



Local Government Authority (LGA) fiscal inequities and the challenges of 'disadvantaged' LGAs in Tanzania

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Key messages

- LGAs receive very uneven recurrent grant allocations, in particular salary-related transfers (PE) for basic education, health, and agriculture.
- Within LGAs there are similar significant inequities – typically facilities in the periphery of LGAs receive far fewer staff resources than facilities near the LGA centre.
- The inequities in fiscal allocations are not only unfair but also lead to substantive inefficiencies in service delivery: a reallocation in favour of relatively underfunded areas will lead to better service outcomes.
- Previous strategies to address these problems have only had limited impact.
- Recommendations are made for enhanced equity in the central government allocation of staff to LGAs and proposals are made for how to develop and fund local LGA strategies for staff retention, motivation and performance.

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During fieldwork in the 11 selected LGAs the consultants were accompanied by a team of Central Government representatives composed of Mariam Silim (MAFC), Ismail Chami (PMO-RALG), Wilfred Yohana (MOHSW), Gubasi Viagusa (PO-PSM), Bahati Joram (MOW), Cliff Muga (MOF) and Timothy Lyanga (MoEVT). The successful undertaking of the intensive fieldwork can to a large extent be credited to the active engagement of these Government representatives to whom the team is grateful. The team would also like to extend its thanks to the LGA leadership and staff visited in the 11 LGAs, including the representatives from the 36 wards and 117 facilities visited.

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Needless to say, in spite of all the support received, the team is responsible for any mistakes or omissions in this report.

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Abbreviations and Acronyms

ACCGEN	Accountant General
ALAT	Association of Local Authorities in Tanzania
BRN	Big Results Now
CMT	Council Management Team
CSSE	Certificate in Senior School Education
DAS	District Administrative Secretary
DC	District Council
DEO	District Education Officer
DMO	District Medical Officer
DP	Development Partner
FBO	Faith Based Organisation
GBS	General Budget Support
GoT	Government of Tanzania
GPT	General Purpose Transfers
HR	Human Resources
HRM	Human Resource Management
HTRS	Hard to Reach and Stay
LG	Local Government
LGA	Local Government Authority
LGCDG	Local Government Capital Development Grant
LGDG	Local Government Development Grant
LGFA	Local Government Finances Act
LGRP	Local Government Reform Programme
MAFC	Ministry of Agriculture Food Security and Cooperatives
M&E	Monitoring and Evaluation

MC	Municipal Council
MDA	Ministries, Departments and Agencies
MMAM	Primary Health Services Development Programme (Swahili acronym for Mpango wa Maendeleo wa Afya ya Msingi)
MoEVT	Ministry of Education and Vocational Training
MOF	Ministry of Finance
MOHSW	Ministry of Health and Social Welfare
MOW	Ministry of Water
MTEF	Medium Term Expenditure Framework
NBS	National Bureau for Statistics
NGO	Non-Governmental Organization
NHIF	National Health Insurance Fund
OC	Other Charges (non-wage recurrent spending)
OGP	Open Government Partnership
OPD	Out-Patient Department
OPRAS	Open Performance Review and Appraisal System
OSR	Outpatient Staff Ratio
P4P	Pay for Performance
PE	Personal Emoluments (recurrent spending on wages)
PER	Public Expenditure Review
PMO-RALG	Prime Minister's Office – Regional and Local Government
PO-PSM	President's Office – Public Service Management
PSLE	Primary School Leaving Examination
PSPR	Primary School Pass Rate
PSTR	Pupil Science Teacher Ratio
PTC	Parents Teachers Committees
PTR	Pupil Teacher Ratio
RAS	Regional Administrative Secretary
RBA	Rapid Budget Analysis
RC	Regional Commissioner, Regional Council
TRA	Tanzania Revenue Authority
TZS	Tanzania Shillings

Executive summary

Introduction

The Public Expenditure Review (PER) Champions Group launched a consultancy study to ‘Review Efforts for Addressing Local Government Authority (LGA) Fiscal Inequities and the Challenges of “Disadvantaged” LGAs’. It has for some time been widely recognised that some fiscal transfers to LGAs are very unevenly distributed – in particular Government recurrent transfers, most notably those for the payment of salaries, Personal Emoluments (PE).

The objective of this study is to analyse progress, achievements and challenges of the current strategies for addressing inequalities of recurrent grant allocations across LGAs. The aim is to provide guidance on how the declared Government policy of more equitably allocating LGA staff and funds, for the purpose of achieving more equitable service delivery, can be supported.

This assignment included a desk review of available background documents, fiscal and human resource data as well as fieldwork in 11 LGAs: some that are significantly underfunded compared to the national average as well as others that are significantly overfunded.

This report presents the findings, conclusions and recommendations of the study. The report includes an introductory chapter with background and methodology. Chapter 2 presents the main part of the desk analysis, in particular an overview of the patterns of inequities across and within LGAs; Chapter 3 analyses the main drivers of fiscal inequities; Chapter 4 explores how service delivery outcomes are affected by these resource allocation patterns; and Chapter 5 presents the report’s recommendations.

To understand the disparities in allocations involves examination of both inequity and inequality. **Inequality** refers to the *variation* in the distribution of resources from one LGA or service delivery unit to another and in this study we will use variations in per capita allocations as our measure of inequality. **Inequity** refers to the *unfairness* of the distribution of resources, and correspondingly in this study we take the previously agreed formula as a proxy for a fair and equitable allocation of resources. We analyse the index of fit between agreed formula for resource allocations and actual allocations. The term **disparity** is used as an overarching term to refer to both inequities and inequalities in the distribution of transfers. **Hard To Reach and Stay** (HTRS) is an important concept that defines areas where over time it has been difficult to ensure that staff actually report on duty and continue in their post for various reasons, including ‘remoteness’, and lack of access to electricity, water and social services.

The patterns of fiscal inequity

There are three main types of financial transfer for service delivery in LGAs: recurrent block grants (composed of specific allocations for PE and others for other charges (OC), subventions (including basket funds) and capital development grants. While subventions and donor basket funds form part of the ‘development budget’, in practice they fund expenditures that are recurrent in nature. Capital development grants fund LGA infrastructure and include the discretionary Local Government Development Grant (LGDG) and sector development grants.

The Government of Tanzania started in 2004/05 to introduce a system of formula-based allocations in order to make the budget allocations more transparent and needs based. A formula was developed for each of the sector block grants as well as for the development grants under the LGDG system. It was not possible to include PE allocations as part of the formula-based system because of the continued centralisation of the LGA staff allocation system. The formula has in practice only been applied to the development grant system under LGDG and to parts of the OC allocations.

The patterns of inequality and inequity have remained very significant over the 6 year period analysed. In other words there has been no substantial improvement in terms of developing a more equitable or ‘fair’ distribution of fiscal resources to LGAs. Some districts (such as Kibaha District Council (DC)) receive more than four times the allocation of relatively underserved LGAs (such as Sumbawanga DC). It is clear that these different allocation patterns are unrelated to objective measures of relative need based on poverty, disease burden, land area, etc. This is verified by the analysis of inequity.

Overall, LGA financing is characterised by an increasing wage share driven by the education and health sectors, and reduced operational funding. Education and health, being the largest sectors, drive patterns of inequity. The patterns of inequity for these main sectors are similar, in that the LGAs that are relatively under or overfunded in one sector tend to also be under or overfunded in other sectors.

In terms of inter-LGA fiscal inequity, there exists substantial fiscal inequity between LGAs that is largely driven by PE allocations. LGA revenues are dominated by salary payments (PE) and they constitute an increasing share of total transfers to LGAs. LGA revenues, excluding user fees, were on average TZS 70,000 per capita in 2012/13, 70% of which were recurrent transfers mainly earmarked to sectors and dominated by salary payments. These salary payments represented 78% of recurrent transfers and 55% of all LGA revenues, with other recurrent transfers amounting to only 22% of recurrent transfers and 15% of all LGA revenues. This pattern has become more prominent over time as salary allocations, driven by the introduction of recurrent transfers to secondary education, have continued to increase while other recurrent allocations have declined. By 2013/14 budgeted transfer funding for the running costs of health, water, and primary and secondary education was 40% lower than four years previously, at only TZS 10,700 (US\$6) per capita.

The remaining revenues for LGAs comprise development transfers (21% of LGA revenues in 2012/13) and own source revenue (only 8% in 2012/13). Budgetary outturns for transfers and own source revenue were similar over the review period, averaging 81%, with some deterioration in recent years.

In terms of intra-LGA fiscal inequity, there exists substantial fiscal inequity within LGAs that is often greater than the inequity between LGAs. These patterns of resource inequities are particularly marked for primary education but are also substantive in other sectors. Notably, the patterns of inequities within LGAs are most significant for those LGAs that are categorised as HTRS or underfunded. For example, within Sumbawanga DC the number of primary pupils per teacher (PTR) ranges from 19 to 298. For secondary education, the greatest variation arises in science teacher allocations, which vary from 76 students per teacher to 529 students per teacher. The variation of staffing in health facilities is also very significant, with the number of staff per dispensary ranging from 9 to 1 within the same district. The distribution of agricultural extension staff is also very uneven within all LGAs, with a variation of average staff per village at a factor of ten.

Capitation grants for primary and secondary schools are the only major transfers made to service delivery units, with health facilities receiving no transfers. Secondary school fees are a far more important source of revenue than capitation transfers, and user fees are an important revenue stream for health services, making up as much as one-third of recurrent financing available at the LGA level.

The drivers of fiscal inequity

The drivers of inter-LGA fiscal inequity are primarily the sector block transfers, which, in turn, are driven by patterns of staff allocations and their salary payments. The current system of staff allocations has only addressed the inequities to a very limited extent. This is because (a) staff are not retained in targeted LGAs and (b) the current system provides no incentive for deployment of staff to the most needed areas within HTRS LGAs. Employees are, however, amenable to relocation if they have access to basic facilities and allowances amongst other incentives.

Fiscal inequities have a substantial impact on service delivery as a better allocation and use of staff has the potential for substantial improvements in service delivery. However, a continued increase in staff numbers without due attention to details of locational deployment and staff motivation may only have very

limited impact on service delivery. Current staff management practices and the resulting disparities in resource allocation reduce the efficiency of service delivery both across and within LGAs.

The main drivers of intra-LGA fiscal inequity are staff preferences for working and living in areas in which they are most comfortable, in the absence of incentives for them to remain in the less comfortable areas where they may have been allocated. In other words, rather than staff being deployed to areas where the service need is greatest, they end up in areas where they feel most comfortable: near relatively developed urban centres, near roads and communication networks, near water and electricity and social facilities – and preferably near their spouse. In theory, LGAs have the discretion to recruit staff independently, but due to acute shortages of staff, sector ministries have since the mid-2000s in practice allocated education, health and recently agriculture staff directly to LGAs. Government has since 2008 made special efforts to target new recruits to the LGAs that are most understaffed. This targeting has stopped the direct deployment of primary school teachers for LGAs that were already over served. The health sector has also made efforts to target underserved areas, but has not adopted a similar strict approach as in primary education: central allocation of health workers to LGAs that are already staffed above average (such as Kibaha DC) has continued because they still are understaffed compared to national norms.

Once staff are allocated to a specific LGA it is the responsibility of the respective LGA to allocate the staff to facilities (schools, health facilities and ward/villages) within the LGAs and to ensure that staff are retained and motivated to work. Not all staff designated to respective LGAs actually report for duty as they perceive the LGA they have been appointed to as ‘unattractive’. In general it appears as if the percentage of staff that are allocated to an LGA and actually report on duty has been increasing, however it is clear that some LGAs still face challenges in attracting staff. Of those who do report, there are also some who either leave within a few months, or after a period of maybe three to five years request for a transfer because of medical reasons. 26% of staff in the survey had arranged for a transfer to a posting of their preference. In general, all the HTRS LGAs see a transfer out of their LGAs while the already well-staffed LGAs see a net increase of their staff through these transfer arrangements.

