of project management above is also relevant here. For long term viability both of the credit-financed project and the possibility of subsequent granting of credit, default should be avoided if at all possible. Again this management assistance is likely to fall to Ujamaa and Cooperative Officers as well as the employees of the Ministries.

3. The absence of any godown or transport loans from TRDB is perplexing. Furthermore, only 7 farm machinery loans in the agriculturally-based Arusha Region seems low. As a first step, inquiries to TRDB head-

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[1]We were told that currently no one at either the Regional or District level has had explicit training in this skill.

quarters would seem to be in order. Secondly, as was suggested earlier in this Report, the possibility of joint venture projects should be actively pursued. For example, such schemes may be sufficient to overcome the constraint of Village farms of less than 200 acres being eligible for farm equipment loans.

4. Again, as was also suggested above but in a different context, financial management capabilities of Villages need to be strengthened. The example given above of minimizing the local resource cost of projects (by choosing preferable combinations of down payment and credit-financed proportions for projects) is an exercise that any trained financial manager would carry out. While it has been impossible to determine the level of financial management expertise at the Village level, it is suspected that it may be lacking. Again the most reasonable place to begin would be with the financial overseers of Villages, the District Ujamaa and Cooperative Development Officers. With minimal training, the financial management capabilities at the Village level could be improved.

VI. INTERGOVERNMENTAL AID

The term intergovernmental aid means the flow of money from one level of government to another, most often from a higher level to a lower level. In this section consideration is given to the development of a system of intergovernmental grants that would flow from the Central Government to Regions, Districts, or Villages.

We begin the discussion by examining the current system and suggest how it can lead to a less efficient allocation of resources than otherwise might occur under an intergovernmental aid system. We then turn to a discussion of the issues that would have to be considered in the formation of any intergovernmental aid scheme. Finally, we set forth several recommendations that could be taken under consideration. It is recognized that instituting a system of intergovernmental aids would constitute a longer term strategy, but one that could have an overall beneficial fiscal implication for local governments in the Arusha Region.

Current Situation

In one sense of the word, most of the services that are supplied to individuals in the Villages of Tanzania are "intergovernmental" if one were to interpret the Regional and District levels within the overall governmental organization as separate "governments". That is, the bulk of the services that are directly supplied to Villagers, e.g., education, roads, agricultural extension, health services, etc. are funded from centrally-collected revenues but administered through the decentralized Ministries. There is, however, an important distinction to be made between the current system and an approach that would rely more heavily upon true grants to the lower levels within the governmental hierarchy. This has to do with the degree of control and discretion which these lower level bodies have over the allocation of nationally-collected revenues.

Presently, development and recurrent spending at the Regional and District levels is the result of the annual budget process begun in October preceding the next fiscal year and initiated by plans formed at the Village and District level within the constraints of guidelines sent down by the Region. These guidelines are produced within the constraints set forth in budget guidelines sent to the Region from the Central Government. The budgetary process then proceeds through January, first at the Village level upwards until a final Regional Budgetary plan for the following budget year is produced. To this point, local autonomy (or at least Regional autonomy) and response to the relative needs of alternative uses of public funds are preserved.

However, the completion of the budget process requires final approval of the Region's budget at the Central level. While this last step is a necessary one to insure that total Regional spending does not exceed the resources available and, as well, that this spending is in keeping with national objectives, it does raise a question regarding the degree to which the final allocation of funds reflects the actual needs at the lower levels within the overall governmental structure. For example, it has been noted that "in the end what is approved at the Regional headquarters, at the Prime Minister's Office, and the capital bears little resemblance to the development proposals and plans that began, theoretically, in the committee sessions of the District's Village Councils."[1] This then would suggest that the final allocation may very well be suboptimal.

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[1] Garry L. Thomas, "Center and Periphery in Arusha Region: Institutional Capacities and Development Initiatives in the Context of Existing Governmental Structures and Village Organization," (Washington, D.C.: DAI, 1980), pp. 35-36.

While it has been impossible to document the extent to which the plans originally devised at the Village level are altered by the time the final Budget is approved, there is some evidence to suggest that at least the extent to which the Region's budget submission is altered has declined substantially since the mid-1970s. Table 17 shows for both 1974/75 and 1980/81 the development budget requests and allocations for Arusha Region. In the earlier year not only were requests cut by over 27 percent but, as well, the change in allocation by type of spending differed greatly by sector. For 1980 81, on the other hand, hardly any changes were made vis-a-vis the Region's requests. This would imply that the budgetary process has been "tightened" substantially possibly with the Central Government's original guidelines now being much more explicit and followed more closely.

Still, a close correspondence between requests and allocations does not necessarily mean that resources are ultimately being allocated in their most efficient manner. Morss has raised similar questions with respect to the allocation of national government expenditures.[2] He notes the decline in Regional budget shares of total government expenditures between the early 1970s and the end of the decade; the fall in Arusha Region's ranking among all Regions; and the wide range in per capita recurrent and development spending among Regions.

