


<p>MASASI DISTRICT COUNCIL</p> <p>P. O. Box 60 MASASI</p> <p>Tel.: +255 23 2510 031 Fax: +255 23 2510 652; +255 23 2510 143</p>	<p>Revenue Potential Study for Masasi District Council</p> <p>Final Report</p> <p>O c t o b e r 2 0 1 1</p> <p>Dr. Patrick Mugoya Mr. Joseph Chikongoye</p>
	<p><i>This study was commissioned by GIZ through its Support to Local Governance Processes (SULGO) Programme. However, the views expressed in this report are those of the authors and do not necessarily reflect the position of GIZ. Accordingly, any views and comments on the report may be addressed to the authors.</i></p>

TABLE OF CONTENTS

ACKNOWLEDGEMENTS	iv
ACRONYMS AND ABBREVIATIONS.....	v
EXECUTIVE SUMMARY	vi
I. INTRODUCTION.....	1
1.1 Context of the Study	1
1.2 Objectives and Scope of the Study	2
1.3 Methodology of the Study.....	2
Documentary Review	2
Interviews with Stakeholders	3
I.3 Structure of this Report	3
II. CURRENT MDC REVENUE COLLECTION SYSTEM	4
2.1 Profile of Masasi District Council	4
General overview.....	4
Economic Profile	4
2.2 Structure of own-source revenue	6
Trends in revenue performance	7
Revenue contribution of different sources	9
2.3 MDC Revenue Administration System	10
2.4 Challenges facing the current MDC Revenue Collection System.....	15
III. TRANSFERS TO THE MASASI DISTRICT COUNCIL	18
3.1 Justification for intergovernmental transfers	18
3.2 Transfers to the Masasi District Council	19
3.3 Assessing the Transfers to MDC.....	21
Incentive for sound financial management	21
Predictability of transfers	22
Transparency and simplicity.....	23
Equity and efficiency considerations	23
IV. TRA COLLECTIONS IN MASASI.....	24
V. INVESTMENT POTENTIAL FOR MDC	25

VI. ENHANCING OWN-SOURCE REVENUE GENERATION CAPACITY	26
6.1 Strengthening Legal Framework	27
6.2 Introducing property rates	28
6.3 Fees and charges.....	29
<i>Business and Professional Licences</i>	29
<i>Other Taxes on the Use of Goods, Permission to Use Goods</i>	29
<i>Administrative Fees and Charges</i>	29
<i>Fines, Penalties and Forfeitures</i>	30
6.4 Streamlining revenue administration	30
6.5 Computerization of revenue management	30
6.6 Outsourcing revenue collection	30
6.7 Compliance promotion strategy through awareness raising	31
Providing education and technical assistance to taxpayers	32
Building public support	32
Publicizing success stories	34
VII. SUMMARY AND CONCLUSIONS	35
SELECTED REFERENCES	37
ANNEXES	39
Annex 1: Terms of Reference	40
Annex 2: Sources of Revenue for LGAs	45
Annex 3: Revenue Collection by MDC (in Tshs. Millions)	47
Annex 4: TRA Masasi District Revenue Collection.....	48
Annex 5: List of Stakeholders Consulted	49

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ACRONYMS AND ABBREVIATIONS

GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
LGA	Local Government Authority
MDC	Masasi District Council
MTC	Masasi Town Council
PMO-RALG	Prime Minister's Office, Regional Administration and Local Government
SULGO	Support for Local Governance Processes
TATEPA	Tanzania Tea Packers Limited
TRA	Tanzania Revenue Authority
VEO	Village Executive Officer
WEO	WardExecutiveOfficer

EXECUTIVE SUMMARY

The focus of this study is the assessment of the revenue potential for MDC. In specific terms, the study sets out to:

- (a) Analyse the existing revenue collection system at MDC;
- (b) Formulate an action plan for improving the existing revenue collection system through adoption of modern technology, among others;
- (c) Identify new sources of revenue for MDC and recommend improvements in the existing revenue collection system for the three most important sources;
- (d) Propose a strategy to enhance compliance through prevention of tax evasion and raising public awareness;
- (e) Examine intergovernmental transfers that MDC receives;
- (f) Assess the possibility of outsourcing revenue collection functions for certain sources, and
- (g) Assess central government revenue collection trends in Masasi District.

The study was carried out through review of relevant documentations and reports as well as field visits that enabled the Consultants to interact with key stakeholders in Masasi.

The existing MDC revenue collection system is based on a structure that comprises 15 different sources, each one being administered by the MDC Department that has mandate on the activity giving rise to such source. However, four of the sources contribute about 95 per cent of total MDC own-source revenue. These include crop cess, other produce cess, self-reliance and export levy.

MDC revenue collection capacity can be significantly enhanced through adoption of a simple tax administration system similar to the one recently developed by the Institute of Tax Administration for three states in the newly established Republic of South Sudan. Another improvement would be replacing the current fragmented revenue management system by relevant MDC Departments with a centralized one in the MDC Finance Department. This works well for sources that entail registration and

assessment before collection and accounting is done. Finally, outsourcing especially once an elaborate fees and charges structure is introduced would also be an option worthwhile considering on efficiency grounds. In this regard, MDC can benefit by learning from other LGAs which have successfully outsourced revenue collection functions in respect to certain specified sources. Needless to say, all the above improvements would have to be preceded by a critical review of the existing weak legal framework for revenue administration for the purpose of strengthening the same. In carrying out the legal framework review MDC should be prepared to engage on short term basis experts in local tax design, in order to ensure that best practices inform council fiscal policy as well as its administration.

On the question of new sources, MDC is advised to introduce property rates and an elaborate fees and charges regime. There are indeed many District Councils in Tanzania that have introduced property rates pursuant to the mandate provided to LGAs by the Local Government Finances Act, CAP 290. Introduction of property rates and the proposed elaborate fees and charges regime will significantly broaden the tax base for MDC and provide opportunities for a much wider population of Masasi to contribute to their own development. With such a wider base, the fees and charges should be set at levels that Masasi residents can easily afford.

It is common to find that the own-source revenue-raising powers of LGAs are not sufficient to meet the costs of providing public services they have been assigned. The resulting gap is therefore filled by vertical equalization i.e. transferring resources from the central government or by increasing revenue-raising powers of LGAs. Intergovernmental transfer mechanisms are often the most suitable way to achieve vertical equalization. Horizontal equalization is also important, because there are generally wide differences in the ability of LGAs to mobilize resources independently. If only local government own-source revenues were available to finance assigned local services, there would be substantial inter-jurisdictional differences in the quantity and quality of public services based largely on differences in resource endowments. Intergovernmental transfers are therefore a powerful mechanism to help equalize these differences in LGAs fiscal capacity.

An assessment of Central Government transfers to MDC has been carried out based on generally accepted criteria i.e. incentive for sound financial management and resource mobilization, predictability, transparency and simplicity, allocative efficiency, and equity in terms of redistribution. It is clear that there has been a significant increase in central government transfers to MDC over the years and that such transfers have been unpredictable. It is important that in future transfer levels be determined with the above criteria, lest they become a disincentive for sound financial management and resource mobilization.

All in all, the study recommends an elaborate and clearly sequenced six-month reform action plan for MDC with the following as key components:

- 1) Review of the existing legal framework for own-source revenue collection with the purpose of updating and strengthening it. Strengthening in the sense of introducing elaborate regimes to enforce collection borrowing, for example from similar provisions in the Income Tax Act and the Value Added Tax Act.
- 2) Introduction of a broad-based graduated property rate regime as explained above.
- 3) Replacement of the current out-dated and fragmented fees and charges regime with a more comprehensive one taking advantage of the re-introduction of local business licensing from January 2012.
- 4) Streamlining revenue collection by establishing a central, adequately-manned, revenue management unit responsible for all the key tax administration functions. These include identification and registration of taxpayers, assessment, accounting, verification and audit, enforcement and taxpayer service and education.
- 5) Adoption of appropriate modern technology to automate some of the above functions for efficiency purposes as well as minimization of human intervention to limit errors and manipulation due to corruption.
- 6) Outsourcing some of the revenue functions especially collection to agents such as cooperatives, trade associations and private firms borrowing from the experience of LGAs that have successfully adopted this strategy.
- 7) Through a streamlined central revenue collection unit, formulation and implementation of a deliberate strategy for compliance promotion through an awareness-raising campaign. Such a campaign should at the minimum entail provision of education and technical assistance to taxpayers, building public support and effective publicity for success stories through various ways.

I. INTRODUCTION

1.1 Context of the Study

Fiscal decentralisation – the transfer of taxing and spending powers to lower levels of government - has become an important subject of governance in many developing countries in recent years (Manor, 1999; World Bank, 1999; Shah, 1998; Crook and Manor). As an outcome of discontent with the performance of centralised systems, reformers have turned to decentralisation to split the hold of central government and induce broader participation in democratic governance (Olowu, 2000; Smoke, 1994; Wunsch and Olowu, 1990). Being closer to the people, it is claimed; local authorities can more easily identify people's needs, and thus supply the appropriate form and level of public services (Enemuo, 2000; Oates, 1972). It is argued, individuals are likely to be willing to pay local taxes where the amounts they contribute can be related more directly to services received (Livingstone and Charlton, 1998; Westergaard and Alam, 1995).

For quite some time now, Tanzania has been implementing the Local Government Reform Programme within the framework of its civil service reforms on one hand, and revenue mobilization on the other. Both aim at improving services delivery (URT, 1996). An important component of the revenue mobilization reforms is to increase the fiscal autonomy of local authorities. This policy is encouraged and partly initiated by the donor community, particularly GIZ and DANIDA. A key element in this process is the measures to strengthen LGAs revenue-raising capacity.

Under the Tanzanian – German cooperation GIZ is implementing the SULGO programme with a view to see to it that citizens are involved in the overall decentralization process and benefit tangibly from their participation in local governance processes. In this regard, SULGO is at the forefront in providing support for the enhancement of a more effective, efficient and equitable system to collect revenue from own-sources. This has evolved to a broader set of activities aimed at enhancing local revenue mobilization for LGAs in Tanzania. To this end GIZ commissioned the Consultants to carry out this study with a view to optimize revenue collection. It is expected that the

outcome of this study will form the basis for systematic improvements of revenue collection systems at MDC and at other LGAs in the country.