In addition to the problems of effective deployment to, and retention of staff in HTRS LGAs, there is also the added problem of distributing staff resources in accordance with needs within each of the LGAs. This is in particular a problem in HTRS LGAs.

Return on additional resources to the least funded LGAs is higher than additional funding for relatively well funded LGAs. In the education sector there are substantial variations in district efficiencies (measured as public expenditures per Primary School Leaving Examination (PSLE) pass). One of the key findings from the 2010 Public Expenditure Review (PER)¹ study was that ‘there is strong evidence that shifting incremental resources to the worst served areas is likely to improve efficiency rather than reduce it’. The same study concluded that geographical re-allocations could lead to TZS 240 billion in efficiency savings. Similar findings were reported in the PER report on the health sector. In the current study the team found similar patterns across the years of correlation between staff inputs and incremental service delivery impact across LGAs.

Within LGAs some areas are significantly understaffed compared to others and these deliver fewer services (measured in pass rates etc.), but at the same time the workload of staff in the same facilities would very often be higher (measured in patients attended by each health worker or measured by PTR in schools). However, staff productivity was often very low in some of the better staffed facilities. Previous studies on primary school teachers have concluded that Tanzanian teachers on average spend less time teaching than teachers in other sub-Saharan countries. During fieldwork, the team found that many secondary schools were overwhelmingly staffed with arts teachers, who were *de facto* only assigned five hours of classroom teaching per week.

Only a few LGAs have developed any form of comprehensive scheme for staff retention and motivation. The most often quoted reason is the lack of funding. The most comprehensive schemes identified during fieldwork are being implemented in Kigoma DC (a focus on the health sector) and in Rukwa Regional Council (RC) (a focus on health and secondary education). Both schemes have been relatively successful in improving the attraction and retention of staff through a combination of various fiscal and non-fiscal incentives. The scheme in

¹ United Republic of Tanzania 2011: Public Expenditure Review 2010, World Bank, prepared by the members of the macro group of the Tanzania PER Working Group.

Kigoma proved to be the most sustainable as the management of the scheme was less complex. In addition, the Kigoma scheme effectively targeted the most HTRS areas *within* LGAs, just as it also attempted to document impact on service delivery to a greater extent than the Rukwa scheme. In summary, local incentive schemes can impact positively on the rational deployment of staff, staff motivation and service delivery, but few LGAs have developed any comprehensive strategies and none have the financial resources to target a large part of their workforce.

Conclusions and recommendations

The study found very uneven allocation patterns of fiscal resources across LGAs that are primarily driven by unequal allocations of salary expenditure and result in the inequitable allocation of staff. While there has been some progress in improvement in staff allocations in HTRS LGAs, patterns of inequity have persisted across LGAs, with some LGAs still being overstaffed relative to others.

There are also significant inequities and inequalities in resource allocations *within* LGAs, in particular the HTRS LGAs. The trend of declining OC allocations in LGAs limits and reduces the effective use of existing staff resources. Furthermore, low utilisation levels of some staff categories and inefficiencies in the use of staff resources are compounded by the declining rate of return to increase staffing in relatively well staffed areas, compared to investment in staff in HTRS areas. This is an important conclusion as the Government strives to achieve Big Results Now (BRN) within a constrained fiscal framework. A better distribution of resources, in particular staff, could lead to substantive service delivery improvements.

Figure 1 illustrates these and highlights how they would work together to improve both the motivation and distribution of staff, resulting in improved public services. This report recommends three mutually supporting main strategies to address the fiscal inequities across LGAs. :

Strategy 1: Enabling and supporting local level initiatives for retention and deployment to address intra-LGA inequity.

This aims to facilitate and incentivise local actions to improve distribution, retention and motivation in HTRS areas. This strategy would be initially focused on disadvantaged LGAs and then could be rolled out more widely. Under the leadership of PMO-RALG it would comprise:

- the development of local strategies for improvement of staff distribution and motivation;
- the introduction of a special grant to understaffed LGAs to support the implementation of their strategies, with a recurrent and development component. Access to the special grant would be provided to only those LGAs that fulfil basic pre-conditions, such as the existence of a strategy that meets certain standards;
- a programme of technical assistance and capacity-development which:
 - develops systems and tools for improving staff allocation and motivation;
 - builds the capacity of LGA management to implement these tools;
- an annual assessment of LGAs' implementation of their systems for improving staff allocation and motivation. Access to the development component of the special grant would be tied to the results of this assessment.

Strategy 2: Streamlining and prioritising human resource allocation and deployment for addressing inter-LGA inequity.

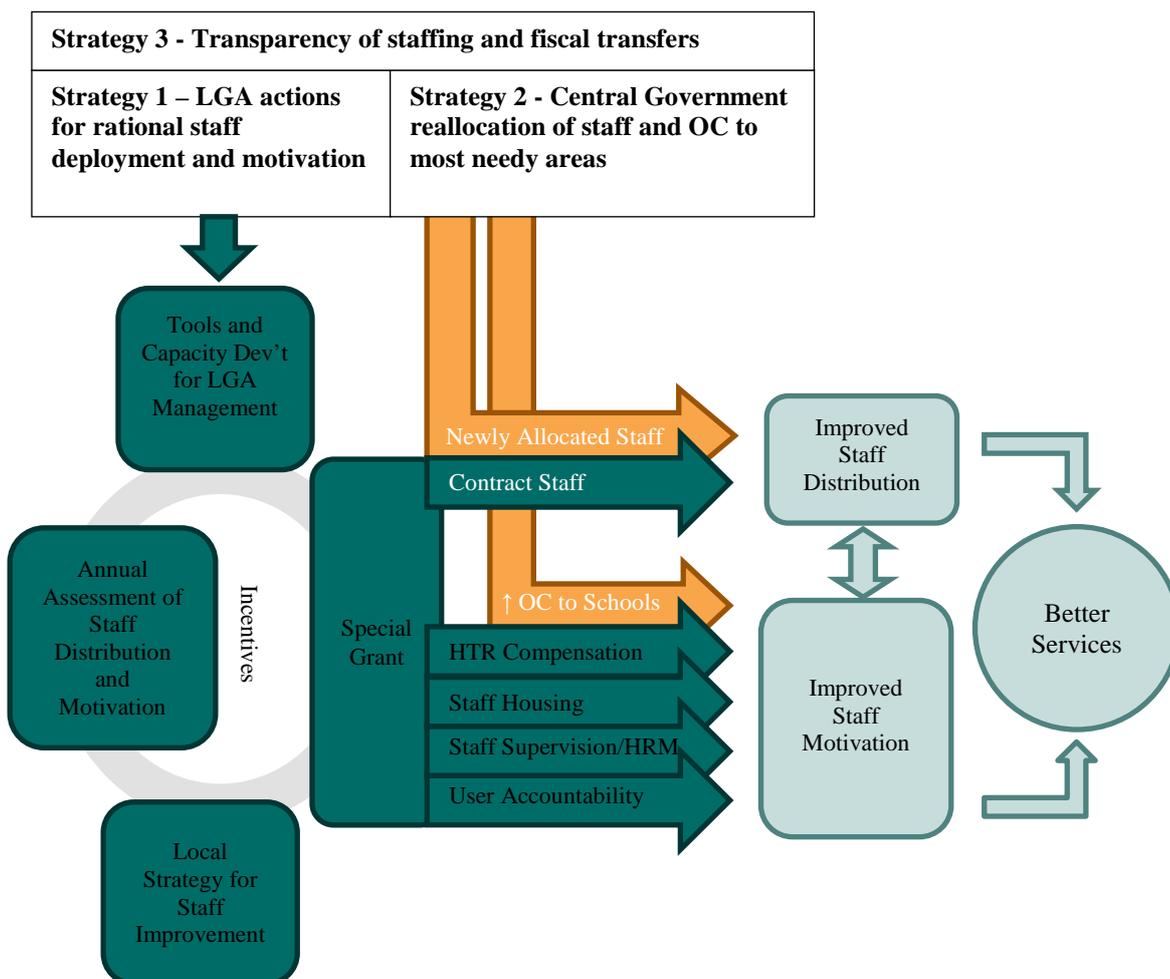
This strategy proposes that Central Government introduces a preferential allocation of staff to the most underserved areas and increases real OC allocations to service delivery. This requires adjusting the existing staff allocation system such that the HTRS LGAs should be prioritised for the allocation of new staff to all sectors in

relation to their relative degree of understaffing; and there is some reallocation of staff away from the most well-staffed areas. Combined with this adjustment to the staffing allocation mechanism, the level of operational funding for service delivery should be increased in parallel through strict adherence to an agreed equitable and needs-based formula to address disparities. This would require leadership from PO-PSM.

Strategy 3: Enhancing operational funding and fiscal transparency around resource allocations and utilisation.

In addition to these two main strategies, it is recommended to support initiatives in support of greater transparency of LGA resource allocations and utilisation at the central and local levels. This involves better data on LGA finances and human resources as well as greater transparency through improved publication of the data. In particular, data on staff deployment and existing staff established in all LGAs should be made publicly available. A more transparent system would allow LGAs to advocate for their fair share of staff and would allow policy analysts and the public to track commitments to a fairer, more equitable and effective deployment of staff. Transparency of staff allocation is almost entirely absent but could be greatly enhanced through the use of the newly developed tool for monitoring staff and the payroll as the basis for public reporting covering: existing staff in LGAs; annual deployment of new staff to LGAs by sector; and data on transfers across LGAs. This strategy would need to be coordinated by MOF.

Figure 1: Improving staff distribution and motivation within LGAs



Underpinning these three strategies, it is recommended that tools and systems for improving HRM practices at the local level are developed. Options for market-based approaches for local service delivery should also be elaborated.

A tentative proposal for an action plan is outlined in Chapter 5 to put these recommendations in place and supporting institutional recommendations are also proposed.

1 Introduction

1.1 Background

The PER Champions Group has launched a consultancy study to ‘Review Efforts for Addressing Local Government Authority (LGA) Fiscal Inequities and the Challenges of “Disadvantaged” LGAs’.

It has for some time been widely recognised that some fiscal transfers to LGAs are very unevenly distributed – in particular Government recurrent transfers, most notably those for PE. These funds are not distributed in accordance with the established needs-based formula, but allocated primarily in accordance with the number of staff posted and existing facilities in the respective LGAs. It is recognised that these patterns of unequal allocation of recurrent grants across LGAs have persisted over the years and remain a critical issue for equal access and quality of basic social services.

The problems of fiscal inequity in LGA budget allocations have been discussed on several occasions, for example, as part of the Government of Tanzania Development Partner General Budget Support (GBS) dialogue and reflected upon by Government in its recent Pay and Incentive Policy², for example. However, a more comprehensive and cross-sectoral analysis has been lacking and disparities have persisted.

The Government has been aware of these inequities for several years and has in various ways tried to address the problem. It has, for example, been discussed how recurrent funds could be distributed in a more transparent and equal manner – possibly by the use of formula.³ However, it has been realised that such an approach is difficult in the absence of a devolved staff management system and that PE therefore only can be allocated where staff already are in place. In a similar manner, other funds for recurrent expenses, OC, are meant to cover the cost of running services where staff and/or investments are in place (existing health facilities, schools and funding the activities of the staff already in place). The main strategies for addressing the disparities have therefore focused on more equitable distribution of staff and have been twofold: first, for recruitment of new staff, priority has been given to LGAs with the most significant deficit; and second, development funds have been allocated to allow LGAs to create a more enabling and attractive environment for staff – as otherwise staff in the disadvantaged LGAs have tended to resist placements or leave shortly after reporting. Other proposals, such as the possible introduction of special allowances for staff in disadvantaged districts or a special fund for these LGAs have been discussed for many years but not yet effectively pursued.⁴

The recent Public Service Pay and Incentive Policy Implementation Strategy for 2012/13 – 2016/17 (draft in progress) deals with the issue of staff inequity and establishes – as one of its key policy objectives – to ‘attract staff to work in LGAs with staffing problems and [to] ensure [that] they are equitably distributed’. The policy document proposes two implementation strategies. First, the strategy document calls for ‘locally grown incentive schemes specific to a local authority designed and implemented to attract staff for underserved areas’. Second, the document calls for the ‘Central Government to develop a system for the preferential allocation of staff to LGAs’.