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[1]Elliott K. Morss, "Financial Resources Available for the Development of the Arusha Region: A Look Into the Future," (APVDP, 1980).

TABLE 17

ARUSHA REGION DEVELOPMENT EXPENDITURE REQUESTS AND ALLOCATIONS, 1974/75 AND 1980/81
(in millions of Shillings)

Sector	1974/75 Request	1974/75 Allocation	1974/75 Allocation as Percent of Request	1980/81 Request	1980/81 Allocation	1980/81 Allocation as Percent of Request
Agriculture and Livestock	12.9	8.7	64.4%	16.7	16.7	100.0
Ujamma and Cooperatives	0.2	0.1	50.0	5.0	5.0	100.0
Natural Resources	0.4	0.2	50.0	2.8	2.8	100.0
Commerce and Industry	1.0	0.5	50.0	.8	.8	100.0
Comworks	2.0	4.8	240.0	2.9	3.2	110.0
Lands and Urban Development	1.0	0.5	50.0	.7	.7	100.0
Education	5.9	2.4	40.7	4.5	4.5	100.0
Health	2.1	1.2	57.1	1.4	1.4	100.0
Water	3.1	2.4	77.4	2.4	2.4	100.0
Total	28.6	20.8	72.7	37.2	37.5	100.8

SOURCES: 1974/75 data from The World Bank, "Tanzania: Fiscal Aspects of Decentralization," Report No. 587-TA (March, 1975), p. 30; 1980/81 data from Arusha Region Planning Office.

The issue to be addressed then is whether the current system of resource allocation from the Central Government to the Region could be altered so that the overall effectiveness of this spending could be increased. As President Nyerere, himself, noted in his speech before the FAO World Conference on Agricultural Reform and Rural Development in Rome in 1979:

> If the people are to be able to develop, they must have power. They must be able to control their own activities within the framework of their village communities. And they must be able to mount effective pressure nationally also. The people must participate not just in the physical labor involved in economic development, but also in the planning of it and the implementation of priorities. At present, the best intentioned governments--my own included--too easily move from a conviction of the need for rural development into acting as if people had no ideas of their own. This is quite wrong. At every stage of development, people do know what their basic needs are. And just as they will produce their own food if they have land, so if they have sufficient freedom, they can be relied upon to determine their own priorities of development and they work for them.[1]

Issues

The analysis above suggests that full decentralization, including the ability of local governments to decide what is in their own self-interest, is not yet fully realized. At the same time, unless the revenue structure were altered dramatically, the Region, Districts and Villages do not have sufficient resources available to undertake full financing of their public service needs. It is therefore reasonable to consider if a system of intergovernmental grants could be devised using the broader revenue-raising powers of the Central Government together with increased local autonomy in expenditure decisions. Again, before making any specific recommendations to this end, it is appropriate to examine the major issues that must be considered when designing an intergovernmental grant system.

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[1] Quoted in Thomas, "Center and Periphery in Arusha Region: Institutional Capacities and Development Initiative in the Context of Existing Governmental Structures and Village Organization," p. 7.

Alternative Forms For A Grant System. There are numerous forms that a grant system might take, each with its own implications regarding autonomy, equity and growth. We outline each briefly here.

a. *Total Grant Funds Available.* A grant system may be devised such that the total amount available for intergovernmental grants (the total amount flowing to all Regions in the country) is determined annually within the budgetary process. A second alternative is to determine this amount for several years, for example, to plan the total amount to be distributed for three years into the future. The second alternative has the advantage of allowing Regions to plan longer term commitments with a greater degree of certainty than does the former. Finally, the amount to be distributed can be determined using a specific formula that ties grants to revenue collections. For example, some percentage of Central Government income, sales and excise tax revenues could be set aside to form the basis for intergovernmental aids. This approach provides for a greater amount of automatic growth than the previous two alternatives.[1]

b. *Degree Of Lower Level Autonomy.* Grant systems can be designed with considerable variations in the amount of autonomy provided recipients in choosing how the funds are to be allocated. Grants that allow recipients to spend the monies in any way they see fit are usually termed "block grants" while these that are tied to specific projects are termed "categorical grants." Furthermore, different combinations of block-categorical features can be built into grant formulas. For example, a general block grant might be

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[1] It should be noted, however, that the current national system of revenues has not been expecially responsive (elastic) to income changes during the past five years. The IMF has calculated the built-in elasticity of taxes (the percentage change in tax revenues relative to the percentage change in income) during the FY1975-FY1979 period to be about 0.6 suggesting that these taxes do not automatically keep pace with increases in economic activity. See The World Bank, Economic Memorandum on Tanzania (Report No. 3086-TA, January 23, 1981), p. 30.

provided but with the stipulation that the grant be used for education purposes. Such an approach gives the Central Government the ability to emphasize particular functional spending areas while still providing lower level bodies the authority to utilize the funds in their most effective manner.

