

A PILOT STUDY TO REVIEW THE IMPACT OF UNAHARMONIZED LOCAL GOVERNMENT AUTHORITIES (LGAS) FEES AND CHARGES IN FOOD AND BEVERAGES SUB-SECTOR WITH PARTICULAR FOCUS ON SMEs

November 2023

I. INTRODUCTION

1.1 Background

The Confederation of Tanzania Industries (CTI) is a business membership organization with the main role of advocating for conducive business environment and investment climate in Tanzania. One of the key challenges raised by manufacturing enterprises in unharmonized Local Government Authorities (LGAs) charges. Despite many past initiatives by the government to improve these charges (e.g. online business licensing, automation of collection of charges, capping of produce cess to 5% of farm gate price, etc.), complaints by manufacturers persist. In April, 2023, CTI commissioned the Institute of Management and Entrepreneurship Development (IMED) to analyze existing challenges, and their impact and make recommendations to address them with a focus on food and beverage processing small and medium sized enterprises. In the course of the study, it was noted that there are also unharmonized central and local government charges. This policy brief presents key findings and recommendations.

1.3 Methodology

The study adopted a mixed method approach, including desk review and a survey of 37 small and medium manufacturing enterprises located in Arusha, Mwanza and Tanga cities; Ilala (Dar es Salaam), Ubungo and Ilemela (Mwanza) Municipal Councils and Arumeru District Council (Arusha). The data was analyzed qualitatively and quantitatively and the findings were validated through a stakeholder workshop conducted in Dar es Salaam in November 2023 and attended by over 15 senior managers from manufacturing and logistics companies.

2.0 LOCAL GOVERNMENT CHARGES AND ASSOCIATED CHALLENGES

2.1 LGA charges to food and beverage processors

The Local Government Finance Act 1982 empowers LGAs to levy taxes, fees, and other charges on business subject to approval by the Ministry responsible for Local Government (currently President's Office – Regional Administration and Local Government – PO-RALG). The LGAs charge four comparable types and rates of

levies and fees namely service levy (.3% of turnover), business license (50,000-300,000 per year), health check (10,000-30,000 per employee per year), produce cess (Tsh 500-1,000 per bag or 100kg), cleaning fee (tshs 5,00-30,000 per month) depending on location and size of business. In addition, individual LGAs charge many other levies, depending on existing economic activities and their innovativeness. For food and beverage processors and distributors, city entry, and parking fees are among charges that they have to pay.

2.2 Challenges associated with unharmonized LGA charges

2.2.1 City Entry, Loading and Offloading Fees

LGAs charge “city entry” or “distribution fee” for trucks conveying goods from manufacturers or wholesalers to retail stores in the city. This is perceived to be highly unfair because the same truck has to pay park fees whenever they park in the city. During the stakeholder validation workshop, representatives of manufacturers and logistics companies reported the following additional challenges around loading and offloading charges:

- (i) They are duplicative because the same truck has to pay park fees whenever they park in the city. Also, the fees charged in one LGA are not recognized in another and one has to pay again in the other LGA even in the same region.
- (ii) The rate is quite high. Some trucks are charged Tshs 150,000 monthly which is very substantial cost. A company with 100 trucks with has to pay 15,000,000 every month just for parking.

- (iii) There is ambiguity around the location where the charges apply. “City centre” boundaries in which some loading and offloading fees apply are defined differently depending on the collection agents or LGA staff. In some cases, trucks are fined for parking for a few minutes outside the factory as they await their turn to enter the factory for loading
- (iv) Lack of parking spaces, particularly in Kariakoo attracts frequent wrong parking penalties which can be as high as 300,000 per event. On top of that, there is lack of transparency on who is allowed to detain trucks and what are the applicable penalties.
- (v) There is also lack of information on how and where one can appeal to when unfairly handled by collection agents or local government staff forces business operators to pay penalties even when they know it is unfair
- (vi) Many of the collection agents handle truck operators very harshly with no consideration of the implications of their decisions to business operations. Most appear ignorant of laws, by-laws and basic principles of courtesy or customer service

2.2.2 Health check for staff

LGAs staff conduct health checks semi-annually for employees in businesses involved in the provision of personal services in food and beverage processing. The applicable rates for Ubungo MC are Tanzanian shillings 30,000/ for each industrial staff. At the same time, OSHA conducts medical checks in factories. Ideally, OSHA deals with sector or employer specific occupational risks (light, chairs, smell, layout,

etc) and non-communicable diseases, while LGAs deal with communicable diseases.