Subsequently, this study was launched in order to provide practical recommendations for how these strategies can be supported through reformed fiscal LGA allocations.

² President’s Office-Public Service Management (PO-PSM) 2010: Public Servants Pay and Incentive Policy.

³ The Government agreed in principle on a system of formula-based recurrent grants for education, health, agriculture, water and roads in 2004/05. The background analysis and recommendations are found in the report from Georgia State University (GSU 2003). *Final Report: Developing a System of Intergovernmental Grants in Tanzania*. The details of the agreed formula and initial implementation experiences are contained in the report: Local Government Reform Programme (PMO-RALG 2007). *Adherence to the Formula-Based Recurrent Block Grant System and the Allocation of Personal Emoluments in Tanzania*. Technical Note 2007-6.

⁴ Crown Management 2009 and related draft Pay Policy 2010.

1.2 Objective of the assignment

The initial analytical objective of the assignment is to analyse progress, achievements and challenges of the current strategies for addressing inequalities of recurrent grant allocations across LGAs. The analysis takes account of service delivery on the ground, is forward looking and provides recommendations for significant improvements that can be realistically implemented.

The overall aim of the assignment is to develop practical guidance on how the declared Government policy of more equitably allocated LGA staff and funds, for the purpose of achieving more equitable service delivery, can be supported through the LGA (recurrent and development) grant system and other relevant measures.

1.3 Methodology

A team of researchers and consultants from ODI and DEGE Consult undertook the assignment in close consultation with Government representatives over a period of 10 weeks. The assignment included a substantive desk review of available background documents, fiscal and HR data, as well as fieldwork in selected LGAs. The review period for the study is according to the TOR 2009/10 to 2013/14.

The desk review included:

- analysis of relevant background literature on local government finance, local government staff allocations and inequities in Tanzania⁵
- analysis of local government fiscal data – this included analysis of the fiscal transfers to LGAs over the last five years based on MOF data and LGA fiscal data published by PMO-RALG
- selected available data from sectors on staff deployment to LGAs in recent years.

Fieldwork in 11 LGAs (plus field testing of methodology in Morogoro DC) was undertaken from the 10-28 February 2014 by a joint government and consultant team composed of:

- Per Tidemand (team leader DEGE Consult)
- Alloyze Maziku (LG finance expert, DEGE Consult/Mzumbe University)
- Nazar Sola (LG HRM expert, DEGE Consult/Mzumbe University)
- Cathal Long (PFM expert, ODI)
- Julia Tobias (governance expert, ODI)
- Mariam Silim (MAFC)
- Ismail Chami (PMO-RALG)
- Wilfred Yohana (MOHSW)
- Gubasi Viagusa (PO-PSM)
- Bahati Joram (MOW)
- Cliff Muga (MOF)
- Timothy Lyanga (MoEVT)

The 11 LGAs selected for fieldwork included 7 examples of LGAs that are significantly underserved (relatively underfunded and with lower-than-average levels of staffing) and 4 examples of LGAs that receive above-average levels of funding. The original sample of 8 LGAs was expanded to include cases of LGAs with special needs arising from their geography, such as Mafia DC, as well as the experiences of LGAs that have been recently created through sub-divisions. A final selection criterion for the sample of LGAs was to include some

⁵ See list of references at end of report.

examples of LGAs where Central Government had prior knowledge of the existence of some form of local incentive schemes.⁶

Table 1: LGAs selected for fieldwork

Regions	11 Selected LGAs	
	Relatively well funded LGA	Relatively poorly funded LGA
Coast	Kibaha DC and Mafia DC*	
Kagera	Bukoba MC	
Kigoma		Kigoma DC*** and Uvinza DC***
Shinyanga		Usetha DC and Msalala DC***
Tabora		Nzega DC
Tanga	Korogwe TC	
Rukwa		Sumbawanga DC**
Singida		Iramba DC**
Total	4	7
Total: 2 urban and 9 rural LGAs		

* Special locational issues

** Prior indication of existing incentive schemes

*** Recently divided LGA

Structure of the field visits:

- The team undertook qualitative interviews with the Council Management Team (CMT) (Council Director, Heads of Department, Planners, Human Resource Officer (HRO) and Council Treasurer (CT)) for each of the 11 LGAs.
- From each of the 11 LGA CMTs, the team collected quantitative data on key patterns of staffing (staff permits, number of staff reported and retained for the main sectors over the last five years) as well as data on the current staff levels, funding and service delivery for all primary schools, secondary schools, health facilities and villages/wards (agriculture).
- The team visited a selection of wards (relatively well served and underserved for each LGA). Within each ward the team visited the ward management team and a selection of primary schools, secondary schools and health facilities. A total of 36 wards and 117 facilities were visited across the 11 LGAs.
- In each facility the team held focus group discussions with staff, just as selected staff members filled in an individual questionnaire – a total of 625 public servants (teachers, health workers and agricultural extension staff) – were individually interviewed in this manner. (The response rate was 100%.)

⁶ This arose from discussions with the inter-ministerial committee during the inception phase.

A draft report was prepared for presentation to Government and other key stakeholders on 25-26 March 2014, and this final report has reflected on all the comments received at the two-day workshop and in subsequent correspondence.

1.4 Overview of the report

This report presents the key findings, conclusions and recommendations of the study. Chapter 2 presents the main part of the desk analysis, in particular an overview of the patterns of inequities across and within LGAs; Chapter 3 analyses the main drivers of fiscal inequities with emphasis on staff management practices; Chapter 4 explores how service delivery outcomes are affected by the resource allocation patterns; and Chapter 5 presents the conclusions and recommendations. Supporting analyses of fiscal inequities in the education, health and agriculture sectors along with own source revenue analyses are presented in the appendices. The appendices also contain analyses of inequities *within* LGAs and relationships *between* resource allocations to LGAs and service outcomes.

2 Patterns of financing for service delivery in LGAs

2.1 Introduction

This section sets out the patterns of financing service delivery and disparities before exploring why these disparities have emerged. At the national level, the overall picture of LGA financing will be examined before patterns at the sectoral level. At each stage the framework for financing LGA service delivery is discussed and this is followed by an analysis of the disparities in resource allocations. Disparities across LGAs and within LGAs are discussed, drawing from data collected in the field visits. This analysis is supplemented by an in-depth discussion of patterns of financing in the education, health and agriculture sectors in Appendix 2.

A central purpose of this analysis will be to understand the nature of disparities in allocations. This involves examination of both inequality and inequity:

- **Inequality** refers to the *variation* in the distribution of resources from one LGA or service delivery unit to another. In this study we use per capita allocations to measure inequality, both in absolute terms, by comparing absolute levels; and the relative standard deviation from the mean per capita allocation.
- **Inequity** refers to the *unfairness* of the distribution of resources. Fairness is a subjective term of which we do not aim to make an assessment. Significant effort went into the development of an objective formula (which included consideration of fairness) for the allocation of transfers to LGAs in the 2000s. This was based on service delivery needs along with other criteria. In this study we take the formula as a proxy for a fair and equitable allocation of resources. This is done in two ways: by examining the per-capita deviation from the established allocation formula; and by looking at trends in the index of fit, which shows the degree to which actual budget allocations and disbursements follow the allocation formula.

The term disparity is used as an overarching term to refer to both inequities and inequalities in the distribution of transfers. It is important to note that unequal allocations may in fact be equitable and vice versa. Disadvantaged LGAs are considered to be those facing inequitable allocations that are below their fair allocations.

The data used for the review cover fiscal years 2009/10 to 2013/14.⁷ This analysis relies primarily on data from PMO-RALG's LGA fiscal database. This provided a comprehensive dataset of both fiscal transfers, own source revenues and expenditure, both budgeted and actual outcomes as reported on by LGAs. It also uses budget data for 2013/14 for recurrent OC and PE transfers from MOF. The allocation formula was updated using population data from the 2012 population data and calculated for the newly created LGAs. Available service delivery data collected by LGAs were also used. Data presented and quoted in charts are from these sources, unless otherwise stated.

In addition, the study team was provided with disaggregated budget data from MOF and actual releases from the Accountant General (ACCGEN). However, budget data from MOF were not in a format that enabled collation over the full study period and the ACCGEN data were not in a format that enabled collation at all, given the

⁷ The fiscal year runs from 1st July to 30th June.

study resources.⁸ Budget data from Central Government for subventions and basket funds are not available in MOF budget documents. While there are some differences between datasets, the overall patterns of inequity appear to be broadly consistent between them.

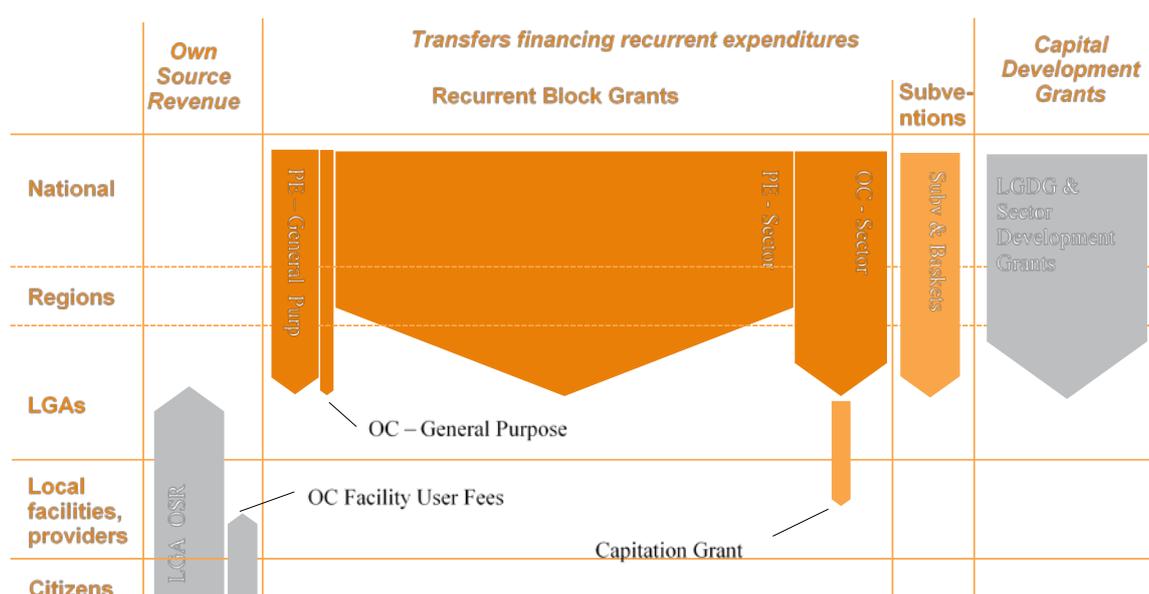
Overall, a huge amount of data was collected for analysis. The fiscal formula and sector delivery data have been compiled into a series of dynamic spreadsheet tools, which enable the creation of maps and charts showing funding levels, inequities and inequalities. These spreadsheet tools have been made available alongside this report, to enable others to interrogate and analyse the data compiled for the purpose of this study.

2.2 Overview of the financing of LGA service delivery

2.2.1 Overall revenues and expenditures

Before analysing disparities in the funding of service delivery in LGAs, it is important to understand the overall framework for funding service delivery and the relative importance of different channels of funding. Figure 2 shows the main sources of financing for LGAs in Tanzania and the width of each arrow indicates their relative size in 2012/13. There are three main types of transfers: recurrent block grants (composed of specific allocations for PE and others for OC), subventions (including basket funds) and capital development grants. While subventions and donor basket funds form part of the development budget, in practice they fund expenditures which are recurrent in nature. Capital development grants fund LGA infrastructure and include the discretionary Local Government Capital Development Grant (LGCDG) and sector development grants.