1.2 Objectives and Scope of the Study

This study set out to achieve the objective of assessing the revenue potential of the Masasi District Council. This study therefore focuses on the Masasi rural area given that by a Government Notice No. 179 dated 17th June 2011, the Masasi Town Council has come into existence. The specific objectives of the study are to:

- i) Analyse the existing revenue collection system at MDC;
- ii) Formulate an action plan for improving the existing revenue collection system through adoption of modern technology, among others;
- iii) Identify new sources of revenue for MDC and recommend improvements in the existing revenue collection system for the three most important sources;
- iv) Propose a strategy to enhance compliance through prevention of tax evasion and raising public awareness;
- v) Examine intergovernmental transfers that MDC receives;
- vi) Assess the possibility of outsourcing revenue collection functions for certain sources, and
- vii) Assess central government revenue collection trends in Masasi District.

1.3 Methodology of the Study

The methodology used by the Consultants was intended to achieve the set objectives as outlined in the TOR, as indicated below:

Documentary Review

The study team examined the relevant documentation, which included reports, and various policy documents, and many others as indicated in the references. The purpose of the documentary review was to collect published data and information on the subject as a basis for further verification. In order to complement the documentation identified, the Consultants also collected relevant information from the internet.

Interviews with Stakeholders

The team also held extensive interviews with various stakeholders, especially MDC officials from different departments. The interviews served to provide useful insight on what is feasible given existing circumstances at MDC. The list of interviewees is given in Annex 5.

I.3 Structure of this Report

The remainder of this report is organized as follows. Part II examines the MDC revenue collection system currently in practice, both in terms of the revenue structure as well as administration of the system. Part III provides a discussion on the intergovernmental fiscal grants the MDC receives. Part IV of the report is devoted to revenue collection in Masasi District by the Central Government i.e. through TRA. A brief analysis of the investment potential for the MDC is provided in Part V. Potential improvements in the MDC revenue collection system are presented in Part VI of the report. Finally, Part VII summarizes the key findings of the study and draws conclusions.

II. CURRENT MDC REVENUE COLLECTION SYSTEM

2.1 Profile of Masasi District Council

General overview

MDC is one of the six Councils of Mtwara Region. It has a total area of 4,429.2 sq km and its physical size is 23% of the whole of Mtwara Region, which has a land area of 16,720 sq km. The district is politically subdivided into two parliamentary constituencies namely Lulindi and Masasi with 5 divisions, 34 wards, 170 villages and 986 hamlets. According to the 2002 National Population Census, the district is inhabited by 307,211 people most of whom are farmers but at a small scale.¹

During the study the Consultants learned of plans to carve off Masasi town from MDC by establishing a town council. In fact, through Government Notice No. 179 published on 17th June 2011, the Minister responsible for Local Government i.e. the Prime Minister, declared Masasi town to be a Town Council. According to information gathered during this assignment, preparations are underway to transfer a portion of the assets and liabilities of the MDC to the newly established MTC. It appears that MTC might not be fully functional for at least a few more months. Undoubtedly, the decision to form MTC effectively takes away from MDC the thriving business activities of Masasi town, a vital potential source of own revenue.

Economic Profile

In economic terms the whole of Masasi District is characterized by a mix of agriculture and trade. Individuals earn substantial levels of income mainly from farming and small scale business activities. The average family income for Masasi residents varies from one area to another depending on the economic activities available. Generally the main cash crop which generates substantial income is cashew nuts and, according to the National Bureau of Statistics, the average income per capital for the inhabitants of Masasi is estimated at Tshs. 720,000/ per annum.

¹Analysis of the Planning Unit of the Council

As mentioned above, agriculture is the predominant economic sector in the district. Over 90% of the people live in rural areas and their livelihood depends mainly on farming and livestock keeping. Apart from cashew nut, the population also produces and sells crops such as sesame and groundnuts. The district produces 29% of the region's total cashew nuts. Food crops grown in Masasi include cassava, maize sorghum, paddy, legumes, fruits and vegetables. Some of the inhabitants keep livestock like goats, sheep, pigs, cattle and poultry for domestic use. However, the level of performance in agriculture is still very low compared to the available arable land and demand for cash crops, such as cashew nut.

According to the Planning Department of the MDC, the district is gifted with a large area of natural vegetation which covers an area of 212,600 ha. Much as the demand for forest products is on the increase, the harvest of natural forests for poles, charcoal, firewood and timber is also on the increase. To a great extent, the exploitation of forest products by local population jeopardises the environment.

Besides natural vegetation, the district is also endowed with wildlife. It has a total area of 65,450 ha. of wildlife reserves. There is Msanjesi Game Reserve, which covers about 220 ha. and is home for a number of wild animals. This is an area of attraction for tourists interested in hunting, game viewing or cinematography. However, MDC has not made the best out of these for a number of reasons notably:

- Little if any efforts have been made to attract more tourists
- Basic supporting infrastructure such as hotels and good roads is inadequate
- The existing wildlife policy does not provide sufficient incentives for LGAs to get involved in the promotion of tourism.

On the other hand, the Consultants learned of traces of precious minerals in Masasi and other parts of Mtwara. Minerals identified in Masasi include red garments, sapphire marble, chrysoberyl, alexandrite, tourmaline, and rhodorites

However, formal exploration has not yet been carried out. Mining activities offers another big income generation potential for MDC.

Although currently no capital intensive industry exists in Masasi, the district has opportunities to develop agro-industries for example for processing of local produce, such as cashew nuts. Opportunities do also exist in flour milling, fruit canning and oil processing plants because of abundant raw materials.

In terms of trade, MDC is disadvantaged because there are very few formal business establishments in its area of jurisdiction. Establishment of infrastructure for mobile markets (i.e. *gulios*) could provide an excellent opportunity to boost trade in the near future.

2.2 Structure of own-source revenue

Having outlined the background, context and profile of Masasi district focus is now shifted to the finances of MDC. This section provides an analysis of the key issues concerning revenue administration. In order to undertake such an analysis we have compiled revenue data from MDC, including the Tanzania Revenue Authority (TRA) in Masasi District and transfers from Central Government to MDC. For the purposes of our analysis there is sufficient data to establish trends and make meaningful interpretations. However, it must be noted that there are discrepancies in figures among the different data sources². In order to resolve conflicts between data for MDC, we have chosen to regard MDC data as overriding. Given the discrepancies between the various sources of data highlighted above, and data gaps with respect to revenue, we underscore the facts that:

- We have not audited the primary data used throughout this report, and therefore cannot guarantee for its accuracy and the results arising from its use.
- Generally, the analysis made reflect our best judgement based on the available primary data.

²Revenue collection data used by Benjamin Klaus and Maximillian Duwe in a Report on Revenue Study Masasi District Council differs from data provided by MDC.

Revenue-raising powers of local governments, MDC inclusive, are set out in the Local Government Finances Act of 1982 and the Urban Authorities (Rating) Act of 1983. MDC has three major sources of funding: own revenues, central government transfers, and development aid. In addition, user charges and various forms of self-help activities contribute to the running and maintenance of public services such as primary schools and health facilities.

MDC, like any other local government authorities in the country has the mandate to raise certain revenues from taxes, levies and fees. The MDC sets its own revenue policy within the limits set by central government. It retains all its revenue and uses it as part of its own budget – these revenues do not form part of central government revenue. The taxes, levies, fees and revenue sources which LGAs are mandated to raise around the country are mentioned in the Local Government Finances Act and are presented in Table 1 in Appendix 1. MDC and other local government authorities are not allowed to levy any taxes, levies or fees which are not in the LGFA list.

Trends in revenue performance

In order to understand the magnitude of the flows in **Table 2 (Appendix 1)**, we have produced a summary of collection in Table 1 which quantifies each revenue flow for the last four years into the MDC account for MDC from fiscal year 2007/2008 to 2010/2011.

Table 1: Summary of MDC Own-source Revenue

Year	Estimates	Actual	Perf %
2007/2008	1387.90	1750.47	126
2008/2009	1999.47	1474.71	74
2009/2010	2268.54	2467.76	109
2010/2011	2445.53	2394.08	98

Source: Finance Department, MDC.

From Table 1 above in the financial year 2007/2008, the aggregated revenues from own sources amounted to Tshs 1,750.47 million compared to the estimated amount of Tshs 1,387.90; equivalent to an impressive performance rate of 126 per cent. There is no reason provided for the good performance during the year but this can be associated with remittance from export levy of Tshs 196.65 million which was not included in the estimates, more remittance from self-reliance of Tshs. 460.61 million

(estimate of Tshs. 330.0 million) and contribution from other income of Tshs. 91.12 million (estimate of Tshs. 10.5 million).

During financial year 2008/2009 MDC records indicate that performance was far below target by 26 per cent and this is due to poor performance of the major sources like produce cess Tshs. 440.5 million (estimate Tshs. 499.82 million), export levy Tshs. 29.87 Million (estimate Tshs. 340.00 million) and self-reliance Tshs. 374.09 million (estimate Tshs. 516.00 million). The aggregate revenue collection performance level recorded 74 per cent.

Generally, an assessment of the financial year 2009/2010 indicates an impressive performance, 109 per cent. This is the result of significant contribution from export levy - Tshs. 933.70 million (estimate Tshs. 436.0million), other income – Tshs. 27.87 million (estimate 19.24 million), forest produce licence fee – Tshs. 6.69 million (estimate Tshs. 3.75 million), and insurance commission Tshs. 32.80 million (estimate Tshs. 6.0 million).

Furthermore, analysis shows that financial year 2010/2011 did not record to the expectation. The overall performance was 98 per cent in spite of high collection from produce cess - Tshs. 1,067.43million compared to estimated amount of Tshs. 895.30 million, equipment renting – Tshs. 75.0 million (estimate Tshs. 32.0 million), forest produce licence fee – Tshs. 13.33 million (estimate Tshs. 11.65 million), guest house levy - Tshs. 3.81 million (estimate Tshs. 1.70 million), insurance commission - Tshs. 27.04 million (estimate Tshs. 20.0 million), and crop cess – Tshs. 750.50 million (estimate Tshs. 522.30 million).