OSHA will also check whether the company workers have been checked for health status by the LGA. The following issues were reported during the survey and emphasised during the stakeholder workshop:

- There is lack of clarity around what the two regulators do with some businesses thinking that they do the same tests.
- Having two regulators checking on health matters for the same workforce is inconvenient to businesses.
- The tests can be quite expensive for businesses with many employees. While LGAs charge 30,000 per employee, OSHA's diagnosis costs can be as high as 70,000/- per employee per year. For a company with many employees, this translates into a quite substantial cost.
- Beyond diagnosis, OSHA and the LGAs do not offer any service to address the problems or risks identified. This means, to a large extent, the fee is mostly a source of income rather than a service from a regulator. This is against the government's commitment to separate revenue from regulatory functions of regulatory authorities in the Blueprint.

2.2.3 Inadequate access to information about the LGA fees and charges.

LGAs are not openly sharing the existing types and levels of levies and penalties. One has to travel physically to the LGAs and follow a process to access the information. This unnecessarily increases the cost

of doing business and denies investors the information they need to conduct feasibility studies and prepare business plans. Only Ubungu Municipal Council has published the information on the website. The consultants were informed that there is a new directive which requires anyone to get a permit from the President's Office- Regional Administration and Local Government (PO-RALG), which must be routed to regional secretariate before it is submitted to LGAs to allow them to share any information. However, even after CTI wrote to PO-RALG, such permit was not obtained.

2.2.4 Other Challenges

The following were other challenges identified by respondents regarding LGAs charges

During the validation workshop, it was reported that the problem of collection agents is a serious one, as they will often use very disparaging methods (including confinement of vehicles and unreasonably high fines) to maximize collection without regard to their impact on the businesses.

3.0 IMPACT OF THE CURRENT STRUCTURE AND ADMINISTRATION OF FEES AND CHARGES

The respondents indicated that the LGA fees and levies impact them and their businesses in terms of increased time to comply, higher operational costs, and reduced profitability and hence reduced potential of the businesses to generate employment.

4.0 POLICY RECOMMENDATIONS

The following are recommendations to improve alignment of LGA fees and charges so that they do not become a barrier to establishment and performance of food and beverage processing micro, small and medium enterprises:

- (i) Regional, district and LGA authorities to engage the private sector in regular dialogue to monitor and address the issues around the various fees, charges, collection methods, etc. The District and Regional Business Councils as well as regular sector dialogue (e.g. with manufacturers and logistics companies) are recommended avenues
- (ii) LGAs to immediately harmonize distribution/loading and offloading and parking fees including clarity on demarcation of city and provision for short term parking around one's production premises.
- (iii) Improve transparency and communication. LGAs to publish their fees, levies and other charges on their website and update them quarterly and share them with key business associations. PO-RALG to clarify their position on access to information from LGAs by businesses and their representatives
- (iv) LGAs are advised to put in place feedback and appeals mechanism for businesses which are mistreated by LGA officials and their agents
- (v) LGAs are advised to provide training, guidance and code of conduct for agents appointed to collect fees and levies from businesses
- (vi) The Ministry of Industry and Trade and PO-RALG to conduct a mapping of key levies and charges to determine which ones should be combined, which ones should remain at LGA/central government agency level and which ones are to be scrapped and to agree on criteria for establishing new fees and levies. A recommended principle is that regulators should not function as cost centres, rather as service centres. It is recommended for OSHA to charge a single annual fee, instead of a fee based on the number of employees in an establishment.