Figure 2: Fiscal transfers in Tanzania



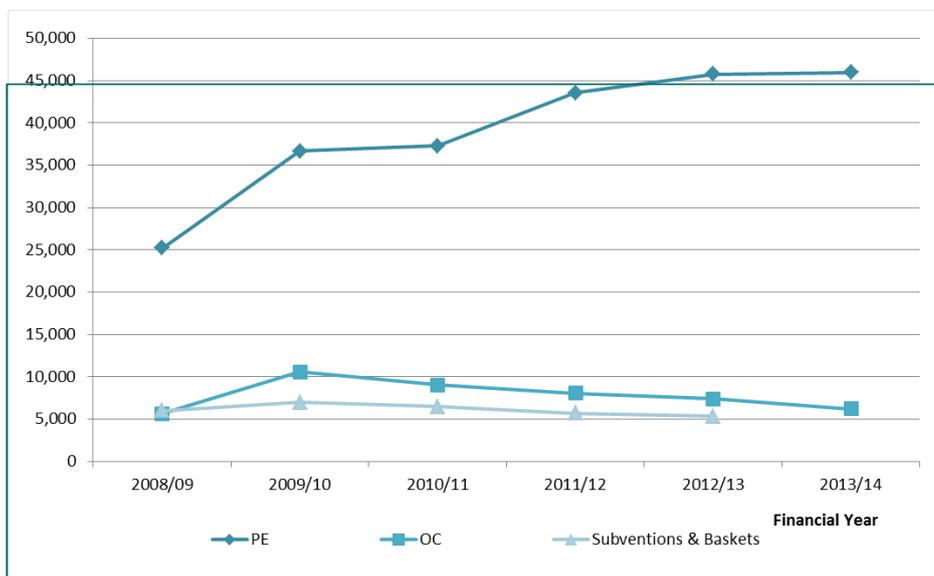
In 2012/13 LGA revenues amounted to approximately TZS 3.3 trillion or approximately TZS 73,000 per capita on average. Of this, recurrent transfers accounted for the largest share of LGA revenues: 70% in 2012/13.

Development transfers made up 21% of LGA revenues in the same year. Own source revenue, excluding user fees and direct contributions to service delivery, represented a very small share of revenues: only 8% in 2012/13. Budgetary outturns for transfers and own source revenues were similar over the review period, averaging 81%, with some deterioration in budgetary performance in recent years.

⁸ This was due to the layout of the data as they were not uniformly presented and did not have a summary. Every month data for OC and PE were presented on a different tab and LGAs were not presented as a list. The time needed to order the data to carry out the analysis would have been prohibitive.

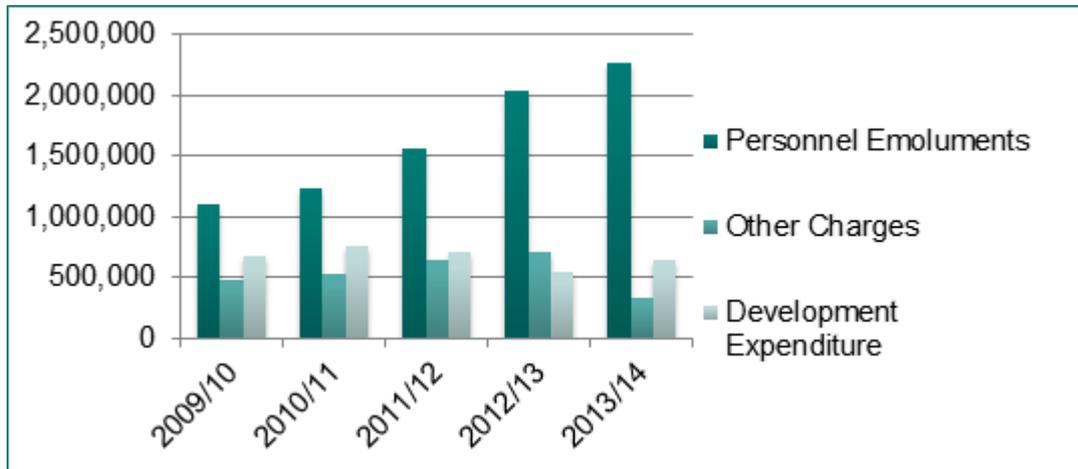
The vast majority of recurrent transfers are earmarked to sectors. Of these, allocations to salaries, PE, dominate. In the 2012/13 budget, PE transfers represented 78% of recurrent transfers and 55% of total LGA revenues. Other recurrent transfers, both those for operating costs – OC, and subventions and baskets – are relatively small. They represented only 15% of LGA revenues overall and 22% of recurrent transfers. PE allocations have continued to increase over time relative to operational funding. Figure 3 shows how per capita PE recurrent sector allocations have grown steadily, while OC allocations have declined. Following the introduction of recurrent transfers to secondary education, PE grew in real terms from TZS 37,000 per capita in 2009/10 to TZS 46,000 per capita in 2013/14. In turn, per capita OC allocations fell from TZS 17,500 in 2009/10 to TZS 10,700 in 2012/13. In other words, in 2013/14 only TZS 10,700 (US\$6) per capita was budgeted for the combined running costs of health services, water and primary and secondary education, representing a fall of 40% over the four years.

Figure 3: PE is of increasing importance so its allocation is key to equity (TZS million)



Source: LGA RBA 2013 (approved budget figures 2013/14)

Figure 4: Per capita budget allocations to sector recurrent transfers over time (2013/14 prices, TZS)⁹



Source: Based on data from PMO-RALG up to 2012/13. Data for 2013/14 are from MOF Budget. Population data are from the 2012 census.

2.2.2 The relative importance of own source revenues

Own source revenues could potentially play a significant role in the financial situation of LGAs as these are as substantial as national OC funding and are therefore an important source of operational funding for LGAs. Own source revenues come from locally generated revenue that LGAs can levy through taxes, fees and charges. This has decreased since 2004 when a number of ‘nuisance’ taxes were reduced or abolished, although now there are ongoing efforts to increase these revenues. Existing data do not allow for detailed analysis of how own source revenue is spent, but it is generally acknowledged that it is spent on a range of activities such as council allowances and other administrative costs as well as some service delivery investments, often co-financing development projects. Property tax and service levies are almost exclusively collected in urban LGAs, whereas rural LGAs rely more on revenue from taxing the movement of agricultural produce. ‘Other’ own revenue has increased significantly in recent years and mostly includes income from the sale of plots in urban LGAs.

LGA revenue from own sources constitutes approximately 8% of total LGA revenues. Appendix 2.4 provides an overview of sources of revenue and trends of collection over the last six fiscal years. The most marked variation in own source revenue collection is found between urban and rural LGAs: the former collect TZS 13,000 per capita whereas the latter collect approximately TZS 3,800 per capita. The main reason for this is that the level of economic activities is higher in urban LGAs and they have access to certain taxes that almost exclusively are collected in urban areas: the service levy (a tax on businesses that is collected based on their annual turnover as registered by TRA/VAT records) and property taxes. However, there is also very wide variation of own source revenue collections within the two main types of LGAs (urban and rural): thus for example rural Kibaha DC collects TZS 16,852 per capita compared to TZS 1,400 per capita in Sumbawanga DC (more details are available from Figure 31 in Appendix 2.4).

The available data suggest that fiscal transfers weakly reinforce inequities of own source revenue collections. This includes in particular the large transfers for PE (Figure 5). This is to be expected given that PE allocations are made for existing staff and staff tend to cluster in urban and more developed areas, rather than in peripheral rural LGAs. Even smaller non-PE related transfers such as general purpose transfers show no pattern of compensation of LGAs with low own source revenue collections (Figure 32 in Appendix 2.4).

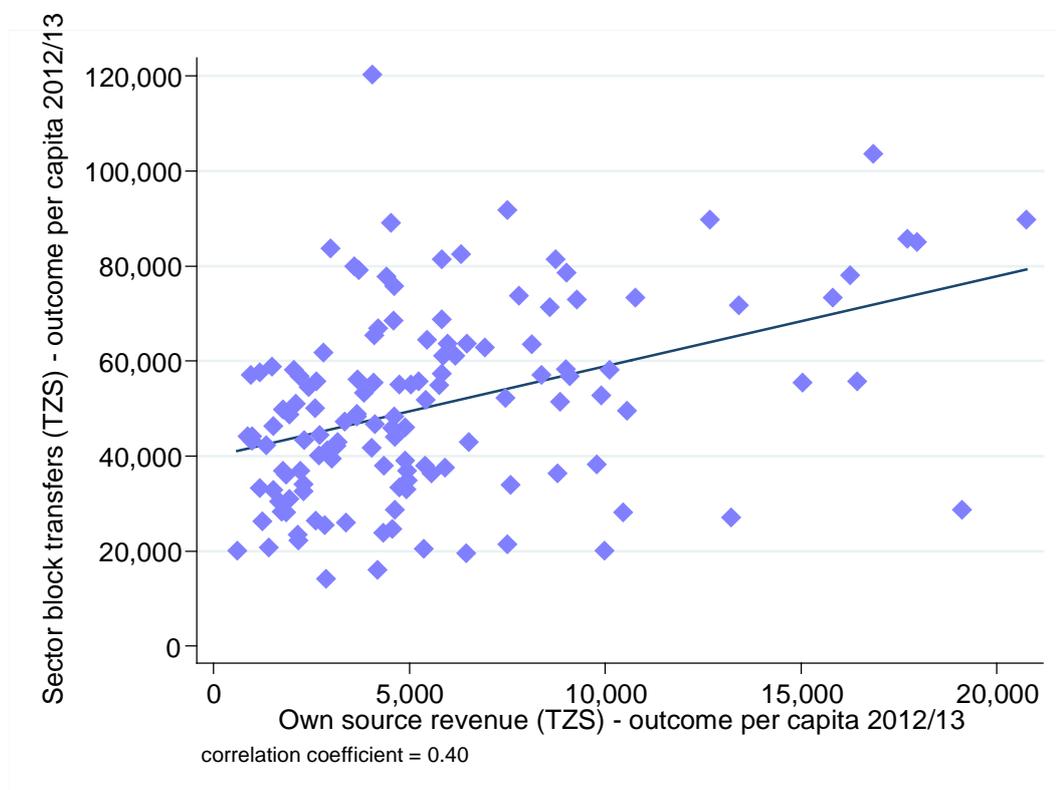
User fees are low in aggregate, but important for satisfactory delivery of services at the local level. A rough estimate¹⁰ shows that user fees from secondary education and basic healthcare would amount to TZS 120 billion nationally, or 4% of LGA revenues. The team found that staff in areas with substantial problems with generation

⁹ Based on data from PMO-RALG up to 2012/13. Data for 2013/14 are from MOF Budget. Population data are from the 2012 census.

¹⁰ Using data on secondary enrolment and OPD attendance in the LGAs visited.

of user fees (particular in HTRS LGAs) often complained about the limited user fees as the source of their frustration and demotivation.

Figure 5: Fiscal transfers weakly reinforce inequities of own source revenue collections



2.2.3 Government efforts at transforming fiscal transfers through use of formula-based allocations

The Government has for some years been concerned about improving the transparency and equity in resource allocations to LGAs and therefore has embarked on a reform of the fiscal transfer system as part of the local government reforms from the early 2000s. The most significant changes took effect in 2003-2004, when a number of studies and consultations were undertaken to develop formula-based fiscal transfers to LGAs that would ensure that funds were transferred in a transparent and needs-based manner.

The reform work included both a transformation of Government budget allocations as well as a transformation of development funding to LGAs that hitherto mainly had been provided by bilateral donors who selected a few LGAs through various forms of area-based programmes. The reform discussions were led by PMO-RALG and MOF with the involvement of all key sectors through a Local Government Finance Working Group.