Figure 1: MDC Own-source Revenue Trend

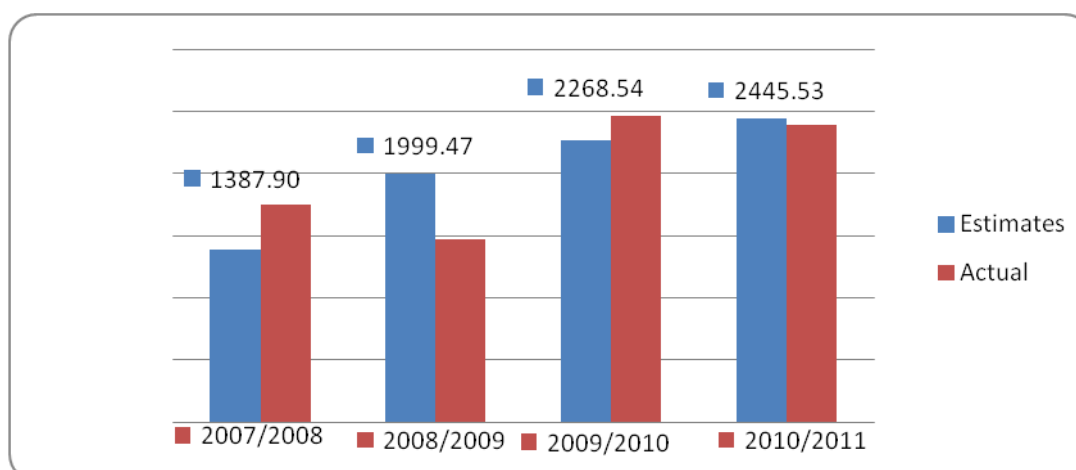


Figure 1 presents recent trend for MDC own-source revenue collection performance from 2007/2008 to 2010/2011. During this four year-period, fluctuations in performance measured as actual collection as a proportion of approved targets can be observed. Taxation in MDC, like in any other LGA, is widely regarded as the weakest link in local government finance structure.

Revenue contribution of different sources

MDC has numerous low-yield revenue sources as shown in Table 2. However, close to 95 per cent of MDC own-source revenue for the four-year period covering 2009/2008 to 2010/2011 came from four sources only. These include crop cess, other produce cess self-reliance and export levy.

Table 2: Revenue contribution of different sources

RANK	SOURCE	AGGREGATE COLLECTION (2007/8 – 2010/11)	CONTRIBUTION
1	Crop Cess	2,501.40	30.9%
2	Other Produce Cess	2,483.83	30.7%
3	Self-Reliance	1,503.31	18.6%
4	Export Levy	1,160.22	14.3%
5	Other Income	148.33	1.8%
6	Equipment renting	122.38	1.5%
7	Insurance Commission	67.12	0.8%
8	Forest Produce License fee	27.55	0.3%
9	Tender fees	23.66	0.3%
10	Service Levy	18.57	0.2%
11	Agency	11.96	0.1%
12	Other fines and Penalties	7.69	0.1%
13	Guest House levy	7.59	0.1%
14	Plot Fee	2.87	0.0%
15	Other Business License Fee	0.54	0.0%
		8,087.02	100.0%

Source: Finance Department, MDC

Of the four most important own sources for MDC i.e.crop cess, other produce cess, self-reliance and export levy, only by-laws for produce cess could be availed to the Consultants. The Masasi District Council (Produce Cess) by-laws were promulgated in 1985 with the latest amendments being done in 1989.

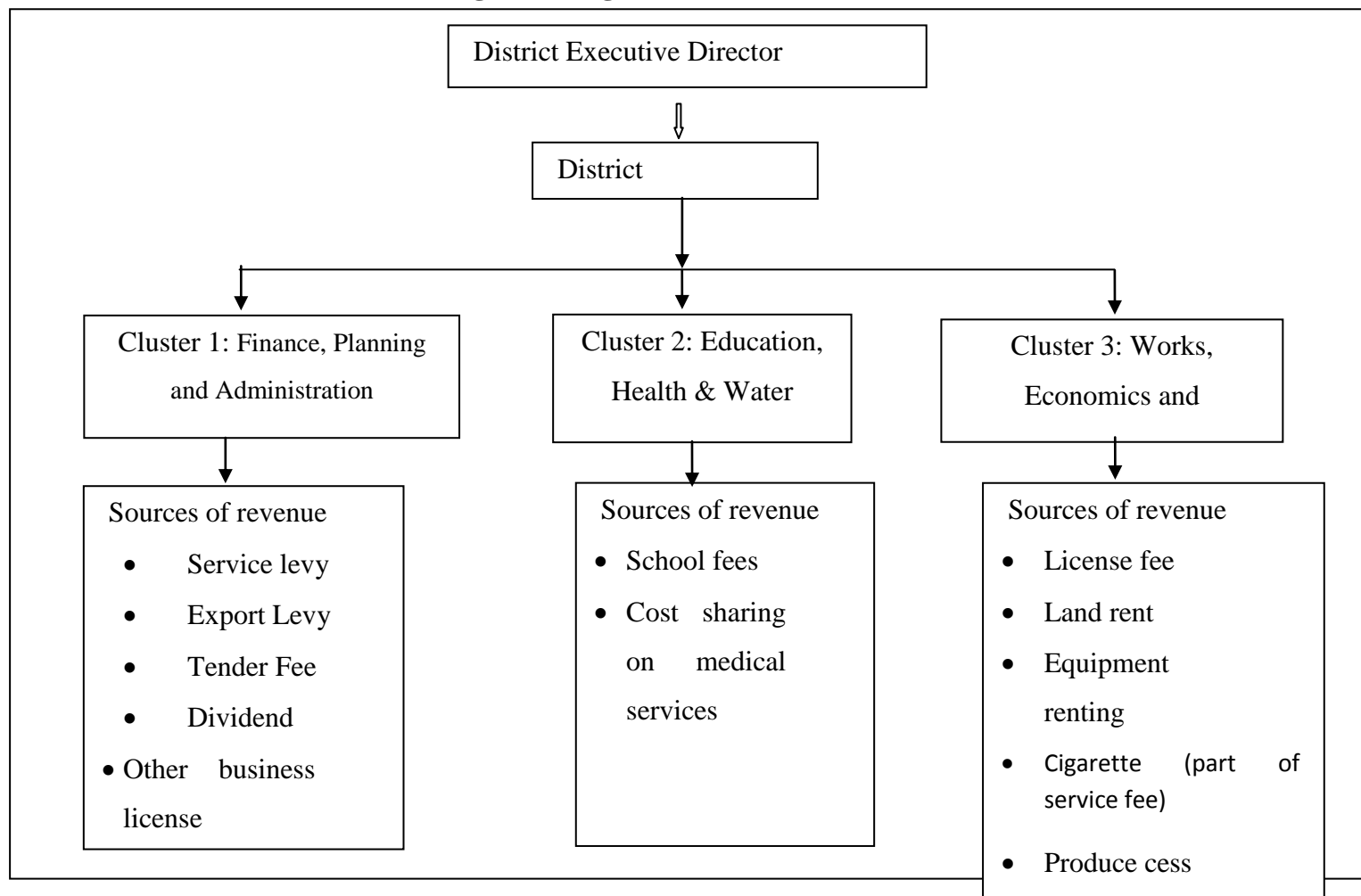
According to revenue collectors from the Finance Department of the MDC, these sources are difficult to administer and suffer from high compliance costs. Enforcement is weak, tax resistance widespread, accountability low and corruption common (especially at check points).

Own generated revenues in LGAs, MDC inclusive, are mainly used to finance operational costs, in particular salaries for the lower cadre of local government employees and sitting allowances for councillors. The lion's share of the operational costs in LGAs, however, is financed through Central Government transfers. With respect to investments and capital development, MDC almost depends entirely on these transfers and funding from Development Partners.

2.3 MDC Revenue Administration System

Tax collection is the responsibility of the MDC, and is completely separated from the central government. Revenue collection is organized and carried out by the Council but monitoring is organized around three levels, namely the council headquarters, the wards and the village levels. At the ward levels, the responsibility rests with the office of the Ward Executive Officer (WEO). Besides monitoring revenue sources, the WEO also handles developmental issues and law-and-order functions at that level. For this purpose the local militia is at their disposal. At the village level, the responsibility to monitor revenue sources rests with the office of the Village Executive Officer (VEO). The VEO is also responsible for supervising village developmental activities and maintaining law and order.

Figure 1: Organization of revenue collection in Masasi District



Source: Finance Department, MDC

Figure 1 above presents the revenue collection layout in Masasi District. The District Treasurer is the overall in charge and custodian of all Council revenues and he is assisted by the Revenue Accountant. For the purpose of revenue collection and to ensure that there is control of the revenue resources, three clusters are set: 1) Finance, planning and administration 2) Education, health and water and 3) Works, economy and environment. Below each cluster, revenue sources are earmarked. Cluster 1 at the council headquarters, tax collection rests with the council treasury, headed by the Treasurer, collects Service Levy from liable taxpayers, receives Export Levy from central Government, Tender Fee from bidders, dividend from council investments, and also collects other business license fees. Almost all these are straight forward receipts flowing to the MDC accounts. Sometimes, staffs from Finance Department are required to follow up to facilitate remittance by taxpayers or remitters.

Cluster 2 is made up of departments which are totally services delivery and are not involved in revenue collection. Much as the Education Department manages both primary and secondary education, school fees are paid directly to respective schools and these do not form part of the Council revenue. Likewise fees and charges received in the hospital and in health centres are retained there and do not form part of Council revenue.

Cluster 3 comprises departments such as natural resources, land, agriculture and livestock. The Consultant was informed that this is the key player in terms of revenue collection in MDC. For example all natural resources such as forest and wildlife have a significant role on MDC total revenue stake. According to the Forest Officer, about 4480 sq km in Masasi District is forest with trees suitable for timber. Due to the growing demand for timber, more people request for permits to harvest forest products.