c. *Spatial Distribution Of Grant Funds.* Obviously, grant systems can be designed to distribute funds spatially in a wide variety of ways, including ways such that certain areas obtain proportionately more or less money than other areas.[1] For example, population, particular components of the population, e.g., urban population or number of school children, land area under cultivation, kilometers of roads, etc. are all candidates for inclusion in such sharing formulas (including combinations of these measures). While the final form of any distribution formula is a political policy decision, it must also be recognized that the form of this formula(s) can produce particular incentives that msut be considered when constructing such formulas (see below).

d. *Recipient Government(s).* Just as the particular factors to be placed in a grant formula are flexible, so is the exact route which the revenues might take. For example, grants could be designed to flow directly to the Villages, the District level or to the Region. Ultimately, after the financial management capabilities of the Village Governments are strengthened sufficiently, the grants might be directed there. However, in the interim the system would likely be most effective if the Region is the recipient of the grants. This then would allow the Region to allocate resources in accord with local needs while still maintaining a broader geographic perspective on relative demands and in line with Regional plans.

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[1] Of course, under a system fully based upon categorical grants such spatial distribution will be entirely under the domain of the granting government. This would be little different from the system currently used to determine regional expenditures.

Economic Effects Inherent In A Grant System. While the use of grants, especially block grants, have the advantage of allowing local governments the autonomy to decide themselves how funds can be most effectively spent, there are particular economic issues inherent in alternative grant formulas that must also be recognized.

a. *Allocative Efficiency*. If lower level decisions are altered in response to a grant system, that system is non-neutral in its effects. While this is not necessarily undesirable, such non-neutralities should be recognized and evaluated. One such non-neutrality arises when particular variables are included in the sharing formula. For example, if the number of enrolled school children is used to allocate a portion of the grant fund, it is to the advantage of recipients to insure that as many school children as possible are so enrolled. (This could be viewed as a favorable non-neutrality built into a grant system). On the other hand, if, for example, the number of kilometers of tarmac road were included in the formula, there would be an incentive to allocate greater amounts to the construction of tarmac surfaced roads rather than alternative surfaces. This might be undertaken even if local economic growth would be better served through alternative types of road surfaces. Thus, in constructing sharing formulas, there must be concern for the types of changes in behavior that such formulas might promote.

A second type of incentive (or disincentive) which can be promoted by a grant system involves the manner in which the funds are spent. For example, pure block grants provide total flexibility in how the funds are allocated, e.g., across functional areas or between development and recurrent spending. Yet, the ultimate use of the monies might not be in accord with the overall best interests of the nation. This obviously implies a trade-off between the advantages of allowing lower level entities to decide what is in their own best interest and what is in the broader interests of Tanzanian society. It further suggests that, rather than the establishment of a pure block grant system, there be some "strings" attached to the grant monies.

Finally, to the extent Regions, Districts and Villages are provided more revenue-raising powers of their own, the use of grants can have a disincentive effect upon the extent to which these local funds are pursued. So as to avoid these disincentives the grant system can contain either matching requirements, e.g., in the case of categorical grants, the Region must contribute some proportion towards the project, or the distribution formula can include some measure of local revenue-raising effort. In the latter case, those Regions making greater effort, relative to their resources, can be rewarded with proportionately greater grant revenues.

b. *Equity Effects*. What constitutes an "equitable" distribution of grant funds depends upon one's value judgements. Nevertheless, the decision as to "who gets how much" under a grant system is critical in determining its overall effects. One would presume that the Tanzanian Government would wish to devise a system of grants that will redistribute monies from wealthier to poorer areas as well as towards the agricultural sector. This then suggests that grants not be distributed purely upon a per capita basis but that, instead, measures such as percent of the agricultural population be used in the formula.

c. *Growth And Certainty*. As the needs of the local public sector increase, it is perferable that the basis for the grant distribution also grow. Furthermore, budgetary planning can be most effective when local government decision makers have knowledge of how much revenues they might expect in the future.

These two objectives can be fulfilled if the amounts to be distributed are tied to revenues obtained during some previous fiscal year but where that revenue base grows overtime. For example, if the total amount of grant funds were set at 10 percent of the total of income tax plus sales and excise tax collection three years previous, one would know with certainty that Shs. 451.1 (million) was to be distributed in FY 1982.[1] Furthermore, the growth inherent in these national revenue sources (61.3 percent over the 1976/77 - 1979/80 period)[2] would mean built-in, and certain, increases in the amounts to be distributed.

Administrative Arrangements. There is, finally, the question as to what, if any, administrative adjustments would be required if a grant system were instituted. This issue will depend greatly upon the form that an intergovernmental aid approach would take (thus would have to be addressed in any full-scale study of alternative grant schemes). If the grant system were a limited one, as is suggested below, administrative readjustments would be minor. While the Central Government would likely wish to audit the flow of its grant funds, no major administrative changes nor creation of a new structure would seem necessary.