It was agreed at a technical level and later endorsed by the Cabinet, that fiscal transfers to LGAs should be in accordance with transparent formula-based allocations. Each sector was guided to work on its preferred criteria under guidance from PMO-RALG and MOF.¹¹ Table 2 summarises the main variables that are included in the formula. Population, poverty and the rural-urban distribution are key variables in the health, agriculture, water and roads sectors, and the general purpose grant and the LGDG. The ability to collect own source revenues is

¹¹ The technical design was guided by Georgia State University through a TA contract with LGRP. See Final Report: 'Developing a System of Intergovernmental Grants in Tanzania', which was prepared by the Andrew Young School of Policy Studies (Georgia State University). The study team which conducted the study and drafted this report consisted of Dr. Roy Bahl, Dr. Jamie Boex (team leader), Dr. Jorge Martinez-Vazquez, and Dr. Longinus Rutasitara.

not included, so therefore some of the disparity that exists between LGAs in terms of access to additional revenues is missing from the formula.¹²

The formula was initially applied to government recurrent grants for primary education and local health services in 2004/05. Subsequently, formula-based block grants for the remaining grant-aided sectors (water, agricultural extension and local road maintenance) were introduced at the start of 2005/06.

For the development grants, it was initially agreed in 2004 to test (with World Bank financing) the rollout of a formula-based Local Government Capital Development Grant (LGCDG) to a third of the LGAs.¹³ From 2005/06 this was expanded (with support from bilateral development partners and later EU) to all LGAs. This grant was later renamed the Local Government Development Grant (LGDG) and was adjusted to include various sector allocations with earmarked development funding for agriculture, health, water and other sectors.

Table 2: Overview of formula for grants to LGAs

Sector block grant (Recurrent)	Allocation formula
Primary education	Number of school-aged children: 100% (Earmarked amount for special schools)
Health	Population: 70% Number of poor residents: 10% District medical vehicle route: 10% Under-five mortality: 10%
Agriculture extension	Number of villages: 80% Rural population: 10% Rainfall index: 10%
Water	Equal shares: 10% Number of unserved rural residents: 90%
Local roads	Road network length: 75% Land area (capped): 15% Number of poor residents: 10%
General purpose grant	Fixed lump sum: 10 % Total number of villages: 10 % Total population: 50 % Total number of rural residents: 30 %
Development grants	
Local Government Development Grant (LGDG)	Total population: 70 % Number of poor residents: 20% Land area (capped): 10%
Sector windows of the LGDG	Same as for the respective recurrent sector grants

The practical implementation of the reforms proved challenging – especially for the recurrent grants, whereas the development grants largely have been allocated in accordance with the agreed formula since 2005.

For the reforms of the recurrent grants it was initially discussed and proposed to include PE allocations. It was realised that the immediate implementation of the reforms would lead to a very drastic and substantive reallocation of resources as some LGAs (because of higher levels of staffing) received much larger allocations than others. It was therefore proposed to gradually phase the reform in by holding LGAs harmless in order to

¹² We saw earlier how own source revenues weakly support fiscal transfers.

¹³ The technical design was guided by a consultancy managed by LGRP and the PMO-RALG Director of Local Government. See PricewaterhouseCoopers (2003) 'Design of Capital Grant Programme and Capacity Building Programme for LGSP (Volume I-III)'. The study team that conducted the study consisted of Dr Per Tidemand (team leader), Harriet Naitore, Jesper Steffensen, Holger Pyndt, Michael Holm, Revocatus Sangu, Mabel Shuma and Dennis Biseko.

allow all local governments to afford their existing staff levels and PE commitments. In practical terms, this would mean that all local governments would receive formula-based transfers. However, those local governments that would not be able to afford their current levels of PE would get a supplementary amount to cover the funding gap. ‘Holding harmless’ was intended to only be a transitional feature of the grant system.

In the long run, it was proposed that: ‘the most efficient and equitable resolution would be not only to apply the allocation formulas for each sector to both PE and OC together, but also to [en] sure that local government councils are giving [given] a degree of control over local government staffing decisions. In order to achieve this outcome, the current reading of the Civil Service Act would have to be revised in order to conform to the spirit of Tanzania’s decentralization reforms’.¹⁴ However, for various reasons, Government proceeded instead with the Public Service Act in 2004 and subsequent amendments that centralised the management of staff further. This development made it impractical to proceed with a strict formula-based allocation of PE budgets to LGAs. Government instead tried to pursue other strategies (discussed in Section 3.4) to address inequities in staff allocations across LGAs.

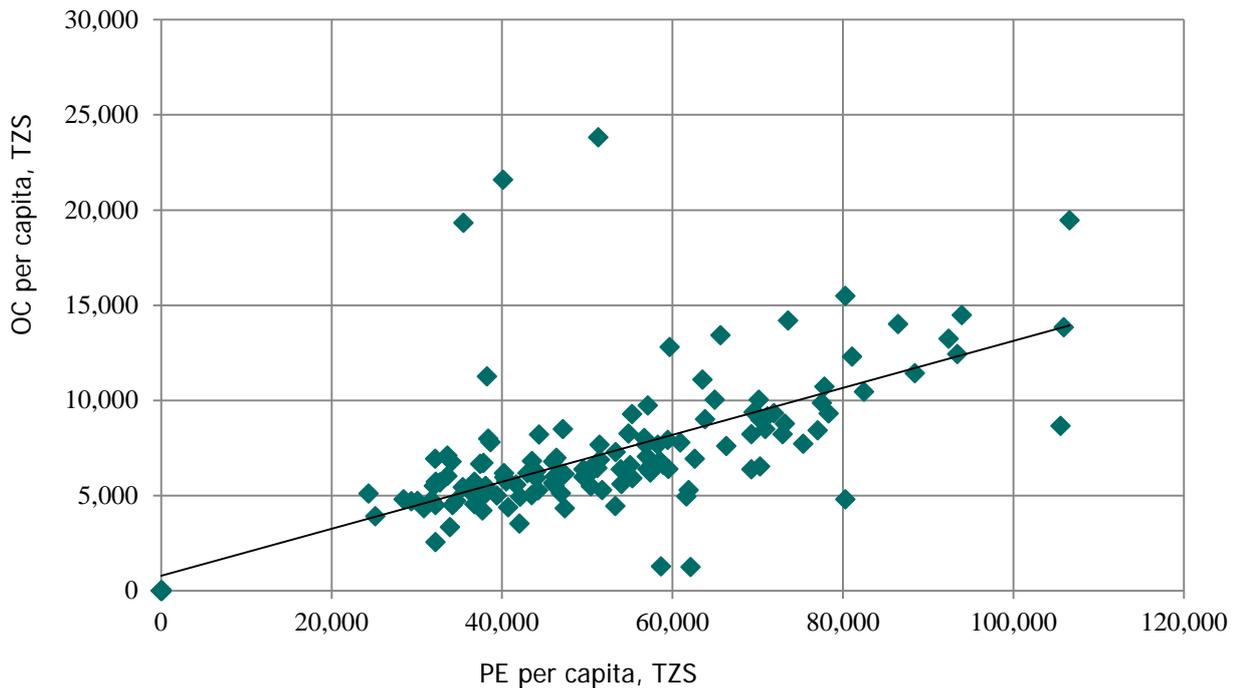
Since 2005 there has been some effort to apply the formula to the OC and development parts of the LGA fiscal transfers, but other than for the LGDG system they have not been systematically applied. The Government and development partners have prepared a study for review and refinement of the formula. However, as evident from the analysis in this report, the main fiscal equity issues lies not with the formula per se, but with its practical implementation and in particular with how staff (and thus PE budget allocations) can be more equitably distributed across LGAs and service facilities.

The benchmarking of equity in this report is based on the allocations determined by the formula, which, in turn, is based on needs, including poverty rates and key sector indicators (Table 2). While it is noted that actual transfers are often not in line with the formula, the intended formula-based allocations are used to benchmark equity. As shown in Table 2, the formula is significantly based on population, with some minor adjustments according to, for example, land area (to compensate for the higher cost of delivery of services in thinly populated areas) poverty and health indicators (that are both also population related). This is in accordance with best international practice for formula-based fiscal transfers as all the transfers are ultimately for services that are to benefit the populations within a particular jurisdiction. Thus a discussion of how actual allocations compare in terms of patterns of inequities (comparing allocations per capita) does not present very different results from analysis of how the actual transfers compare to objective measures of needs (the formula). The main conclusion (further elaborated in the remainder of Chapter 2 and Chapter 3) regarding actual practices for resource allocation is that PE budgets are allocated in accordance with existing staff and that this, in turn, is driven by historical allocation patterns and staff preferences rather than by any objective needs assessments. Thus when we find that the number of teachers per children in Kibaha DC is three times the number in Sumbawanga DC, then this is primarily a reflection of the fact that it is much more difficult to attract and retain staff in Sumbawanga.

The allocations of OC are in principle more amenable to allocation by formula than PE, but analysis of actual practices suggests that OC allocations in general follow the same pattern of distribution as PE (Figure 6). In other words, OC is mainly allocated to LGAs based on the number of staff in place rather than on any other objective criteria.

¹⁴ LGRP 2003, Technical Note: ‘The design of formula-based recurrent block grant system and the role of personal emoluments’, by Jamie Boex.

Figure 6: OC per capita allocations closely follow PE per capita allocations, TZS



Source: MOF budget data 2013/14

2.2.4 Total revenue disparities across LGAs and trends in inequality

There are significant inequalities in LGA revenues per capita across the country. Figure 7 shows the per capita distribution of total LGA revenues across the country. In 2013/14, the 10 LGAs with the highest per capita receipts received between TZS 140,000 and TZS 190,000 per capita, while the 10 lowest LGAs had revenues of between TZS 28,000 and TZS 42,000 per capita. Figure 8 illustrates the major inequalities in the overall sector recurrent transfers in the 2013/14 approved budget. Some of the newly created LGAs were budgeted to receive less than TZS 5,000 per capita. Even allowing for these outliers, the allocations varied between TZS 20,000 and TZS 210,000 per capita.

There seems to be a slight urban bias in overall LGA resources, with urban LGAs receiving TZS 10,000 more per capita in 2013/14. However, this bias is concentrated in the development budget and is far less significant in recurrent transfers. As illustrated in Appendix 2.4, the urban LGAs collect far more own source revenue than rural LGAs and therefore have the potential to augment the quality of local services to a far greater extent than rural LGAs.

Overall therefore, recurrent transfers are the major source of inequality: in 2013/14 the standard deviation from the mean for per capita recurrent allocations is TZS 25,500 compared to TZS 33,900 for total revenue.

