

REPOA Brief



Diversifying Funding Sources for Sustainable Local Economic Development: Leveraging Public-Private Partnerships and Community Contributions in Tanzania

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Key Messages

Many LGAs are overly dependent on government grants and international aid, which can be volatile and subject to political and economic fluctuations, limiting the sustainability of LED initiatives.

LGAs have untapped potential in local revenue generation. Expanding the capacity of local authorities to raise their own funds is essential for fostering financial autonomy and ensuring long-term sustainability of LED projects.

Collaborations with the private sector can provide LGAs with the necessary capital, expertise, and resources to implement and scale LED initiatives. However, the lack of formalized frameworks for PPPs hinders their potential impact.

Introduction

Local Economic Development (LED) serves as a vital mechanism for fostering inclusive growth and reducing poverty in Tanzania. It empowers Local Government Authorities (LGAs) to address region-specific challenges by mobilizing resources and implementing development initiatives that improve livelihoods and stimulate economic activity. Despite its strategic importance, the sustainability of LED efforts in Tanzania is increasingly threatened by the heavy reliance on government transfers and international aid. This dependency creates vulnerabilities, as these funding sources are often unpredictable and subject to political, economic, and external donor priorities, limiting the autonomy and

flexibility of LGAs to design and sustain development initiatives.

Diversifying funding sources has emerged as a crucial pathway for ensuring the resilience and sustainability of LED initiatives. Leveraging Public-Private Partnerships (PPPs) offers opportunities to harness the expertise, capital, and innovation of the private sector, while enhancing local revenue generation strengthens financial independence and autonomy. Moreover, fostering community contributions through mechanisms such as Village Community Banks (VICOBA) and cooperatives can empower local populations to actively participate in development financing, ensuring projects are more aligned with local needs and priorities.

This policy brief underscores the importance of adopting a diversified funding model to address the limitations of current practices. It presents evidence-based insights into the challenges and opportunities of LED financing in Tanzania, drawing from a mixed-methods study conducted across seven regions. By exploring successful case studies and identifying best practices, this brief provides actionable recommendations for policymakers, local government leaders, and development practitioners to create more sustainable and resilient LED funding systems. These efforts are critical for aligning local development strategies with Tanzania's broader goals of economic transformation and sustainable development, as outlined in the Tanzania Development Vision 2025 and the Sustainable Development Goals (SDGs).

The recommendations in this brief seek to establish a robust and inclusive funding ecosystem that not only mitigates the risks associated with overreliance on government and donor funding but also unlocks the untapped potential of local economies. By prioritizing innovative approaches such as structured PPPs, targeted local revenue reforms, and scalable community-driven initiatives, Tanzania can enhance its capacity to achieve lasting economic growth and social equity. This transformative agenda requires a concerted effort from all stakeholders to institutionalize these practices and create a foundation for long-term development.

Methodology

This policy brief is based on a mixed-methods approach that integrates quantitative and qualitative data collection. Primary data was gathered through surveys administered to 1,708 respondents across seven Tanzanian regions: Kilimanjaro, Dar es Salaam, Mwanza, Kigoma, Iringa, Dodoma, and Mtwara. The surveyed stakeholders

included local government officials, community leaders, business owners, and representatives from non-governmental organizations (NGOs).

In addition to the surveys, qualitative data was collected through Key Informant Interviews (KIIs) with council finance officers, regional administrative officials, and private sector representatives. Focus Group Discussions (FGDs) were also conducted in each region to capture community perspectives on funding challenges and opportunities for LED initiatives. The study areas were purposefully selected to represent urban and rural districts, ensuring diverse insights into the funding systems and their effectiveness in varying socio-economic contexts. The data was analysed using descriptive statistics to identify trends in funding sources, while thematic analysis was employed to explore qualitative insights on barriers, opportunities, and best practices. This comprehensive approach ensures a nuanced understanding of the current state of LED funding in Tanzania and provides evidence-based recommendations for improvement.

Findings

- 1. Heavy Reliance on Government Transfers:** Many regions, particularly rural districts such as Mtwara and Kigoma, depend on central government transfers for LED funding. This reliance makes them vulnerable to central government budget cuts and delays in fund disbursement, thereby undermining the continuity and success of development projects.
- 2. Underutilisation of PPPs:** In regions like Dodoma and Mwanza, successful LED initiatives such as agricultural processing plants and market infrastructure have been driven by public-private collaborations. However, these partnerships are often ad hoc and lack formal agreements, limiting their scalability and long-term sustainability.

3. **Limited Local Revenue Collection:** Regions such as Iringa and Dar es Salaam demonstrate strong potential for local revenue generation through taxes, fees, and community contributions. However, LGAs often lack the administrative capacity and political will to optimize local tax collection and manage community-driven funding mechanisms effectively.

Best Practices and Opportunities for Improvement

- **Public-Private Partnerships (PPPs):** In Chamwino District (Dodoma), partnerships between local governments and private investors in the agricultural sector have resulted in successful value addition for local products, such as sunflower oil. This approach has generated employment and boosted the local economy. Expanding such PPP models could improve the sustainability of LED initiatives across more regions.
- **Community Contributions:** Village Community Banks (VICOBA) in Dar es Salaam have empowered local entrepreneurs to mobilize resources for small businesses, contributing to local income generation. Scaling up such community-driven funding mechanisms can reduce overreliance on government transfers and ensure that development projects are responsive to local needs.

Implications for Policy and Practice

1. The government should create formalized frameworks for public-private collaborations, ensuring clear agreements on roles, responsibilities, and profit-sharing. Such frameworks would attract more private sector investment, particularly in key sectors like agriculture, infrastructure, and tourism, where local governments lack sufficient capital.
2. **Enhancing Local Revenue Generation:** LGAs should implement local tax reforms and explore innovative ways to raise revenue, such as user fees

for public services, land leasing, and property taxes. Strengthening the capacity of local tax collection agencies is critical for reducing revenue leakage and optimizing the financial autonomy of LGAs.

3. **Supporting Community-Driven Initiatives:** Local governments should promote and support community-based funding mechanisms like VICOBA, which enable local entrepreneurs to access financial resources for small-scale development projects. Facilitating these mechanisms can foster greater community ownership of development initiatives and create a more resilient local economy.

Recommendations

- **Develop Formalized PPP Frameworks:** The government should establish structured guidelines for Public-Private Partnerships, providing legal clarity and encouraging long-term investments in key economic sectors.
- **Implement Local Revenue Reforms:** LGAs need to reform local tax systems and introduce innovative revenue generation mechanisms. Capacity-building initiatives should be introduced to improve the efficiency of tax collection and financial management.
- **Promote Community-Led Funding Mechanisms:** Encourage community-based savings groups and cooperatives as an alternative source of funding for LED projects. These initiatives can strengthen local economies and reduce dependence on external funding sources.

Conclusion

Diversifying funding sources for LED initiatives is essential for building more sustainable and resilient local economies in Tanzania. Overreliance on central government transfers and international aid leaves many LGAs vulnerable to funding delays and budget cuts. By expanding public-private partnerships, enhancing local revenue generation, and promoting community-driven contributions, LGAs can secure more stable and sustainable funding to support local development initiatives. Implementing these reforms will not only strengthen local financial autonomy but also ensure that LED projects are better aligned with the long-term needs of communities across Tanzania.

This policy brief is intended to guide policymakers, local government officials, and stakeholders involved in local economic development in Tanzania. By adopting the recommended strategies, Tanzania can establish a more diversified and sustainable funding system for LED, contributing to the country's broader goals of economic transformation and inclusive development.

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