On the other hand, were the total recurrent and development expenditure budgets of Regions to be turned over in the form of a block grant, major administrative questions would have to be addressed. For example, under such a scheme it might be necessary to alter the current personnel system. While under the current decentralized system, regions apparently enjoy a

[1] That is, 10 percent of the total Shs. 4,511 (million) collected from income, sales and excise taxes in FY 1979.

[2] Based on 1979/80 provisional recurrent revenue estimates taken from The World Bank, Economic Memorandum on Tanzania (Report No. 3086-TA, January 23, 1981), p. 30.

great deal of autonomy in personnel decisions, inter-regional transfers still occur.[1] If a region were to control totally its financial resources, efficient management would require control over staffing positions without the likelihood that a Central Government Ministry would transfer personnel unilaterally.

This is but one major administrative question that would have to be addressed under a complete block grant system. There are likely many more. Given the current administrative structure of governments, it may make most sense, at least initially, to keep any new intergovernmental grant system small--a feature we recommend below.

Recommendations

Based upon the preceding discussion several policy recommendation options are in order. The overriding, general recommendation would be that:

The Central Government should be encouraged to consider the establishment of a system of grants to Regions so as to increase their budgeting flexibility and planning powers.

Interestingly, this would not be an entirely new policy. The Regional Development Fund, established in the early 1970's, is an example of a grant system. When originated it was, in fact, a block grant system with the allocation being equal to Shs. 1 per person within a Region with no strings

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[1] Liz Wiley, "A Profile and Analysis of Government Manpower in Arusha Region", Vol. I (AP/VDP, 1980), p. 72.

associated with its allocation. By the latter part of the decade it had been altered to a type of categorical grant system with the Region required to submit project plans for Central Government approval before the monies were allocated. It remains, however, an extremely small Fund with, for example, the total amount granted to Arusa Region in 1980/81 being only Shs. 824,000 or 1.7 percent of the Region's total development budget. Furthermore, the uses of these funds seem to be restricted to the initiation of projects rather than being usable for recurrent costs of projects as well.

This system might, therefore be altered in the following manner:

1. The new grant system would consist of block grants to Regions rather than categorical grants so as to provide maximum flexibility in local government planning and budgeting.

2. These block grants could be usable for either project development or the recurrent costs associated with such projects. However, to insure Village effort towards the successful use of these grant funds, the Region should require some Village-level matching component for the monies distributed at the Village level.

3. At least in its initial states the grant program should be a relatively small one. But, as Regions gain experience in allocating these monies, the amounts could be allowed to increase in order to truly decentralize decision-making powers within the country.

4. In keeping with the previous recommendation, but so as to provide certainty in local budgeting, the grant program should be tied to previously collected internal revenues. For example, if 5 percent of aggregate income tax, sales and excise taxes collected three years previous were to have been distributed in FY 1981, it would have yielded a grant fund of slightly more than Shs. 225 million (or about 7.5 percent of the total recurrent plus development expenditures budgeted to all regions in FY 1981). Furthermore, by tying the grant fund to the more buoyant income, sales and excise tax, the grant fund would grow to Shs. 254 million for FY 1982 (based on provisional recurrent revenue estimates).

5. The sharing formula should not be on a simple per capita basis but, in keeping with the longer term objectives of being self-sufficient in food production, include in the formula the percent of the nation's population engaged in agriculture.

6. Obviously, considerably more study should be made of this new policy initiative. This analysis would emphasize the allocative efficiency and equity effects of the system, its projected growth and the necessary administrative changes it would entail.

VII. STRATEGIC PLAN AND IMPLEMENTATION

This Report has recommended numerous policy options to be considered by Arusha Region with the underlying purpose of each being an expansion of the revenue-raising and administering capabilities of the Region, it's Districts and Villages. As has been emphasized throughout, not all of these policies can be undertaken immediately--some will require further study and some will have to be undertaken at the Central Government level. In this final Section, a plan is presented to provide suggestions as to how the policies presented here might be implemented most effectively.

Short Range Actions

Over the upcoming fiscal year (1 July 1981 - 30 June 1982) the Region, Districts and Villages can each pursue several of the policies discussed above.

Regional Actions. At the Regional level of most importance will be to construct a budget for the 1982/83 fiscal year that will provide for the recommended training of Village bookkeepers and to the extent necessary, further training in financial management, including project feasibility analysis, of Ujamaa and Cooperative Development Office personnel. While the numbers of Village bookkeepers is so large there is little likelihood that all can be trained within a single year, this is an extremely important budgetary initiative that should be undertaken immediately. Furthermore, as the expertise of the Ujamaa and Cooperative Development Office personnel is increased, they too can provide a type of on-the-job training to those bookkeepers who are not chosen for the initial year's training. So as to aid this policy thrust even more, designing a standardized set of accounting forms can help both the bookkeepers as well as their oversight bodies.

While it has not been mentioned as a specific policy initiative, a one day meeting of all Village Chairmen and, possibly, Village Secretaries reviewing the provisions in the Villages (Revenue) Act 1979 may also prove helpful. One wonders whether all Village officials are fully aware of their newly granted revenue-raising powers or the kinds of projects and revenue instruments being used in other Villages around the Region. Furthermore, such an exercise could help convince these leaders of the need for more highly skilled bookkeepers in their own Village.