Figure 7: Map comparing total per capita LGA revenues across Tanzania*

Overall Total Revenues 2012/13 Outcome (Per Capita, TzShs)

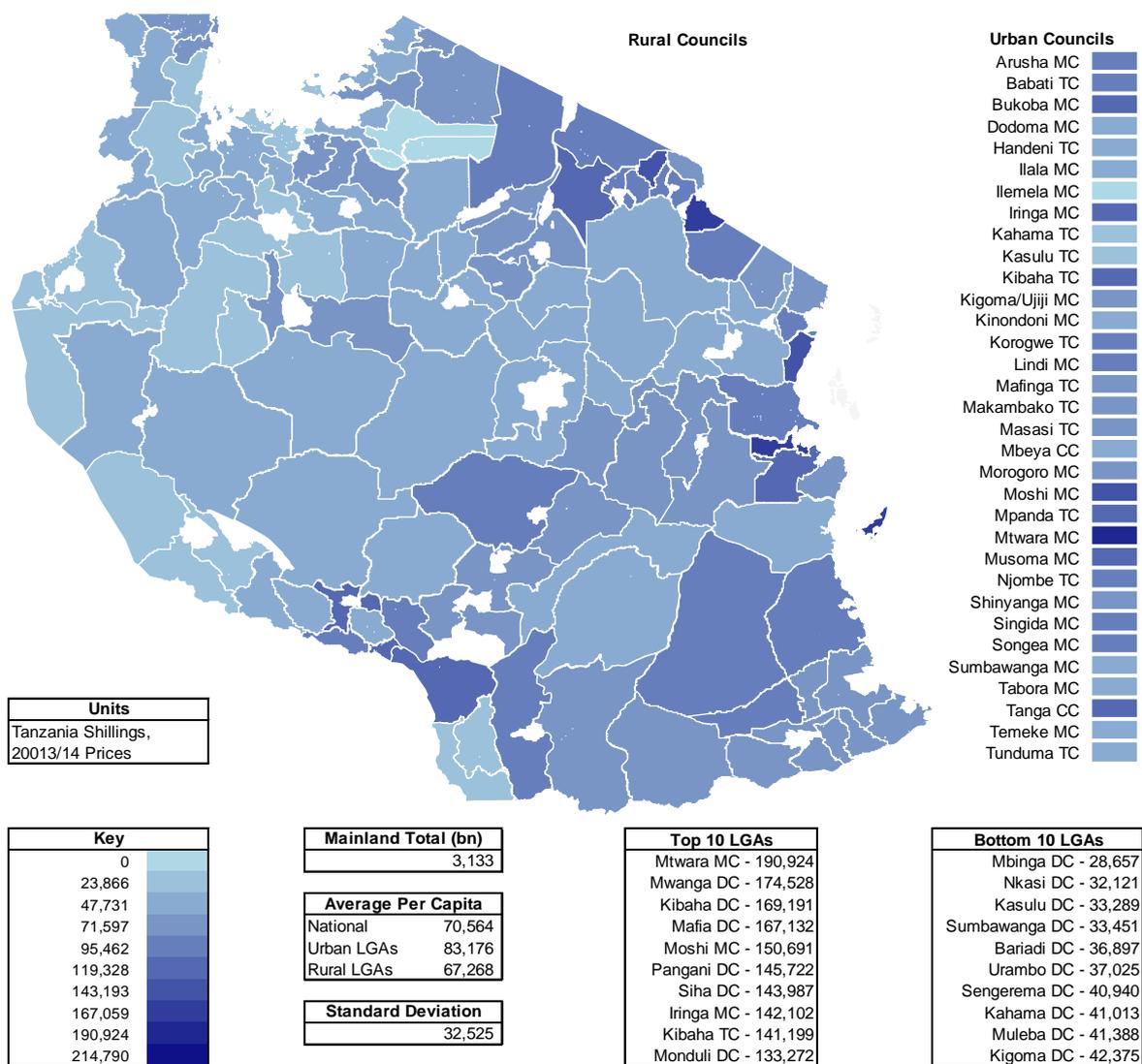


Figure 8: Map showing inequalities in sector block transfers

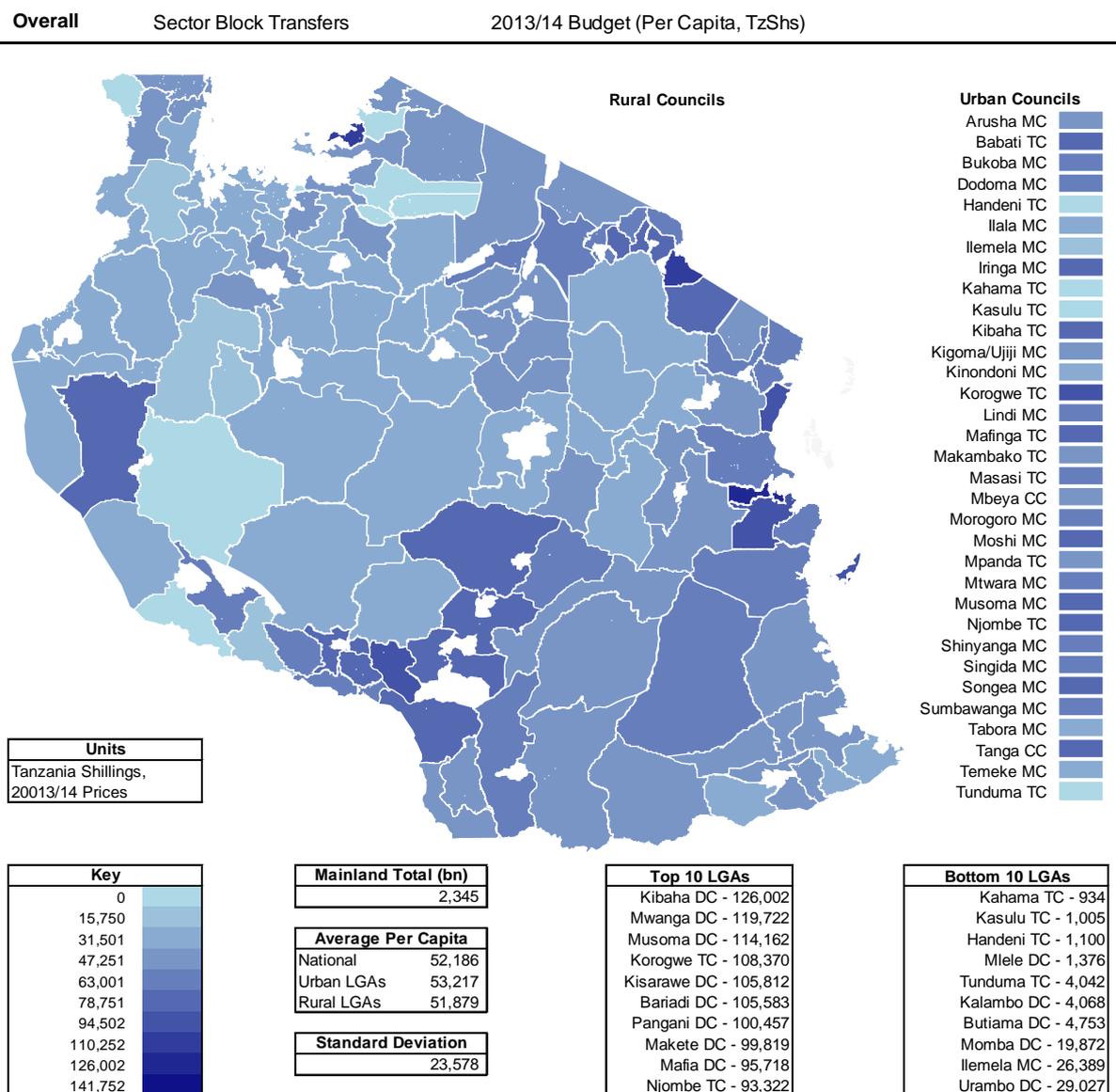
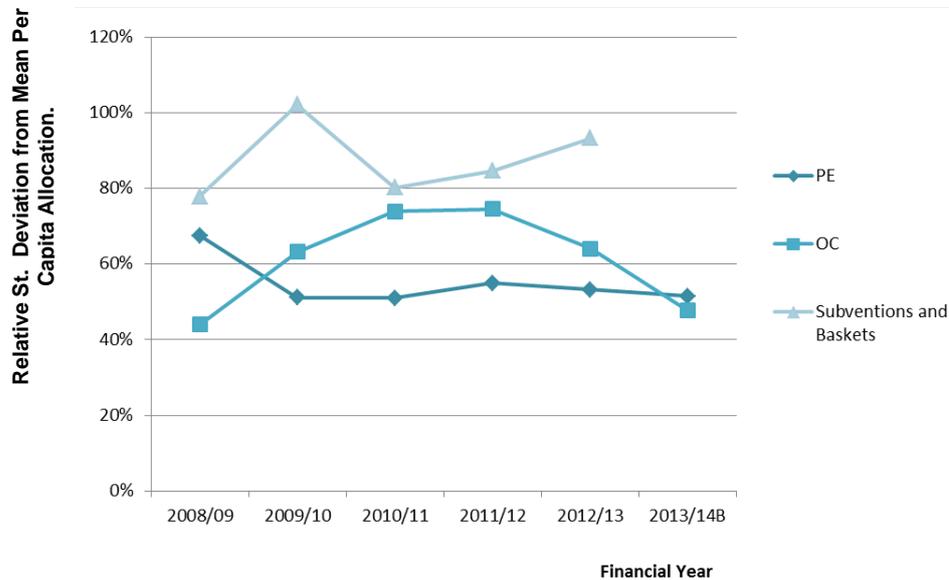


Figure 9 analyses the trends in inequality (measured as standard deviation from the mean per capita allocation). The trends differ across the various components of recurrent grant transfers (more sector-specific analyses are presented in Appendix 2). However, the largest component of the transfers (PE allocations) shows rather stagnant patterns, whereas inequalities have declined marginally for OC transfers (Figure 9). Overall, however, it is clear that LGA revenues and recurrent transfers are distributed very unequally across LGAs. It is also clear that the overall patterns of inequality have not changed over time.

Figure 9: Inequalities in recurrent transfers over time¹⁵

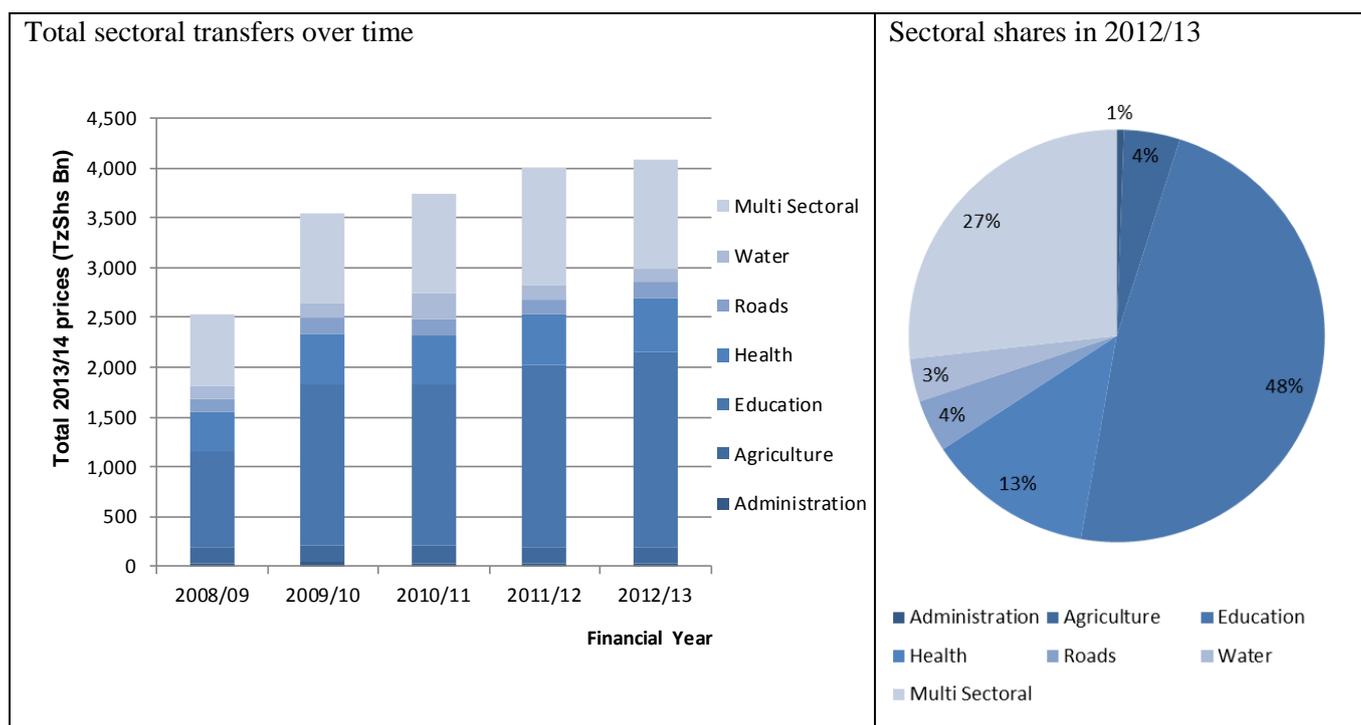


2.3 Analysis of financing of LGAs across sectors

2.3.1 Comparison of sectoral financing overall

The education sector is by far the most dominant sector in LGAs’ budgets, taking up nearly half of revenues, followed by health, which accounts for 13% of LGA budgets on average. The productive sectors combined, however, account for only 11%, and agriculture and roads are far smaller. Approximately one-quarter of LGAs’ revenue is non-sectoral, discretionary funding available for allocation across LGA functions, although in practice a large share is *de facto* earmarked for administration functions (Figure 10).