MDC banned harvesting of the same to provide room for making an inventory of the natural resources available. Because the department is understaffed, with only 2 staff (one is attending long term training), it is difficult to monitor and ensure that there is no one involved in harvesting or whether those involved have permits. Possibility is great for people to harvest forest products illegally, hence evade paying tax. In terms of revenue collection it was discovered that forest officers are involved in collection

of revenue, contrary to financial regulations. It was told that this is done, because the council is short of professional staff. Although revenue collection is done by non-revenue collectors, there has never been reported any case of loss or theft of Council monies.

Although Masasi District has traces of minerals, the council has not been able to benefit from it. For the time being the council has no mineral expert but we were told that extraction of minerals is done and the council is not aware. Land is a non-active factor in terms of revenue generation in the district and this is because land is not surveyed. Hence, the Rating Act cannot be put into use. Had it been that land is surveyed, still revenue collection would go to the Ministry of Land and Human Settlement and only 20 per cent will be remitted to the Council, this is not sustainable because the Ministry does not remit it in time.

Regarding wildlife, the Consultants were made to understand that the policy states that wildlife products belong to the central government and 75 per cent of the proceeds of wildlife go to the central government. In this case the MDC is entitled to only 25 per cent. MDC is not aware of how many licenses are issued by the Ministry of Natural Resources and there is no formal communication between MDC and Ministry or the department responsible for wildlife in respect of management and harvesting of wildlife.

The Department of Agriculture of the Council is the major contributor to the revenue of the Council. As explained elsewhere in this report, cashew nut generates almost 85 per cent of the revenue flow of the Council and other crops contribute 5 – 10 per cent. From agriculture the Council is able to get crop cess (5 %), self-reliance (Tshs 30 per kilogram) and export levy (5 % of export value). There are few cases involving some crop buyers to evade tax, especially non cashew nut crops. Collection of produce cess is done by Finance Department staff. During the buying season, almost all staff go out in the fields to collect the same. But the council has laid down a mechanism which requires non cashew nut crop buyers to apply for a permit and pay the appropriate amount before they are engaged in buying crops. At least this procedure guarantees revenue to the council.

Crop cess is, in general, collected at the selling points. However, 'big buyers' of cessable goods (often co-operatives) are expected to pay directly to the Council Treasury. The buyer then pays the council in advance based on an estimate calculated by the Revenue Accountant in the office of the District Treasury. If the figures are not accepted by the 'big buyer', negotiations are opened. Most licenses and some fees have to be paid at the respective offices at the council headquarters. Licenses are often issued on an annual or biannual basis. The council may carry out spot-checks of entrepreneurs and businesses to control that licenses are paid

Generally the Council has no designated staff responsible for revenue collection. Each department forming MDC, if it has revenue sources falling within its area of operation, staff of the department are responsible to effect collection of revenue. Those who are involved in revenue collection are provided with receipt books. At this point they determine how much should be paid, at the same time they collect it. This experience was also shared with staff responsible for land management in the council. However, sometimes they direct taxpayers to pay their due tax at the Council's cash office. This is a weakness in revenue collection which needs to be addressed by the Council at the soonest.

While other Councils in the country have introduced new methods to increase revenues from existing sources by outsourcing some of the revenue collection to private collectors to increase revenues from existing sources, MDC has not done so. All own-source revenues are collected by Council staff. Most taxes are paid in cash, except well-established organizations that pay by cheque. All transfers and remittances are paid by cheque. Manned barriers are used to control buyers of certain cash and food crops in the MDC jurisdiction. In this regard, buyers are required to produce certain receipt documents before they are allowed to transport the purchase outside the district.

One consequence of the revenue collection system in MDC is the high costs of tax administration. Recent estimates of the administrative costs are not available. The costs of tax enforcement also vary between different revenue sources. Some revenue sources are relatively less costly to administer because there are clear methods to deal with defaulters. For instance, a license may be withdrawn if business people fail to

pay a license fee. Many taxes are, however, relatively difficult to collect. Revenue collectors in the Council consider produce cess to be the most problematic tax to collect; followed by forest produce license fee and livestock cess (this is not collected).

Generally, the administrative costs are largely unrecognized in the council. Literature indicates that there is little appreciation of the opportunity costs of the staff already employed by the local government authorities³ but this is not an issue in MDC. One might even argue that for certain small taxes and charges the collection costs seem to be very high, because taxpayers are not compliant due to ignorance of the laws. In order to create a spirit of paying taxes willingly, efforts should be made to impart tax education to citizens.

2.4 Challenges facing the current MDC Revenue Collection System

In order to have better control of revenue collection, the Government of Tanzania initiated and has implemented a number of local government reforms. These reforms, to a great extent, aimed at increasing the resources available to local government authorities and improving the management of those resources. But of even greater significance is the need to improve on the collection of revenue from the existing sources of local government authorities. Relatively a bit of effort has been directed at imparting improved procedures for collection of revenue from councils' own sources to council's staff.

Despite certain positive developments on the part of the Central Government, LGAs in the country still face a number of setbacks. One such major administrative challenge is the inability to collect fully the revenue due to them. The huge gaps between reported and projected revenues in the MDC revenue data is an indication of inability to collect and this is due to:

- i) Weak administrative capacity to assess taxes and levies and then to enforce revenue laws and by-laws;
- ii) Taxpayer resistance and low tax morale on the part of the citizenry;
- iii) Corruption, including embezzlement of revenues;

³ Fjeldstad, 2003

- iv) External pressure on the local finance department to provide optimistic projections; and
- v) Political pressure on the revenue collectors to relax on revenue collection.

In specific terms revenue flow for MDC is limited by the following factors:

- Cashew nut fee is collected at a rate of 5 per cent of the indicative prices instead of the market price
- Some individuals avoid selling their cashew nut produce at the auction through the Warehouse Receipt System contrary to the requirements of the law.
- Sometimes there are delays by financial institutions
- Lack of packaging materials
- Transport problems
- Non cash remittance for the export levy – usually MDC receives farm inputs equivalent to the export levy collected by the central government. This is contrary to the requirement in the Cashew nut legislation.
- MDC is mandated to manage natural resources like forest and products from forests. In the process MDC spends more to ensure that procedures are followed in harvesting natural resources. But MDC gets 5 per cent from The Central Government in respect of earnings accruing to the Ministry responsible for natural resources from resources use in Masasi District.
- MDC is a shareholder in TATEPA (Tanzania Tea Packers Ltd.) but dividend received is not considered sustainable because of poor performance of the company.
- There are few sources of revenue, for example there are only six guest houses in the area and the compliance level by guest house operators is very low.
- MDC collects revenue from various sources, but the collection is not backed by legal instruments. For example there is no By-Law for collection of service levy, produce cess, forest produce cess. The only

applicable and legal instrument used to collect revenue is the Produce Cess By-Law of 1985.

- Lack of records and information on all businesses conducted in the district and their respective taxes.
- MDC depends mostly on transfers from the Central Government.

Lack of By-Laws denies the Council more opportunities to collect revenue from a number of sources. For example livestock products are not captured as revenue sources which can contribute, albeit in a small way, to the Council's budget. Businesses such as animal slaughtering, meat shop, sell of live animals, milk and other fees related to animal management form revenue sources to the council but are not considered because there is no legal backing.

The recent decision to carve off Masasi Town Council from MDC may constitute another own-source revenue setback in the short run, as the MDC has hitherto enjoyed and benefitted from urban revenue sources located in Masasi town. Now that Masasi town has been carved off from MDC, such sources will have to be relinquished. On a positive note however, this decision may force the MDC to seriously re-think its current revenue mobilization strategies and hence tap more effectively and efficiently into the hitherto untapped own revenue sources scattered around its rural wards. GIZ support in commissioning this study at this particular point in time is an opportunity that the MDC should not miss!

III. TRANSFERS TO THE MASASI DISTRICT COUNCIL

3.1 Justification for intergovernmental transfers

Both central governments and LGAs are generally expected to provide public services, but it is common to find that the own-source revenue-raising powers of the latter are not sufficient to meet the costs of providing the services they have been assigned. The resulting gap can be filled by vertical equalization i.e. transferring resources from the central government or by increasing revenue-raising powers of LGAs. But increasing local own-source revenues is, more often than not, quite challenging. For example, allowing LGAs to have substantial revenue raising powers reduces central control over the total size of the public sector and raises concerns about macroeconomic stabilization. In addition, appropriate local revenue bases are commonly weak or too administratively complex for LGAs to handle.

Given these realities, transfer mechanisms are often the most suitable way to achieve vertical equalization. Horizontal equalization is also important because there are generally wide differences in the ability of LGAs to mobilize resources independently. If only local government own-source revenues were available to finance assigned local services, there would be substantial inter-jurisdictional differences in the quantity and quality of public services based largely on differences in resource endowments. Intergovernmental transfers can be a powerful mechanism to help equalize these differences in LGAs fiscal capacity.

A third rationale for transfers is that some seemingly local government services generate inter-jurisdictional spill-overs, which are benefits (or costs) that extend beyond the borders of the locality. For example, health services provided in one jurisdiction may improve the overall health situation in neighbouring communities. LGAs may be unwilling to provide an efficient level of certain services if they believe that people who reside outside of the locality will enjoy many of the resulting benefits. To ensure that the LGA provides a greater amount of those services, the central government may transfer resources to the LGA with the condition that such resources be spent on services that generate

spill-overs. Doing so frees up other resources of the LGA that may or may not be used on the service in question.

Finally, administrative efficiency can often be improved by centralizing the management of certain taxes. A few taxes such as property taxes, as well as many types of fees, can be adequately collected locally. Internationally, LGAs can also levy some taxes generally reserved for central governments such as personal income taxes and most business taxes and in actual practice some do. However, such taxes are likely to be managed more efficiently through a central tax administration system than by a fragmented local system. Thus, such taxes are often collected nationally with the revenues (or some portion thereof) being redistributed to LGAs through a transfer system.