The second short-run policy initiative (but with some potential budgetary impact on the Region) would be to begin the necessary information gathering to produce the studies necessary to document the desirability for the several long-term policy initiatives discussed below. Probably the first step in this process is to learn more about Village finances. While there is apparently some data-gathering at the Village level (and compiled at the Prime Minister's Office) it is not widely available and may not be based on the most efficient sampling methods that can be used.[1] Appendix B presents the outline of an approach to this basic data gathering that could be used as the foundation for a much more complete study of finances in Arusha Region. While some Regional resources may be necessary to aid in this study, the bulk of the costs could, possibly, be met through external donor finance.

Finally, while the revenues are not large, the Region should insure that the statutory provisions for transferral of the Liquor License and Forestry License Fees are, in fact, carried out. This should not require any Central Government initiative but only a determination of the adminis-

[1] We were told, for example, that 33 Villages in the Region are included in this year's sample but that they do not appear very representative of all Villages.

trative details by the Regional Finance Officer in conjunction with the District Accountants. In addition, it would seem feasible for the Region to press immediately for an explanation of the change in the Business License Fee structure and attempt to have it altered effective 1 July 1982.

Districts. The most pressing, and yet possible, policy actions for the Districts is serious consideration of increases in the Liquor License Fee. While the potential disincentive and equity effects of such a change should be recognized, stress should be placed on the fact that these revenues are now to remain at the Village level and are no longer simply considered appropriation-in-aid.

While not as explicit, it is also desirable that the Districts ensure that all personnel in advisory positions to Villages be made aware of the provisions of the Villages (Revenue) Act. Furthermore, when advising Villages on projects, the potential benefits of joint venture projects should be emphasized.

Villages. Villages should immediately determine if, in fact, they are employing user charges and contributions as effectively as is possible. The previously-recommended meetings of Village Chairmen can be especially helpful sessions if good examples are given of how other Villages in the Region are imposing charges and the kinds of projects they have undertaken. Since not all leaders are equally imaginative, this kind of information, together with group discussion, may provide new thinking about the potential revenue powers at the Village level. At the same time, the critical importance of successfully paying off loans can be stressed.

Longer Term Strategies

Much of what has been presented will not be possible during the next twelve or even twenty-four months. While the groundwork for altering the Central Government policies can begin, major policy changes at that level will take time. But the arguments presented will be greatly strengthened if they are accompanied by analysis of the potential effects of such policies. Thus, in the remainder of this section, both the kinds of analyses to be carried out and the longer term policy initiatives are presented.

User Charges. Here there are several policies to be pursued. (1) There is a real need for increased capabilities to perform economic feasibility studies of Village projects. While maybe not as pressing as the need for trained Village bookkeepers, this should be a longer term policy of the Region. (2) Analysis should be undertaken regarding the demand for and costs of different kinds of projects currently undertaken by Villages as well as the Region. This analysis can then document the kinds of allocative and equity effects inherent in alternative pricing policies and, as well, aid in improving the overall administration of such projects. Furthermore, in the case of services currently provided by the Region, the strengths and weaknesses of turning the service responsibility over to Villages should be studied. This analysis can then be used to provide support for an alteration in current Central Government practices concerning the imposition of user charges by the Region.

Contributions and Taxes. Under this general heading there are at least three areas of study that should precede further actions. (1) The current contribution system should be studied in conjunction with the economic resources and their distribution available in Villages. While the contribution system may be continued or even expanded, alternative forms that consider more explicitly the benefit and ability-to-pay criteria of equity could be devised and suggested as viable alternatives. (2) Before recommending an amendment to the Villages (Revenue) Act to allow the creation of a District revolving fund for the collection of the three License fees currently mentioned in the Act, an explicit administrative arrangement should be formulated. In addition, the potential advantages of such a scheme should be articulated to increase the likelihood of its passage. (3) Probably the most comprehensive study, but the one with the greatest potential impact, would be a full analysis of the ces system and its alternatives including a livestock ces and producer ces. This study would include the incentive effects on producers and the equity implications of these systems and would detail the administrative procedures needed to carry out this major policy change. While ultimately such a study should probably be performed nationally, a pilot analysis within Arusha Region could have a major impact on the final legislation.

Credit Upgrading. The financial management capabilities is most crucial here as far as purely Regional policies are concerned. Nevertheless, the policy initiatives presented by Mr. Bagachwa in his study of the financial infrastructure are also in order.

Intergovernmental Aid. While a system of block grants to the Region based on the recommendations provided previously would seem to be in order, again the most effective case can be presented only after having studied the alternatives more carefully and detailing exactly how such a system might work. This analysis should be of an empirical nature and include both the incentives inherent in any scheme as well as its distributional implications since these are likely to be the principal questions posed at the national level.