Figure 10: Sectoral composition of revenues



2.3.2 Different sectors, different patterns

The composition of recurrent transfers differs substantially across the sectors. Salaries make up the main category of funding for education, health, water and agriculture. Operational funding for schools is particularly low and declining in real terms over the review period. Health operational funding is higher, although its share of the total has also been declining as salaries have increased. Figure 11 shows the composition of recurrent transfers across sectors and Figure 12 shows the trend over time in those transfers.

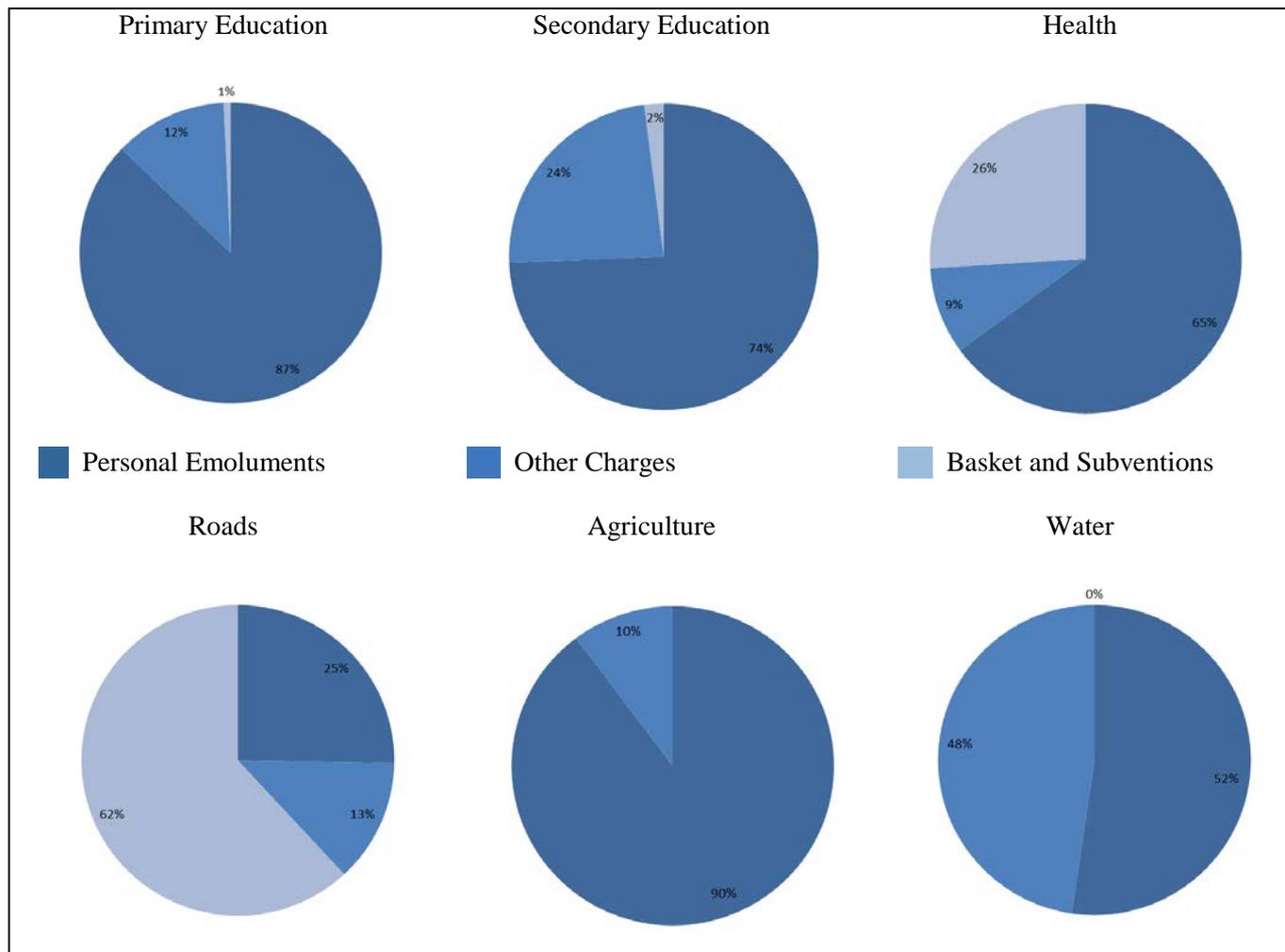
Salaries dominate in education – increasingly so over time and more so for primary than secondary, taking 87% and 74% of sector transfers respectively. Overall, the amount of operational funding for the education sector is consequently very small in relative and absolute terms and has declined over time. Nevertheless, it is expected that more funding will be allocated to secondary education in relative terms, given that operational OC is comprised of various earmarked elements – the capitation grant, funds for examinations and other OC, the majority of which is made up of personnel-related expenses such as relocation allowances for teachers. An implication of other OC being dominated by indirect personnel costs is that there is little funding for the management or running of schools by LGAs. Figure 12 shows trends in these components over time. Capitation grants are a key source of operational funding for primary and secondary schools, although there has been a significant decline since 2011/12 in per capita terms. Exam fees have remained flat, reflecting the fact that they are paid on a per pupil basis.

Salaries also dominate in agriculture. The main source of funding for various agricultural development activities is the development budget (the agricultural window of LGDG) rather than the recurrent budget as for education and health. Even in the water sector most of the funds are earmarked for salaries (however, development funding for the sector is rather large and caters to some extent for the office of the water department).

Salaries also make up the largest share of health sector allocations. However allocations to operational funding are relatively higher – again one would expect this, given the nature of inputs, such as medicines, which are required to deliver health services. Salaries have been increasing in relative and per capita terms over time, while OC and basket funding have been declining. It should be noted that subventions, in particular the health basket fund, is the most important source of OC funding. This allows the health sector a higher degree of flexibility in

spending and managing its staff, reflected in greater attention to issues of staff retention and motivation as further discussed in Chapter 3. In the road sector the subvention from the road fund dominates and salaries are relatively small.

Figure 11: Composition of transfers in each sector (2012/13 outcome)



While the composition of individual sectors varies, there are some clear trends in per capita transfers. PE transfers have been increasing significantly over time in absolute terms in health and education, and have remained flat for other sectors. Meanwhile, sources of operational funding have been either flat or declining, with the most marked declines in health and education. Importantly, subventions and basket funds have been declining in per capita terms for all three sectors over the review period.

Finally, it is important to note the significance of user fees for health and secondary education relative to transfers, most notably those funding operational costs. For secondary education, school fees are by far and away the most important source of funding for operational costs – approximately twice the capitation grant. In health, it is important to note that user fees for health centres are the only source of revenues at the facility level – other inputs are provided in kind. User fees would amount to approximately TZS 900 per capita, which is equivalent to the OC grant, and would constitute approximately one-third of operational funding at the LGA level. At the point of delivery, user fees are crucial in these two sectors for facilitating the delivery of services.

Figure 12: Per capita trends in sector recurrent transfers (TZS)

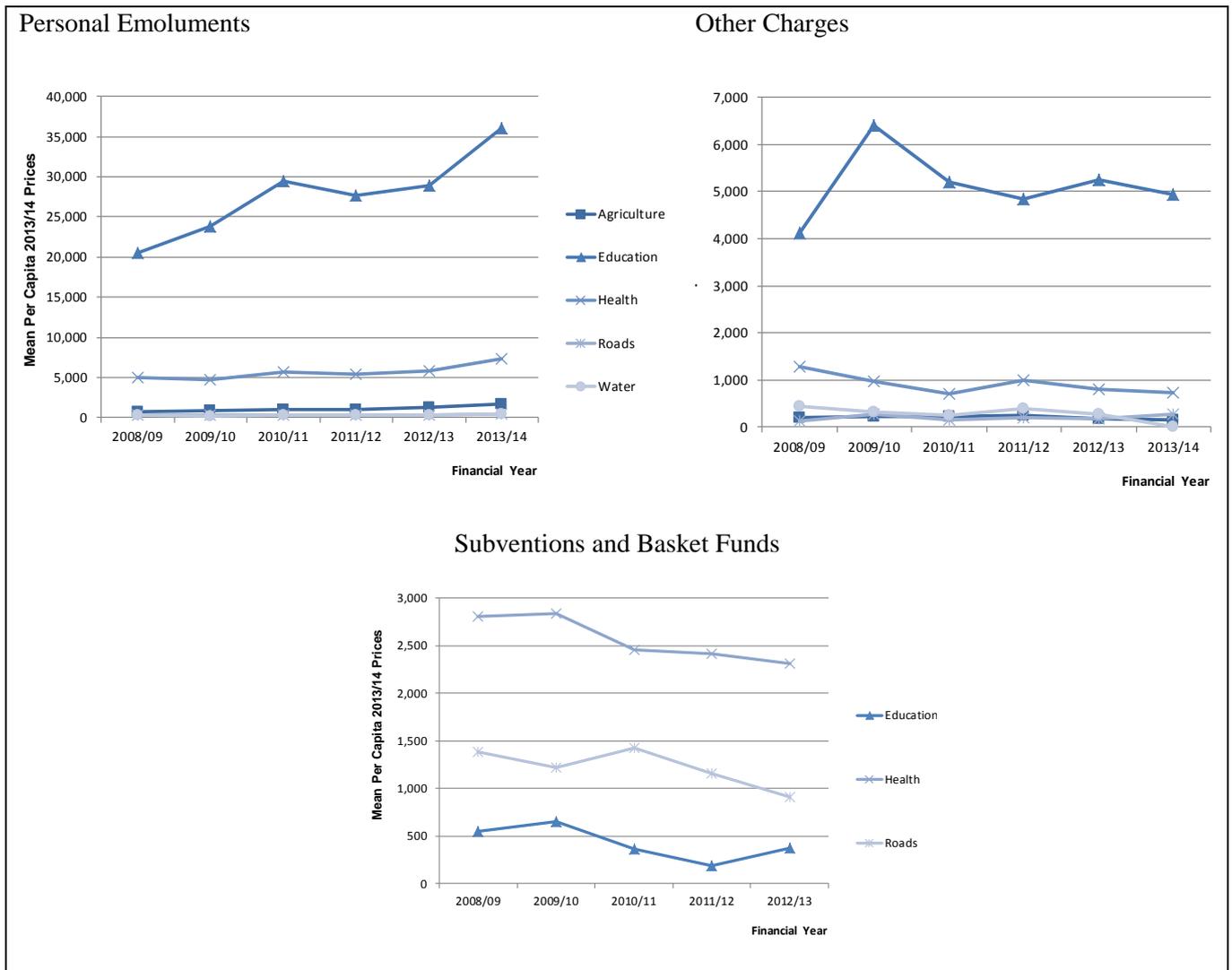
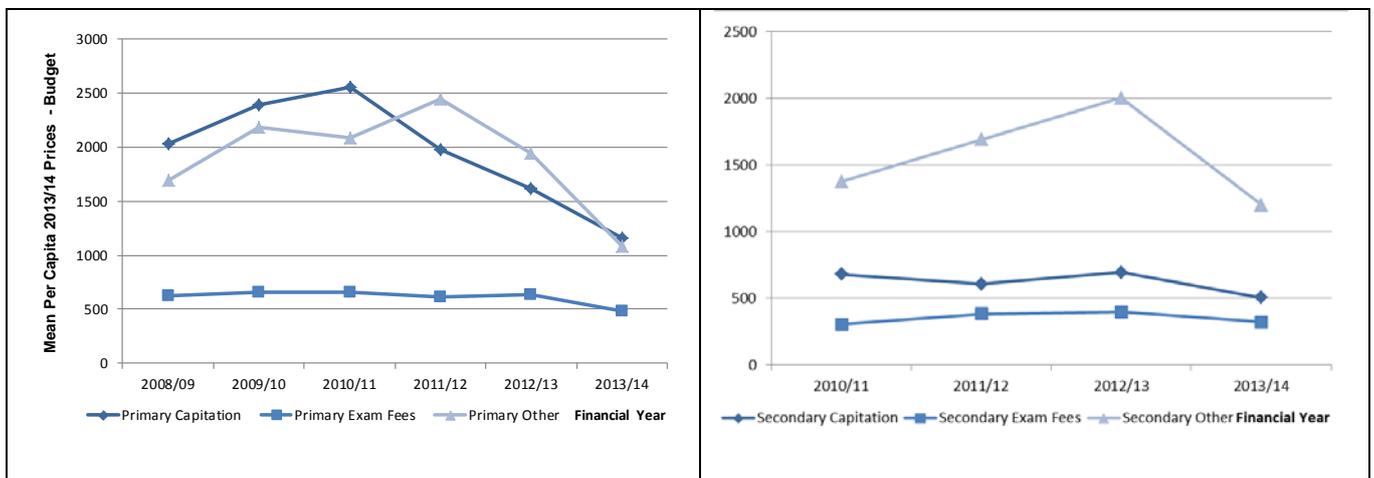