3.2 Transfers to the Masasi District Council

According to a recent analysis⁴ on the past five fiscal years ended on 30th June 2011, central government transfers to MDC amount to 92 per cent of the total budget. For the three fiscal years to June 2010, these transfers (excluding transfers of development funds) amounted to shillings 30.6 billion comprising salaries - 75 per cent, other charges – 21 per cent and compensation subsidy – 4 per cent as shown in Table 3 below.

Table 3: Actual Recurrent Transfers to MDC

USE OF THE GRANT	ACTUAL TRANSFERS				
	2007/2008	2008/2009	2009/2010	Total	%
Salaries	5,491,909,379.31	8,461,158,570.14	8,939,605,094.47	22,892,673,043.92	75
Other Charges	1,541,669,360.87	1,503,489,045.00	3,423,486,979.96	6,468,645,385.83	21
Compensation Subsidy	424,771,040.00	469,211,000.00	359,895,600.00	1,253,877,640.00	4
Total	7,458,349,780.18	10,433,858,615.14	12,722,987,674.43	30,615,196,069.75	100

Source: MDC Finance Department

The level of transfers approved for the fiscal year ending on 30th June 2011 for the three uses amounted to a total of shillings 16,635,089,570. The MDC Finance Department could not ascertain the actual transfers by the time of writing this report.

⁴Report on Revenue Study for the Masasi District Council prepared by Benjamin Klaus and Maximilian Duwe, May/June 2011

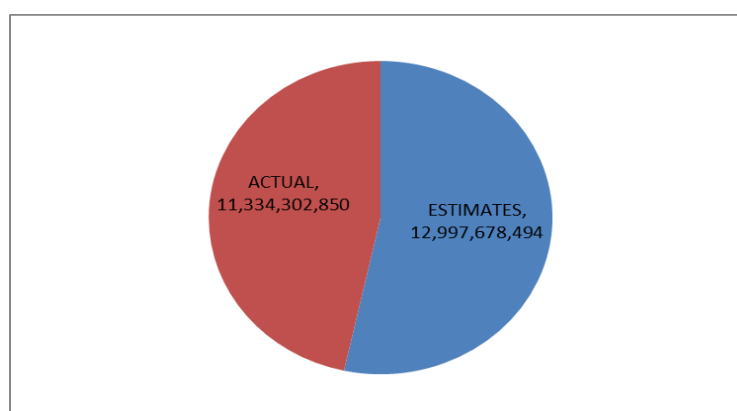
The grants for salaries are used to pay salaries for VEOs, WEOs and all other MDC employees except administrative staff earning below TGS 2. It should also be pointed out that, salaries for all employees in the so-called essential social services, regardless of the salary scale, are paid out of these central government salary grants. This is in conformity to the provisions of subsection (3) of section 10 of the Local Government Finances Act, Cap. 290. The essential social services include the following:

- Education
- Health
- Agriculture
- Water, and
- Works

Also in conformity to the provisions of subsection (2) of section 10A of the Local Government Finances Act, Cap 290 the other charges grants are used for operating expenses of the Departments that are responsible for the specified essential social services. On the other hand, use of the Compensation Subsidy is at the discretion of MDC as it is intended to compensate the Council for loss of own-source revenue resulting from the abolition of ‘nuisance’ taxes by the central government some years back.

As for capital (development) funds transfers, MDC received a total of shillings 11.334 billion during the three fiscal years against approved estimates amounting to shillings 12.998 billion, equivalent to 87 per cent as shown in Figure 1 overleaf.

Figure 1: Development Funds to MDC (2007/8 – 2009/10)



Source: MDC Finance Department

Yearly flows of development funds from the Central Government to MDC are shown in Table 4 below.

Table 4: Development Fund Transfers to MDC

	2007/2008	2008/2009	2009/2010
ESTIMATES	4,522,296,007	3,196,840,440	5,278,542,047
ACTUAL	4,354,087,109	1,897,614,536	5,082,601,205
%	96.3	59.4	96.3

Source: MDC Finance Department

3.3 Assessing the Transfers to MDC

It is important to assess the transfers to the Masasi District Council on generally accepted criteria. These include:

- Incentive for sound financial management and resource mobilization;
- Predictability,
- Transparency and simplicity;
- Allocative efficiency, and
- Equity in terms of redistribution.

Incentive for sound financial management

It has been noted in the literature that intergovernmental fiscal transfers can significantly affect financial management at the level of the LGA. If grants are viewed as an entitlement with no strings attached, an LGA may not attempt to use funds wisely. Furthermore, LGAs may view transfers as substitutes for their own resource effort, seeking political gains by reducing local taxes. Finally, grants can adversely affect the willingness of LGAs to maintain infrastructure if they expect grant levels to be determined on the basis of its condition.

It is clear that there has been a significant increase in central government transfers to MDC over the years. For example, there was an increase of almost 70 per cent from shillings 7.5 billion in 2007/2008 to shillings 12.7 billion in 2009/2010. However, it is not possible, given the narrow scope of this study, to confirm the extent to which the negative development on own source revenue collection in real terms from fiscal 2006/2007 as noted by Klaus and Duwe can

be explained by lack of incentive for sound financial management and resource mobilization. It is important that in future transfer levels be determined with this criterion in mind.

Predictability of transfers

Regarding predictability, it is important to understand that fiscal planning requires that a reasonable degree of certainty be associated with the flow and timing of the transfers. This means that it is desirable for LGAs to have a general idea of how much money they are likely to receive from their various sources of revenue as they begin their planning and budgeting process for the next fiscal year. This provides a solid basis on which to make future plans and minimizes the probability of large swings in resource availability, a situation that can compromise service delivery and frustrate local citizens. Similarly, it is important that the transfers allocated to LGAs actually be disbursed for their use and on a timely basis. Analysis of the transfers for salaries, other charges and compensation subsidy indicates a general volatility over the years. For example whereas in 2007/2008, only 74 per cent of estimated transfers were disbursed, this jumped to 130 per cent in 2008/2009 and then declined to 102 per cent in 2009/2010.

Table 5: Predictability of Transfers to MDC

GRANT TYPE	AMOUNT DISBURSED AS % OF APPROVED ESTIMATES		
	2007/2008	2008/2009	2009/2010
Salaries	72	135	96
Other Charges	88	115	125
Compensation Subsidy	61	98	82
Total transfers	74	130	102

Similar volatility can also be observed in the case of development funds that were 96.3, 59.4 and 96.3 in 2007/2008, 2008/2009 and 2009/2010 respectively. A closer look at Table 5 reinforces the unpredictability of transfers across grant type over the sampled period. Although the Consultants were not availed with information on the exact timing for the actual transfers, it can nonetheless be concluded that the desired principle of predictability is generally being violated year after year.

Transparency and simplicity

As for transparency, best practice entails that LGA officials and their constituents should be able to ascertain how their share of a particular transfer is determined. Even if they are not satisfied, at least they will understand why they received a different amount compared to other jurisdictions or other years. Such an understanding is facilitated by relatively simple but explicit transfer formulas, which also reduce the possibilities for capricious political manipulation of transfer allocations. It was obvious from the interviews carried out by the Consultants that MDC officials did not understand any formula that central government uses in determining the level of transfers.

Equity and efficiency considerations

The equity principle requires that transfer systems should ideally distribute resources across localities in a manner that accounts for differences in both expenditure needs i.e. providing more to those LGAs with greater need where unit costs of producing public services are higher, and fiscal capacity i.e. providing less to those with greater fiscal capacity.

On the other hand, there are two aspects of allocative efficiency when intergovernmental transfers are concerned. First, it means transfers should encourage local governments to spend their limited resources carefully and in the most productive way possible. Secondly, efficiency means that resources should be allocated to services identified locally as the highest priorities. Unless spill-overs exist, transfers should not be allowed to distort how LGAs allocate resources among sectors, across locations, or in terms of how to combine factors of production.

A full assessment of intergovernmental transfers to MDC based on all of the above principles goes beyond the scope of this study. A quick reference to the principles has however been attempted to enable MDC appreciate best practice in intergovernmental fiscal relations, and where possible negotiate effectively with the central government.

IV. TRA COLLECTIONS IN MASASI

The Tanzania Revenue Authority is a semi-autonomous Government Agency responsible for the administration of taxes imposed by the Government of the United Republic of Tanzania. Its functions involve registration of taxpayers and management of assessment, collection and accounting for central government revenue.

Currently, TRA has an office in each district on Tanzania Mainland. With only three technical staff, the Masasi TRA District has managed to increase revenue collection from shillings 451 million in fiscal 2007/2008 to shillings 1,034 million in fiscal 2010/2011 (see Annex 4). The increase represents a growth rate above 43 per cent on average per year. This trend renders credence to the proposition that the potential for MDC to increase own-source revenue has not yet fully been exploited.

In the course of the assignment, the Consultants found out that TRA has 16 enterprises in Masasi that are registered for VAT. The enterprises include guest houses, wholesalers, milling machines, bottled water, building contractors and filling stations. There is thus potential for a mutually beneficial cooperation between TRA and MDC for example through exchange of information on service levy and guest house levy.

V. INVESTMENT POTENTIAL FOR MDC

To start with, it should be noted that governments, both central and local, have the potential to engage themselves in commercial activities. This can be done through investing in companies they do not explicitly control as is the case currently with MDC holding some shares in TATEPA. Alternatively, governments, including LGAs, can establish commercial undertakings in the form of corporations as it used to be the case of District Development Corporations in the 1970s and 1980s. The defining characteristics of such commercial undertakings are that they have a distinct legal form and they are established to operate in commercial affairs. While they may also have public policy objectives, such undertakings should be differentiated from other forms of government agencies or state entities established to pursue purely non-financial objectives that have no need or goal of satisfying the shareholders with return on their investment through dividends. It is possible for MDC to generate own-source revenue by way of surplus from such undertakings.