Given these shorter run and also longer term policy initiatives, it seems most likely that greater resources could be mobilized in Arusha Region and, as well, that these resources might be administered more effectively.

APPENDIX A

VILLAGES (REVENUE) ACT 1979 AND SUPPORTING LEGISLATION

THE UNITED REPUBLIC OF TANZANIA

No. 8 of 1979

I Assent,
J.K. Nyerere, President
23rd May, 1979

AN ACT to Amend certain laws in order to provide for the raising of revenue by Villages

ENACTED by the Parliament of the United Republic of Tanzania

PART I
PRELIMINARY

1. This Act may be cited as the Villages (Revenue) Act, 1979, shall come into operation on the first day of July, 1979. — and short title and commencement (1st July, 1979)

2. In this Act, unless the context otherwise requires — Interpretation

"village" means a village registered under the Villages and Ujamaa Villages (Registration, Designation and Administration) Act, 1975. — Acts, 1975 No. 21

PART II
AMENDMENT OF THE VILLAGES AND UJAMAA VILLAGES (REGISTRATION DESIGNATION AND ADMINISTRATION) ACT, 1975

3. This Part shall be read as one with the Villages and Ujamaa Construction Villages (Registration, Designation and Administration) Act, 1975.

4. The Villages and Ujamaa Villages (Registration, Designation and Administration) Act, 1975, is amended by adding immediately below section 17 the following new Part: — Part IVA added to Acts, 1975 No. 21.

PART IVA
FINANCIAL PROVISIONS

Village Council may charge fees

17A.--(1) Subject to subsection (2) every Village Council may make by-laws to prescribe reasonable fees, charges and tariffs for any license or permit issued by the Village Council.

(2) Any fees, charges or tariffs prescribed under subsection (1) shall be subject to any limitations which may be imposed by any written law or to rates which may be prescribed by the Minister.

Revenue of a Village Council

17B.--(1) The revenue and funds of a Village Council shall consist of--

(a) all receipts derived from any trade, industry, works service or undertaking carried on by or be'onging to the village;

(b) all moneys derived from licenses, permits, dues, fees, charges or tariffs specified by any by-law made by Village Council;

(c) all moneys from rents collected for renting public houses or buildings which belong to the Village Council;

Act, 1968 No. 28

(d) all fees for licenses granted within the area of jurisdiction of the Village Council under the Liquor Licensing Act, 1968;

Acts, 1972 No. 25

(e) all fees for licenses granted within the area of jurisdication of the Village Council under the Business Licensing Act, 1972;

(f) all revenue derived from fees for forest produce and licenses charged under the Forests Ordinance and accruing to the Village Council by virtue of Section 10 of that Ordinance;

(g) all moneys which a Village Council may borrow from lending institutions, or any other source, under its general powers of raising money by borrowing;

(h) all revenue derived from ces imposed on any agricultural produce or any product of livestock industry;

(i) all revenue accruing to the Village Council from Government or any other public institution or private individual as contribution grants-in-aid, endowments or in any other way;

(j) all moneys derived from fines imposed in respect of any contravention of any by-laws made by the Village Council.

(2) Any other money lawfully derived by a Village Council from any other source not mentioned specifically in sub-section (1) shall be and form part of the revenue and funds of that Village Council.

(3) All revenues of a Village Council shall be paid into the general fund of the Village Council. Provided that any trade, industry, works, service or undertaking carried on or belonging to a Village Council either in whole or in part may, with the approval of the Minister, be paid either in whole or in part into a separate fund to be maintained by the Village Council for that trade, industry, works,

service or undertaking, as case may be, from which the revenue is derived.

PART III
AMENDMENT OF THE BUSINESS LICENSING ACT, 1972

(5) This Part shall be read as one with the Business Licensing Act, 1972.

(6) Section 8 of the Business Licensing Act, 1972, is amended by adding immediately below subsection (1) the following new subsection:

Construction Acts 1972, No. 25
Section 8 of Acts 1972 Amended

(1A) Any fee which is collected in respect of a business license issued in relation to a business whose premises are situated in a village shall be paid to the Village Council of the village in which the premises are situated.

PART IV
AMENDMENT OF THE INTOXICATING LIQUORS ACT, 1968

(7) This part shall be read as one with the Intoxicating Liquors Act, 1968

Construction Acts, 1968 No. 28 Amended

(8) The Intoxicating Liquors Act, 1968 is amended In section 101 by adding immediately below subsection (1) the following new subsection:

(1A) For the avoidance of doubt where the licensing Authority is a Village Council, the Village Council shall retain for its own use the whole of the license fees collected by it in respect of liquor licenses issued by it.

PART V

(9) This Part shall be read as one with the Forests Ordinance. — Construcion Forests Ordinance Amended

(10) Section 10 of the Forests Ordinance is amended in subsection (1) by:

(a) deleting the full-stop which appears at the end of the subsection and substituting for it a semi-colon;

(b) adding immediately below that subsection the following proviso, "Provided that where the local authority forest reserve forms, either wholly or in part, part of a village, any revenue derived from fees for forest produce and licenses charged or issued in respect of that local authority forest reserve or part of it, shall form part of the revenue of the Village in which the forest reserve of the Village or part of it is situated."