Given the experiences in Tanzania and elsewhere, of non-performance for publicly-owned commercial enterprises that ultimately resulted into the privatization policy in Tanzania, it is not recommended for MDC to venture into such experiments at this time. In other words, for revenue generation purposes, MDC should not consider setting up commercial undertakings. Instead, MDC should encourage and support the growth of private sector businesses as a way of increasing the tax potential that it can tap subsequently. Obviously, this recommendation does not apply where public goods are concerned.

On the other hand, as the TATEPA experience shows, investment in stocks of commercial enterprises represents an additional revenue source if substantial investment is made. In this regard, MDC should take advantage of the existence of the Dar es Salaam Stock Exchange to invest in well performing listed companies. The current sale of Precision Air shares can be viewed along these lines.

VI. ENHANCING OWN-SOURCE REVENUE GENERATION CAPACITY

According the Government Budget estimates for the financial year 2010/2011, LGAs are expected to collect revenues amounting to shillings 172.582 billion, which is equal to 2.9 per cent of total domestic revenue collected by the Central Government. It is important to note that the Government itself acknowledges that *‘this amount is small compared to the available potential revenue opportunities in the Local Authorities’*. It is encouraging that the Minister for Finance reiterated Central Government commitment to strengthen the capacity to LGAs in identifying new revenue sources and improve efficiency in revenue collection from existing sources. MDC should therefore exploit this window of opportunity to identify new revenue sources and enact effective by-laws for them as well as reviewing existing by-laws.

In this chapter, a reform action plan for MDC is outlined to boost own-source revenue is laid out. The sequencing of the proposed reform measures, responsibility for each reform measure and expected timeframe are given in Box 1.

Box 1: Reform Action Plan

TYPE OF REFORM	RESPONSIBILITY	MONTH					
		1	2	3	4	5	6
Establish a central unit responsible for all key revenue collection functions	DED with Consultant assistance						
Strengthen legal framework for revenue collection	CS with consultant assistance						
Replace current fees and charges regime by a more comprehensive one	DT & CS						
Introduce broad-based graduated flat rate property tax regime	DT with consultant assistance						
Computerize revenue collection functions	DT with consultant assistance						
Formulate an elaborate compliance promotion strategy through awareness raising	DT with consultant assistance						
Outsource collection of revenue from certain sources	DT & CS						

Discussion on each reform measure (not in a sequential order) follows in section 6.1 through section 6.7.

6.1 Strengthening Legal Framework

In the course of the study, the weak legal framework for revenue collection became apparent. First, revenue by-laws seem to be out-dated. For example, under the Masasi District Council (Service Levy) By-laws, 2004 service levy is collected from every resident business enterprise in respect of all activities including agricultural production, manufacturing, processing, distribution of goods, rendering of services, insurance business, telephone, water works and even TANESCO operations. The by-laws are silent on measures that MDC can take to recover unpaid levy, save for the normal court route. Moreover, conviction in a court of law for non-compliance with the by-laws attracts a fine not exceeding shillings 50,000 or a jail term not exceeding twelve months or both sanctions. No wonder then that for the year 2010/2011, service levy collections amounted to less than shillings six million. Yet, records at the TRA Office in Masasi indicate that there are at least 16 business enterprises that are registered for value added tax and liable for service levy as well.

What is lacking currently is a robust provision in the by-laws for effective enforcement of service levy. This could include attachment of assets such as bank accounts as is practised by TRA in case of defaults in respect of central government taxes.

On the other hand, the Masasi District Council (Fees and Charges) By-laws, 1989 need regular updating in order to adjust the fees and charges for inflation. No evidence could be provided to the Consultants to show whether they have ever been adjusted. The version of the relevant by-laws that was gazetted and therefore can be enforced legally does still have very low fees and charges such as meet inspection – shillings 100 per cattle; advertisement charges – shillings 10 per year etc.

It is understood that competencies in local tax design is a big problem but given an appreciation of the importance of having in place a sound legal framework, MDC should be prepared to hire short-term consultants for this purpose as and when need arises.

6.2 Introducing property rates

Currently, MDC does not impose property tax. Given the heavy reliance on central government transfers and the limited tax base left to LGAs, there appears no justification not to utilize this obvious revenue source. In fact, contrary to the views expressed by some MDC officials that property tax can be legally levied only by an urban authority, the Consultants could not find evidence for this viewpoint. In fact sections 13 and 15 of the Local Government Finances Act, CAP 290 lays down this mandate clearly. In this regard, the latter section, for example, provides as follows:

“Subject to the prior approval of the Minister, and to the provisions of subsection (2), a local government authority may make and levy an annual rate on every person of or above the age of eighteen years who is a person in respect of whom, or a member of a category or description of persons in respect of which the functions of the authority are exercisable and who resides or **owns property** in its area of jurisdiction, based upon any one or more of the following systems ...” (emphasis ours)

According to the PMORALG By-Laws Database, there are several District Councils which have, at one point in time, exercised their powers to impose property rates. Examples of these include:

- 1) Bariadi District Council through Government Notice No. 653 of 1998
- 2) Handeni District Council through Government Notice No. 283 of 1999
- 3) Iringa District Council through Government Notice No. 619 of 1998 and No. 206 of 1999
- 4) Kwimba District Council through Government Notice No. 78 of 2000
- 5) Morogoro District Council through Government Notice No. 399 of 1999
- 6) Tarime District Council through Government Notice No. 338 of 1999 and 141 of 2000
- 7) Ulanga District Council through Government Notice No. 185 of 1999

It is proposed that MDC considers introducing a flat rate property tax system that will differentiate between properties at different locations such as trading centres, surveyed areas, non-surveyed areas etc. In order to address potential political and poverty reduction concerns that taxing much broadened citizenry, the rates could be set at amounts that are sufficiently low for all households in the district to afford. The extensive network that MDC has in the form of VEO

for each village and WEO for each ward can be utilized with very little additional costs to administer the system effectively. Supposing there are 50,000 properties in Masasi, imposition of the proposed system at an average rate of only shillings 5,000 would generate close to shillings 400 million as additional revenue to MDC. The additional revenue represents a 17 per cent increase in MDC own-source revenue collected in 2010/2011.

6.3 Fees and charges

As already indicated LGAs have the mandate to raise certain revenues from taxes, levies and fees. They are therefore allowed to set their own revenue policy within the limits set by Central Government. It is recommended that MDC re-enacts the Masasi District Council (Fees and Charges) By-laws, 1989 afresh and consider introducing many of the following types of fees and charges:

Business and Professional Licences

- *Intoxicating liquor license fee*
- *Private health facility license fee*
- *Motor cycle license fee*
- *Plying permit fees*
- *Other business licenses fees*

Other Taxes on the Use of Goods, Permission to Use Goods

- *Forest produce license fees*
- *Building materials extraction license fee*
- *Hunting licenses fees*
- *Muzzle loading guns license fees*
- *Scaffolding / Hoarding permit fees*

Administrative Fees and Charges

- *Market stalls / slabs dues*
- *Mobile Market Magulio fees*
- *Auction mart fees*
- *Meat inspection charges*
- *Land survey service fee*
- *Building permit fee*
- *Permit fees for billboards, posters or hoarding*
- *Tender fee*
- *Abattoir slaughter service fee*
- *Artificial insemination service fee*
- *Livestock dipping service fee*
- *Livestock market fee*
- *Health facility user charges*

- *Clean water service fee*
- *Building valuation service fee*
- *Central bus stand fees*
- *Sale of seedlings*
- *Insurance commission service fee*

Fines, Penalties and Forfeitures

- *Stray animals penalty*
- *Share of fines imposed by Magistrates Court*
- *Other fines and penalties*

6.4 Streamlining revenue administration

Whereas it is necessary to enact effective revenue raising legislation, this is far from sufficient. It is equally important to establish an effective and efficient revenue administration system that will be responsible for enforcement of all revenue by-laws as well as accounting for the revenue collected. It would appear logical to centralize this function in the Finance Department under the District Treasurer. Given the currently existing extensive network of VEOs and WEOs, administering the enhanced MDC own-source revenue system should add little, if any, additional costs to the Council.

6.5 Computerization of revenue management

In order to enhance efficiency and minimize human error and corruption opportunities, a simple computerized revenue management system would be feasible. Such a system should be able to automate the key tax administration functions of registration, assessment, collection and accounting for the revenue collected. The Institute of Tax Administration has recently designed a similar system at affordable costs to manage local revenue collection in three states of the newly established Republic of South Sudan. The system is known as Simplified Computerized Tax Administration System, in short SICTAS.

6.6 Outsourcing revenue collection

Outsourcing revenue collection by LGAs is not an alien phenomenon in Tanzania. Several LGAs have at times outsourced administration of certain revenue sources including property rate (flat), market fees, forestry levies, livestock auction and abattoir fees, bus stand fees and parking fees. The

outsourcing has been to a range of agents including market associations, cooperatives and private firms especially those dealing with debt management. In assessing the success of outsourcing, it has been argued that although outsourcing does not offer a quick-fix in terms of increasing revenue and easing administration, in general, revenue from the outsourced sources did actually increase with significant improvement in predictability as well (for example, REPOA, 2008).

In view of the above, once MDC has put in place an elaborate fees and charges structure, it is advisable on efficiency grounds to consider the possibility of outsourcing the administration of some of the fees and charges. This could work out very well in remote villages where a resident contractor could cheaply collect MDC fees and charges, retain an agreed percentage of the collections and remit the balance to the Council on a periodic basis. Respective VEOs and WEOs could act as enforcers of such contracts with regular support from the MDC headquarters i.e. Finance Department. To start with, market stall dues, mobile market fees, plying fees, livestock auction fees and abattoir fees seem to be feasible candidates for outsourcing. Issues of corruption, an appropriate retainer fee and monitoring of the collection agent will have to be carefully considered including borrowing from the experiences of LGAs that have at one time or another engaged in revenue collection outsourcing.

6.7 Compliance promotion strategy through awareness raising

Tax compliance promotion strategy refers to activities designed to encourage voluntary compliance with the requirements of revenue laws and by-laws. Such a strategy forms an integral part of any effective compliance strategy, the other component being an enforcement strategy as discussed above. MDC will have to determine the most effective mix of compliance promotion and enforcement response. Experience has shown that promotion alone is often not effective. Enforcement is important to create a climate in which taxpayers will have clear incentives to make use of the opportunities and resources provided by promotion. Experience in several countries has also shown that enforcement alone is not as effective as enforcement combined with promotion. That is why it is hereby proposed to have both. The enforcement strategy would come as a

result of streamlining revenue administration as discussed in section 6.4. In this section we discuss the key elements of an effective tax compliance promotion strategy which include:

- Providing education and technical assistance to taxpayers
- Building public support.
- Publicizing success stories.

We briefly outline each of the three elements below.

Providing education and technical assistance to taxpayers

Education and technical assistance lay the groundwork for voluntary compliance. They are essential to overcome barriers of ignorance or inability that otherwise would prevent compliance. Education and technical assistance make it easier and more possible for taxpayers to comply by providing information about tax obligations and how to meet them, and by providing assistance to help taxpayers comply, particularly in the early stages of a new tax or rate. Several types of information and messages will have to be communicated to taxpayers such as

- Who is subject to pay a given tax or charge or fee?
- How much is to be paid?
- When is the tax or fee due?
- What are the consequences of not complying?

Promotion can be enhanced by developing a communications plan which specifies what type of information will be communicated, how it will be developed, when it will be released, and how it will be distributed. Similarly, a technical assistance plan can be developed to indicate what assistance will be provided, to whom, and under what circumstances. The different ways to do the above are shown in Box 2 overleaf.

Building public support

The public can be a powerful ally in promoting tax compliance by supporting the creation of a tax ethics culture. The public can also serve as watchdogs that alert officials to noncompliance. To foster this, the public should be educated to conceive the act of paying tax as being one's contribution to public goods. In public goods studies, willingness to cooperate has been found to depend on

various variables, including effective communication between actors, group identity, payoffs, or identifiability of contributions. It can therefore be argued that the extent of knowledge among citizens about the use of contributions and the provision of public goods is a relevant factor determining voluntary compliance. If MDC, which incidentally has a full-time information officer, effectively communicates how MDC uses tax money for providing public goods, then taxpayers could be expected to be more compliant as compared to taxpayers with poor knowledge. It has been shown that for maximum impact, two approaches should be used simultaneously. On one hand, communication should focus on the necessity of paying taxes to enable MDC invest in the provision of public goods such as health care, education, roads etc. On the other hand, there should also be communication that emphasizes the negative consequences resulting from non-compliance in terms of lack of health care, education, good roads etc.

Box 2: Possible ways to provide information and assistance

- 1 Publications such as brochures bulletins etc.
- 2 Training programmes for specified groups of taxpayers
- 3 Conferences and seminars
- 4 Use of "hot lines"
- 5 Use of website
- 6 Assistance through visits by tax officers to taxpayers
- 7 Establishment of "call centres"
- 8 Media announcements
- 9 Trade associations meetings
- 10 Meetings of cooperative societies

In order to ensure effective communication, multiple media should be employed to deliver the above message. These may include:

- Mass media both print and electronic such as radio, television and newspapers;
- Special bulletins and notices for periodic distribution to targeted stakeholders and general ones for display at notice boards or at exhibitions;
- Sponsoring entertainment groups (drama, music bands etc.) to compose relevant songs, plays and other messages for radio/television and public gatherings on occasions such as public celebrations, visits by national leaders, *uhuru* torch race etc.

Publicizing success stories

Program officials can provide an incentive for the regulated community to comply by publicizing information about public goods that MDC has particularly been very successful in providing. It may also pay even higher dividends for MDC to publicise compliant taxpaying businesses and link improvements in the provision of public goods to taxes paid by certain firms. In this way, the positive publicity about a firm's tax compliance can enhance its reputation and public image. Such publicity helps create a positive social climate that encourages tax compliance among other firms.

VII. SUMMARY AND CONCLUSIONS

MDC managed to increase own-source revenue from shillings 1.7 billion in 2007/2008 to about 2.4 billion in 2010/2011. This represents on average an annual increase of 12.3 per cent. Given that Central Government transfers to MDC in 2010/2011 exceeded shillings 13 billion, MDC own-source revenue therefore accounts for less than 20 per cent of its total expenditure budget. This unduly reliance on Central Government transfers does not augur well with democratic and good governance principles.

Of the total own-source revenue collected by MDC in the past four years, about five per cent is collected from eleven different sources with remainder being collected from four sources only. These include crop cess, other produce cess, self-reliance and export levy.

On the other hand, as noted in Chapter II above, revenue management at MDC is generally not well organized. There are no designated Council employees responsible for revenue collection. Council employees in each Department of MDC with a revenue source falling within its area of operation automatically become responsible to administer revenue. Such Council employees are responsible for identification or registration of taxpayers, assessment and even collection. This is a weakness in revenue collection which needs to be addressed by the Council at the soonest.

In this regard, Central Government commitment to support LGAs in enhancing own-source revenues is highly welcome and the recommendations detailed in Chapter V of this study should be viewed in this perspective. First MDC should review the existing legal framework for revenue collection with a view of making it more effective and capable of enforcement. Secondly, property rates should be introduced by borrowing and drawing lessons from District Councils which have introduced the same. Thirdly, a comprehensive system of fees and charges should be introduced by re-enacting the Masasi District Council (Fees and Charges) By-laws, 1989. Finally, the revenue management system should

be streamlined by centralizing it within the Council Treasury, basic revenue administration functions should be automated and outsourcing revenue administration for one off payment of fees and charges should be considered.

Finally, it should be noted that there is need for MDC to engage in activities designed to promote voluntary compliance with the requirements of revenue laws and by-laws. Such activities form an integral part of any effective compliance strategy. Experience has shown that promotion activities complemented with effective enforcement can go a long way to build a tax paying culture among the citizenry. It is thus imperative that MDC formulates and implements a deliberate tax compliance promotion strategy that includes as a minimum the provision of education and assistance to taxpayers, building public support and publicizing success stories.

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ANNEXES

Annex 1: Terms of Reference

SULGO – Support to Local Governance Processes

Terms of Reference



Title of the assignment	Revenue Potential Study Masasi District Council (MDC)
Requested expertise	Optimization of Revenue Collection Procedures
Duration	20 Days
Time period	August 2011
Location:	Masasi, Mtwara Region, Tanzania
Contract arrangement	Consultancy

1. Objective

GIZ / SULGO proposes for the current planning period (Jan – June 2011) to support the implementation of revenue potential analyses in its partner LGA's. On basis of these results, a strategy and action plan for the second semester can be elaborated and an action plan on the top 3 potential revenue sources is to be implemented by the district.

The findings are to be documented and systemized as ready for implementation nationwide.

The procedure descriptions are to be used as a basis for I-Tax-Programming. Proposition of collection procedures for each of the revenue sources is to be prepared for PMO/RALG. This is the basis for 'translation' of these procedures into technical specifications for IT applications.

2. Introduction to SULGO

The Support to Local Governance Processes (SULGO) programme is a Tanzanian – German cooperation project to assist the Tanzanian government in its decentralization process.

The overall objective of the GIZ assisted programme ‘Support to Local Governance Processes (SULGO)’ is: “Citizens use demand-oriented and decentralised services and benefit tangibly from their participation in local governance processes, which are increasingly embedded in a legally protected framework.” It consists of three components which work in a multi-level approach:

Component 1, Good Governance at Local Level, is aimed at improving citizen participation in local decision-making and development processes. Conceived as a broad capacity development approach, it includes empowering state structures as well as civil society organisations and associations to encourage participation and render to decentralised actors the support they need for D-by-D.

Component 2, Harmonisation of the Legal Framework, contributes to clarifying and standardising the legal and regulatory framework for decentralisation, thus improving conditions for local governance and participatory processes.

Component 3, Local Finance is aimed at improving Public Financial Management and in particular at enhancing revenue collection capacities at LGA and LLGA level through for instance the introduction of property taxes.

In this way, the programme makes a significant contribution to the use of the potential offered by decentralisation – and thus, in the long term, to poverty reduction as well (relevance). The programme is harmonised with the reform processes of the Prime Minister’s Office – Regional Administration and Local Government (PMO-RALG), supplement the LGRP2 and is part of the programme based approach accompanying LGRP II.

3. Background of the consultancy

SULGO has been supporting the development of a more efficient and equitable system to collect property rates. This has evolved to a broader set of activities aimed at enhancing local revenue for Local Governments. In this sense the study proposed is to be considered as a baseline for systematic improvements of revenue.

4. Qualification of the consultant

The expert should

- have 5 years of proven expertise in the field of local government finance, revenue systems and management in Tanzania.
- have undertaken a similar study in a relevant context
- have a post-graduate degree in a relevant field (economics, MBA)
- be fluent in written and spoken Kiswahili and English.
- have excellent analysis skills
- have excellent report writing and analysis skills.
- Excellent knowledge of Excel and statistics applications (SPSS or equivalent)

5. Tasks

Activity 1

Assess which taxes, levies, fees and revenue sources based on the Local Government Finance Act the Masasi District Council has actually been collecting for the past five (5) years, and how they have been administered.

- 1.1 Provision of a detailed description of how the different sources have been administered for each of the revenues (own source & shared).
- 1.2 Collection of efficiency indicators for each source of revenue by identifying the ratio of potential versus budget and actual collection as well as collection/administration costs amongst others:
 - ratio actual tax revenue / tax revenue estimated in budget
 - revenue gap = potential revenue - realized revenue
 - ration voluntary payments / total tax revenue
 - additional tax revenue / number of audited declarations
 - ration amount of collected arrears / total arrears
 - cost of collection
 - client perception survey about integrity, trust, fairness, helpfulness and efficiency

- 1.3 Identification of new potential sources of revenue for the district as well as formulation of an action plan on how to improve current collection procedures by innovative methods (i.e. IT applications, mpesa etc).
- 1.4 Analysis of ‘bottlenecks’ for each type of revenue.
- 1.5 Recommendation of methods of preventing tax evasion for each type of revenue, as well as exploration of possibilities to induce self-declaration by taxpayers. The latter should include methods of awareness-rising and i.e. showcases for improved service delivery as a result of improved revenue.
- 1.6 Assessment of possibilities of privatizing revenue collection in certain areas.
- 1.7 Analysis of investment potentials for the district which suit the local environment.
- 1.8 Preparation of a comprehensive but practical action plan on how to improve the top three (3) sources of own revenue. This included a revision of all fees and charges of the Council and proposition of adaptations thereof, except where the charge is fixed externally.