Passed in the National Assembly on the twenty-fifth day of April, 1979.

W. J. Maina
Clerk of the National Assembly

APPENDIX B

LOCAL FINANCE INVENTORY

The purpose of this brief Appendix is to outline a possible study plan for obtaining Village financial information. We consider the kind of sample that could be drawn and the procedures that should be followed in gathering the information.

Sample

When sampling Villages there are several objectives to be pursued. One would desire that the resulting sample is representative of all Villages in Arusha Region; that the sample be drawn randomly with neither the "best" nor "worst" cases necessarily chosen so that standard scientific research procedures can be utilized on the resultant sample; and that costs of collecting and processing the data be minimized. Obviously, these objectives will conflict.

Rather than simply drawing Village names "from a hat", a more systematic, yet scientifically valid, procedure would be to divide the Villages into relatively homogeneous subgroups and then randomly draw a sample from each group.[1] Fortunately, the set of relatively homogeneous subgroups already exists. The Region has been subdivided into Land Use Planning Units. These units are defined on the basis of "vegetation, physical land forms, slope angles as well as by social and political considerations such as agricultural practices and administrative boundaries."[2] Based on the maps in the paper "Arusha Region Today" there are approxi-

[1]This is known as stratified random sampling.

[2]"Arusha Region Today: 1981", (Arusha Region), p. 17.

mately 91 such units, although the nature of at least some are such that there are likely no Villages located therein, e.g., when the unit corresponds to a lake.

By using these planning units as strata, one is assured that the final sample will not consist only of, say, Villages in and around Arusha Town. Furthermore, this sampling technique can provide statistically sound results with smaller overall sample size than using purely random samples (which helps satisfy the third criterion noted above).

It is recommended that one Village from each of the populated planning units be chosen randomly. While providing less information than a full census of Villages, the resultant stratified sample will be less costly and yet should prove extremely useful for policy analysis.[1]

Procedures

To carry out the data collection, several steps will be necessary. Coding forms will have to be designed; individuals to carry out the data collection must be selected and trained; the procedures should be field tested and altered if necessary; and finally the data can be collected and processed.

Design of Coding Forms. The design of the form is crucial to the data collection process, especially if a relatively large number of data compilers are to be used rather than one individual. At the same time, the current state of Village accounts is likely to mean that sorting out the appropriate information will be a difficult task.

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[1] The statistical computations will be a bit more complicated than under a simple random sample since non-proportional sampling is used from each strata, i.e., by taking a single observation from each planning unit, the sampling rate will depend inversely on the number of Villages within each unit. The computations are still, however, quite doable.

In any accounting system one can distinguish between the flow of monies into and from an account during the accounting period, e.g., one year, and the value of the stock of money or assets within an account at a point in time. While it has not been possible to study in sufficient detail the exact accounting system currently used in the Villages, any data collected should carefully separate out these two concepts. For example, the beginning balance should not be included in the measurement of the amount of income flowing to the account since it is simply the measure of the amout of cash available to the account on the first day of the accounting period.

While analysis of the flows of income and spending are of principal interest to the kinds of questions posed here, some data on the value of assets and liabilities can also be useful. We would, therefore, recommend that data be collected for the last three complete accounting periods. (Because Villages apparently do not necessarily have traditional 12 month fiscal years running from 1 July through 30 June, it will be necessary to include on the coding form the starting and ending date of each accounting period. These data can then later be annualized). Furthermore, the form should permit coding of the data in the way the accounts should be structured, not how they actually are structured; that is, the data should show each project account as a separate entity with interfund transfers shown explicitly. Thus, even if the Village has mixed the General and project accounts, the coder should attempt to work with the bookkeeper sorting out the several projects. But this will mean that the coding instructions, codesheets and final data format will have to be designed in a rather eclectic way so that a Village with, say, eight separate projects will have a different record form from a Village with only three. Furthermore, since three years may encompass both the start-up period or termination of projects, the record will have to be designed to encompass different project histories. Finally, the financial data are to be entirely factual; that is, projects that are only planned with estimated income and expenditures will not be included in the data.

What sort of data should be collected for each project? For each accounting period the data should show: the beginning balance; all expenditures during the period disaggregated by major category, including loan amortization disaggregated, if possible, into principal and interest payments; any fund transfers; all income to the project, again disaggregated by major category; and final balance. If available, the value of the assets and liabilities at the end of the period could also be obtained.

For analysis purposes primary interest will be placed on the role of user fees, charges and contributions as sources of income and the utilization of credit towards a project. Thus, to the extent that a project involves contributions or credit, the total amount contributed plus the per person levy or amounts borrowed and the terms of credit should also be a part of the record. Finally, for user fee services, e.g., maize mills, the price structure in effect during each year of the project should also be obtained and coded.