Activity 2

A detailed description of all types of intergovernmental transfers the Masasi District Council is receiving and how those transfers are administered (procedures, amounts, timing). This must include a comparison between budgeted and realized by quarter, comparison of timeliness of earmarked and non-earmarked funds as to analyze trends over time.

Activity 3

Describe and analyze all other revenue collected in the district (eg: TRA collection for central government) as to give a comprehensive overview of all revenue collected and its tendencies. A comparative efficiency / effectiveness analysis should be included in the report.

4. Reporting

A draft report in English and Kiswahili should be delivered by 20 August 2011 as a soft copy MSWORD.

A final report in English and Kiswahili containing the requested outputs from activities should be delivered by 29 August 2011.

Three (3) hard copies and a softcopy in MSWORD of the final report have to be submitted to the SULGO office, Dar es Salaam and to the District Executive Director of the Masasi District Council simultaneously.

Media-backed presentation of the final report to the Council Management Team (CMT), PMO/RALG and SULGO Team in the respective offices

5. Work arrangements, schedules

The assignment is planned to take a maximum of 15 days including field visits and is set to commence on 1st August 2011. The consultant is expected to submit the final report by the 29th August 2011.

6. Others

The consultant is entitled to request advanced payment up to 30% of the remuneration.

The rest is to be paid upon satisfactory completion of the task.

Annex 2: Sources of Revenue for LGAs

Tax Base	Tax Type
Taxes on Property	Property rates
Taxes on Goods and Services	Crop cess (maximum 5% of farm gate price) Forest produce cess
Taxes on Specific Services	Guest house levy
Business and Professional Licences	Commercial fishing license fees Intoxicating liquor license fee Private health facility license fee Taxi license fee Plying permit fees Other business licenses fees
Motor Vehicles, Other Equipment and Ferry Licences	Vehicle license fees Fishing vessel license fees
Other Taxes on the Use of Goods, Permission to Use Goods	Forest produce license fees Building materials extraction license fee Hunting licenses fees Muzzle loading guns license fees Scaffolding / Hoarding permit fees
Turnover Taxes	Service levy
Entrepreneurial and Property Income	Dividends Other Domestic Property Income Interest Land rent
Administrative Fees and Charges	Market stalls / slabs dues Magulio fees Auction mart fees Meat inspection charges Land survey service fee Building permit fee Permit fees for billboards, posters or hoarding

	Tender fee Abattoir slaughter service fee Artificial insemination service fee Livestock dipping service fee Livestock market fee Fish landing facilities fee Fish auction fee Health facility user charges Clean water service fee Refuse collection service fee Cesspit emptying service fee Clearing of blocked drains service fee Revenue from sale of building plans Building valuation service fee Central bus stand fees Sale of seedlings Insurance commission service fee Revenue from renting of houses Revenue from renting of assets Parking fees
Fines, Penalties and Forfeitures	Stray animals penalty Share of fines imposed by Magistrates Court Other fines and penalties

Annex 3: Revenue Collection by MDC (in Tshs. Millions)

Revenue Source	2010/2011			2009/2010			2008/2009			2007/2008		
	Estimates	Actual	Perf %	Estimates	Actual	Perf %	Estimates	Actual	Perf %	Estimates	Actual	Perf %
Other produce Cess	895.30	1067.43	119	524.50	464.43	89	499.82	440.5	88	536	511.47	95.4
Export Levy	432.00	0.00	0	436.00	933.70	214	340.00	29.87	9	0	196.65	0.0
Equipment renting	32.00	75.00	234	68.00	4.18	6	40.00	20.44	51	31.5	22.76	72.3
Other Income	51.34	12.34	24	19.24	27.87	145	2.18	17	780	10.5	91.12	867.8
Other fines and Penalties	2.58	0.42	16	5.00	2.41	48	5.00	0.97	19	5	3.89	77.8
Tender fees	10.00	4.93	49	10.00	7.21	72	3.00	10.46	349	1	1.06	106.0
Forest Produce License fee	11.65	13.33	114	3.75	6.69	178	4.22	4.32	102	2.5	3.21	128.4
Guest House levy	1.70	3.81	224	1.65	1.25	76	1.65	1.55	94	1.5	0.98	65.3
Service Levy	6.50	5.55	85	3.00	7.00	233	1.50	3.94	263	1.3	2.08	160.0
Other Business License Fee	0.48	0.33	68	1.50	0.21	14	0.00	0	0	0	0	0.0
Insurance Commission	20.00	27.04	135	6.00	32.80	547	1.00	3.47	347	1	3.81	381.0
Agency	0.00	0.00	0	0.00	0.00	0	1.00	10.66	1066	0.5	1.3	260.0
Plot Fee	0.00	0.00	0	0.00	0.00	0	3.00	2.34	78	5	0.529	10.6
Self-Reliance	459.67	433.40	94	360.00	235.21	65	516.00	374.09	72	330	460.61	139.6
Crop cess	522.30	750.50	144	829.90	744.80	90	581.10	555.1	96	462.1	451	97.6
Total Collection	2,445.53	2,394.08	98	2,268.54	2,467.76	109	1,999.47	1,474.71	74	1,387.9	1,750.469	126.1

Source: Finance Department MDC

Annex 4: TRA Masasi District Revenue Collection

	2007/2008	2008/2009	2009/2010	2010/2011
July	45,224,654.50	45,891,294.34	63,795,812.35	114,630,347.45
August	32,034,527.20	25,145,275.10	42,980,867.45	123,512,988.72
September	31,214,734.06	54,175,157.35	39,044,844.65	75,826,025.71
October	46,812,771.50	59,676,752.35	61,042,317.35	81,036,809.67
November	23,438,389.75	42,713,266.65	36,429,840.55	60,693,565.70
December	31,374,700.95	43,188,331.27	47,605,493.26	86,050,982.84
January	59,935,334.68	58,681,450.18	49,419,194.45	92,766,869.22
February	36,762,898.66	32,737,529.63	75,986,915.45	67,224,611.42
March	55,449,487.60	55,053,559.76	71,838,362.13	155,284,349.33
April	30,231,799.26	74,714,495.90	63,881,953.68	59,781,691.92
May	25,141,080.76	36,380,838.41	133,303,257.85	70,131,094.07
June	33,472,640.91	43,474,423.09	37,448,268.01	46,772,360.95
Total	451,093,019.83	571,832,374.03	722,777,127.18	1,033,711,697.00

Annex 5: List of Stakeholders Consulted

1) Mr. Francis Namaumbo	District Executive Director, MDC
2) Mr. Mohamed Ngwalima	District Executive Director, Mtwara District Council
3) Mr. Joel Hari	District Engineer, MDC
4) Mr. Christopher Nkupama	District Treasurer, MDC
5) Mr. Thomas Mwailafu	District Planning Officer, MDC
6) Mr. Gabriel Joshua	District Natural Resources Officer, MDC
7) Mr. Benjamin Klaus	GIZ Advisor on Local Governance, MDC
8) Mr. Emmanuel Balisi	GIZ Advisor, Dar es Salaam
9) Mr. B. Mdage	Acting DALDO, MDC
10) Mr. Said Mshamu	Acting Masasi District Manager, TRA
11) Mr. Frank Ndembeke	District Trade Officer, MDC
12) Mr. James Kiango	District Internal Auditor, MDC
13) Mr. Adrian Jungu	Town Executive Officer, Masasi Township Authority
14) Mr. Mussa Kayera	Revenue Accountant, MDC
15) Mr. Barnabas Mdenye	Forest Officer, MDC
16) Mr. Edwin Ekon	Information Officer, MDC
17) Mr. Gasper Lema	Accountant (Property Rates), Mtwara-Mikindani Municipal Council
18) Mr. Kweba Mjuna	Wildlife Officer, MDC
19) Mr. Masunga Donald	Valuer, MDC
20) Mr. Mashaka Mfaume	Head Agricultural, Livestock and Coops. Department, MDC
21) Mr. Basil Mdage	Produce Officer, MDC
22) Mr. Adam Kalombora	Cooperative Officer, MDC
23) Mr. Ryoba Magahe	Livestock Officer, MDC
24) Mr. Steven Mwanache	Livestock Officer, MDC
25) Mr. Wilfrid Tamba	Extension Officer, MDC
26) Mr. Juma Bushiri	Education Officer, MDC
27) Mr. Hamis Pilla	Accountant, Mtwara District Council
28) Ms. Rustica Turuka	District Education Officer (Primary), MDC
29) Mr. Abdul Mfundili	Engineer, MDC
30) Mr. Axel Mueller	GIZ Advisor on Local Governance, Mtwara District Council

31) Mr. Frank Ndembeka	Trade Officer, MDC
32) Mr. Wilbert Hokororo	Works Technician, MDC
33) Ms. Pendo Haule	Works Technician, MDC
34) Mr. Siti Mutalemwa	Social Welfare Officer, MDC
35) Mr. Geoffrey Martin	Land Officer, MDC
36) Mr. Francis Bwire	Water Technician, MDC
37) Mrs. Daisy Sadiki	Rep for DMO at MDC Revenue Committee
38) Mr. Sifael Kulanga	Council Solicitor, MDC
39) Mr. Hussein Mussa	Internal Auditor, MDC
40) Mrs Fatuma Omary	Internal auditor, MDC
41) Mr. Hashim Magwilla	Ag. Head of Procurement Unit, MDC
42) Mrs. Fidea Nkulia	Store Keeper, MDC
43) Mrs. Monika Makwesa	Principal Procurement Officer, MDC
44) Mr. Adili Charles	Assistant Planning Officer, MDC
45) Mr. Joseph Edward Kazibure	WEO, Chiungutwa Ward