While collecting the fiscal data will be the focus of this inventory, there is related information that could also be obtained at low cost during these Village visits. Under the area of financial management it will be interesting to determine how long the bookkeeper has been employed by the Village, the extent of the bookkeeper's training and the coder's assessment of whether the accounts are being kept in the manner specified in the Villages (Revenue) Act. These environmental data could also indicate whether the Village includes a Village Manager. If time and resources permit, several more subjective questions directed at the bookkeeper may also be of interest for analysis purposes including his estimate of the amount of time per month he spends administering each of the several accounts, whether there is a perceived capacity for additional contributions, and a subjective listing of the major fiscal problems faced by the Village, e.g., long delays in obtaining credit, lack of willingness of Villagers to contribute, or problems associated with particular projects.

In addition to the factual fiscal data and the subjective and descriptive information, analysis will be greatly aided if it is possible to obtain at least some economic data. While population data for 1978 already exist, there is very little data on the economic base of Villages. At the very least it would be helpful to know the number of acres currently under cultivation in each Village for each crop grown, approximately the number head of different kinds of livestock and the extent, if any, of privately owned commercial or industrial activity. While secondary sources, e.g., data from NMC, TLMC and the other parastatals can be employed together with information from business license and liquor license applications, the Village-level data might provide further insight, especially if historical data such as the occurance of a major drought or other natural clamity could be a part of these data.

Coder Selection and Training. Once the data collection forms have been designed, coders can be chosen and trained. University students are the most likely candidates for the data collection process. Preferably these students will have had some basic training in accounting and finance; but an additional 2-3 day training session including some example problems should be used. Finally, the trainees should be taken to a least one non-sampled Village (preferably 2-3 with a range of projects) and be asked to complete the coding form which can then be checked. If this pre-test uncovers particular problems with the data collection procedure, the coding forms can then be altered before the inventory is made.

Data Collection. The coders can then be sent to the Villages. However, before they are dispatched, the Village bookkeepers should be informed of the schedule and be requested to be available with their accounts. (This might avoid the problems encountered on the site-visits associated with this study where in several Villages either the bookkeeper or his records were not available). A conservative estimate would be that it will take 3-4 hours to obtain the necessary data in each of the sampled Villages.

Once collected, the data sheets should be scanned by supervisors for reasonableness and completeness. Indeed, this checking would ideally occur soon after the collection process has begun to detect major problems before they are replecated in numerous Villages. Since the data are to be based on account records, there are identities that can be computed to aid in detecting errors. For example, beginning balances plus all incomes less all expenditures must equal ending balances. Likewise, major differences in entries across years may indicate some type of coding error. If the coders are made aware of these checks and carry them out before leaving a Village, many errors may be avoided.

While it has not been possible to estimate the cost of this inventory, it is unlikely to be cheap, especially since it will involve substantial travel throughout the vast Arusha Region. Nevertheless, it is felt that only with such information can many of the more analytical questions concerning the future of Village finances raised in this Report be addressed in a systematic manner.

APPENDIX C

PERSONAL INTERVIEWS[1]

Arusha Region

Mr. E.P. Mazalla, Regional Planning Officer
Mr. Mitema, Planning Officer
Mr. Shuma, Ujamaa and Cooperative Development Officer
Mr. Sungare, Finance Officer
Mr. Chima, Regional Revenue Officer
Mr. Izinna, Revenue Officer
Mr. Kombwa, Regional Trades Officer
Mr. Sabuni, Regional Natural Resources Officer

Arumeru District

Mr. Tessua, District Planning Officer
Mr. Sairiamu, Accounts Clerk
Mr. Swai, Ujamaa and Cooperative Development Officer

Hanang District

Mr. Kisanji, District Development Director
Mr. Mgalula, District Planning Officer
Mr. Kaaya, Ujamaa and Cooperative Development Officer
Mr. Stanley, Finance Officer
Mr. Fatenga, District Accountant
Mr. Zengwa, District Trades Officer

CCM Office - Hanang

Mr. Mwakitalu, Political Cadre

Villages

Arumeru District

Usa River - Mr. Naibala (Village Chairman)
Mr. Msuya (Village Secretary)

Singisi - Mr. Iyawe (Village Secretary)
Mr. Akyoo (Village Bookkeeper)
Mr. Kitomary (Chairman, Production and Marketing)

Hanang District

Magugu - Mr. Kimwaga (Village Chairman)
Mr. Mpinga (Village Bookkeeper)

Mwada - Mr. Mashinde (Village Manager)

Endakiso - Mr. Khaday (Village Manager)

Galapo - Mr. Migire (Village Manager)

Other Institutions

NMC - Mr. Mamuya (Branch Manager)
Mr. Mqiga (Observations Manager)
Mr. Winani (Accountant)

TRDB - Mr. Kasoyaga (Credits Officer)

TLMC - Mr. Ngowi (Zonal Manager)

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[1] If anyone has been omitted or spelling errors have occurred, please accept my sincere apology.