Figure 13: Trends in and composition of key education budget lines over time (TZS)



2.3.3 Disparities in allocations of transfers, expenditure and staffing across LGAs

Overall, fiscal allocations are dominated by education and the map of inequities in the education sector for recurrent transfers (Figure 14) rather closely follows the overall pattern of inequities in sector block transfers (Figure 4). Urban LGAs receive on average only slightly more than rural LGAs. While there are some broader regional patterns of variation whereby the western part of the country is relatively less funded than the rest, the major disparities are between selected LGAs where allocations per capita range from, for example, more than TZS 100,000 per capita in Rungwe DC to TZS 11,450 per capita in Mbinga DC – a variance of almost a factor of ten.

The patterns of inequality are rather similar across all the major sectors, as Table 3 demonstrates. Furthermore, inequality and inequity have remained fairly constant over time as there have not been major improvements in overcoming these challenges as PE, particularly in the education sector, continues to drive the inequality (Figure 12 and Figure 14). On the other hand there is a rather poor fit between existing allocations and the formula-based allocations as subventions and particularly baskets, with the exception of health, are not allocated in accordance with the formula (Figure 16). The health basket is a particular exception as it is 100% allocated in accordance with the formula. However, since PE allocations are so dominant they remain the overall drivers of inequalities.¹⁶

¹⁶ Further detailed analysis of health sector allocations compared to formula is also found in Boex et al. 2013.

Figure 14: Inequalities in sector recurrent transfers in education

Education

Recurrent Transfers

2012/13 Outcome (Per Capita, TzShs)

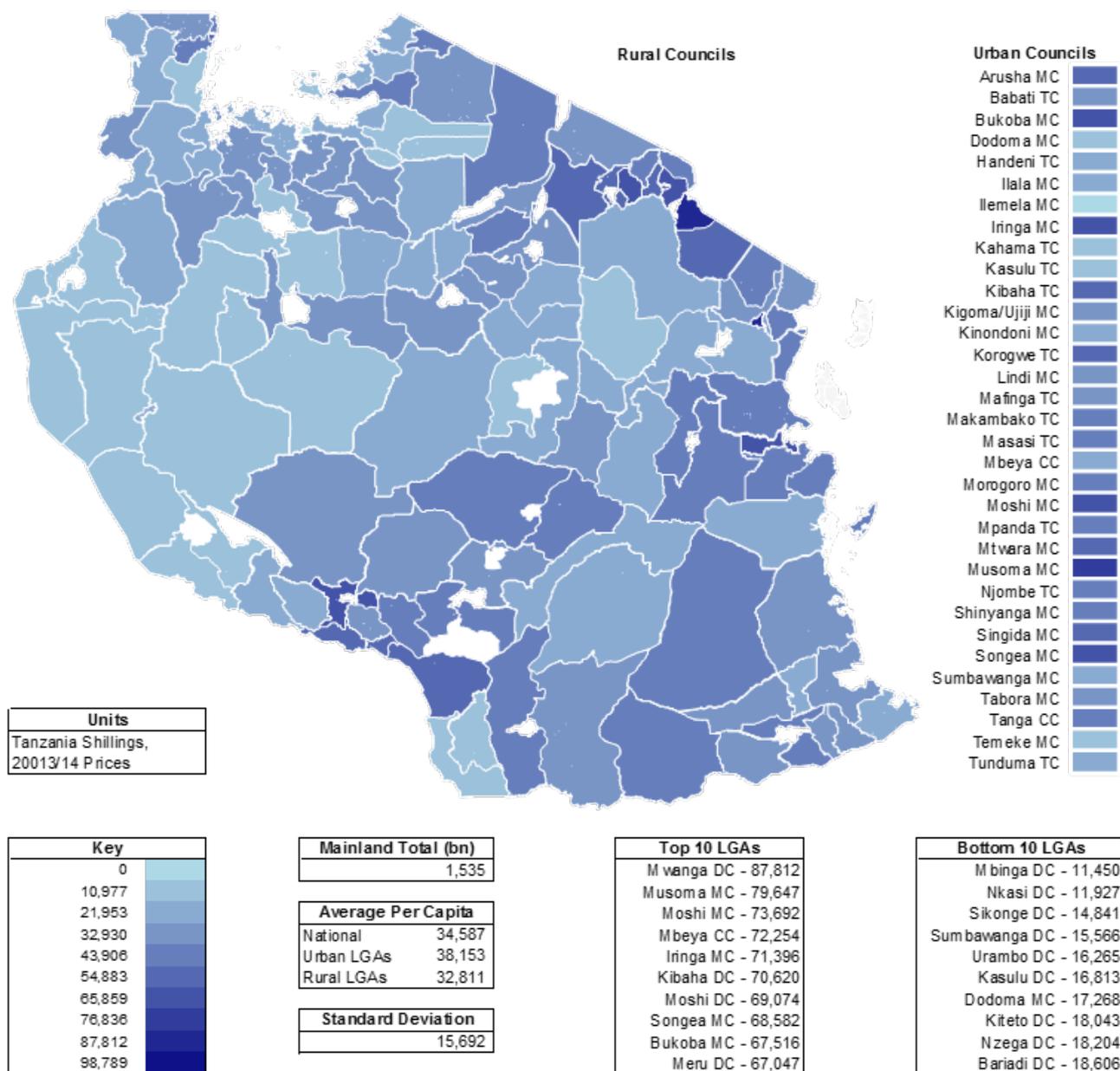


Table 3: Inequalities in recurrent transfers in different sectors (TZS 2012/13 outcome)

Sector	Education	Health	Water	Agriculture	Roads
Total (bn)	Mainland 1,535	Mainland 396	Mainland 25	Mainland 64	Mainland 65
Average Per Capita	Mainland 34,587	Mainland 8,912	Mainland 559	Mainland 1,452	Mainland 1,463
	Urban LGAs 38,153	Urban LGAs 9,683	Urban LGAs 140	Urban LGAs 859	Urban LGAs 1,536
	Rural LGAs 32,811	Rural LGAs 8,857	Rural LGAs 667	Rural LGAs 1,539	Rural LGAs 1,406
Standard Deviation	Mainland 15,692	Mainland 4,885	Mainland 826	Mainland 1,689	Mainland 2,363
	Mainland 45%	Mainland 55%	Mainland 148%	Mainland 116%	Mainland 162%
Top 10 LGAs	Mwanga DC - 87,812	Pangani DC - 35,895	Kilosa DC - 6,991	Kibaha DC - 7,598	Mafia DC - 11,586
	Musoma MC - 79,647	Mafia DC - 28,650	Pangani DC - 4,631	Kilosa DC - 7,272	Pangani DC - 11,446
	Moshi MC - 73,692	Mwanga DC - 25,362	Mafia DC - 3,343	Kisarawe DC - 6,549	Kibaha TC - 9,285
	Mbeya CC - 72,254	Kibaha DC - 24,408	Mwanga DC - 2,764	Mafia DC - 6,496	Mtwara DC - 9,084
	Iringa MC - 71,396	Ludewa DC - 18,841	Liwale DC - 2,014	Arusha DC - 6,334	Mpanda TC - 8,708
	Kibaha DC - 70,620	Kisarawe DC - 18,263	Monduli DC - 1,944	Pangani DC - 6,082	Siha DC - 8,332
	Moshi DC - 69,074	Kyela DC - 18,173	Kibaha DC - 1,727	Mwanga DC - 5,448	Kilosa DC - 7,504
	Songea MC - 68,582	Njombe TC - 17,809	Same DC - 1,603	Siha DC - 5,169	Moshi MC - 6,648
	Bukoba MC - 67,516	Moshi MC - 17,424	Kisarawe DC - 1,559	Muheza DC - 4,729	Ludewa DC - 6,252
	Meru DC - 67,047	Makete DC - 17,043	Makete DC - 1,513	Hai DC - 4,712	Tandahimba DC - 6,147
Bottom 10 LGAs	Mbinga DC - 11,450	Nkasi DC - 2,391	Ilala MC - 14	Ilala MC - 15	Tabora MC - 52
	Nkasi DC - 11,927	Dodoma MC - 2,590	Mbeya CC - 48	Tabora MC - 74	Bariadi DC - 172
	Sikonge DC - 14,841	Sumbawanga MC - 3,130	Tabora MC - 51	Kahama DC - 77	Dodoma MC - 175
	Sumbawanga DC - 15,566	Mbinga DC - 3,529	Kigoma/Ujiji MC - 60	Nzega DC - 93	Rorya DC - 185
	Urambo DC - 16,265	Sumbawanga DC - 3,667	Iringa MC - 67	Iringa MC - 96	Muleba DC - 185
	Kasulu DC - 16,813	Urambo DC - 4,241	Kinondoni MC - 84	Songea MC - 112	Sumbawanga DC - 194
	Dodoma MC - 17,268	Muleba DC - 4,766	Temeke MC - 90	Mvomero DC - 113	Kasulu DC - 196
	Kiteto DC - 18,043	Kilombero DC - 4,779	Morogoro MC - 99	Musoma DC - 118	Temeke MC - 224
	Nzega DC - 18,204	Bariadi DC - 4,863	Singida MC - 100	Igunga DC - 118	Sengerema DC - 229
	Bariadi DC - 18,606	Kasulu DC - 5,036	Sumbawanga MC - 126	Morogoro DC - 119	Karagwe DC - 252

In general the allocation patterns show significant consistency across main sectors. Several of the LGAs that are relatively underfunded in one sector are also underfunded in others – likewise for the overfunded LGAs. For example, Kibaha DC is receiving far above average allocations in all sectors, whereas Sumbawanga DC fairly consistently receives the least.

There is a slight urban bias in the education and road sectors (when measured as differences between urban and rural LGAs). However, the differences within urban/rural LGAs are more important. As expected, there is a rural bias in agriculture and water, but this is lower than the bias may have been. The expectation of a higher rural bias in these sectors arises from LGAs having responsibilities for rural water, whereas the responsibility for urban water services is with semi-independent water and sewerage authorities. Likewise, agriculture extension services are primarily delivered in rural areas where there is significant agricultural production potential.

The education sector is by far the most dominant sector in terms of its recurrent grant allocations. Table 3 demonstrates the enormous variation in per capita allocations: the highest funded LGAs receive 5 to 10 times more than the lowest funded LGAs. This obviously leads to substantial variations in service levels across LGAs. Appendix 4 presents detailed sector analyses.

Figure 15: The correlation between health and education allocations reinforce inequalities across LGAs

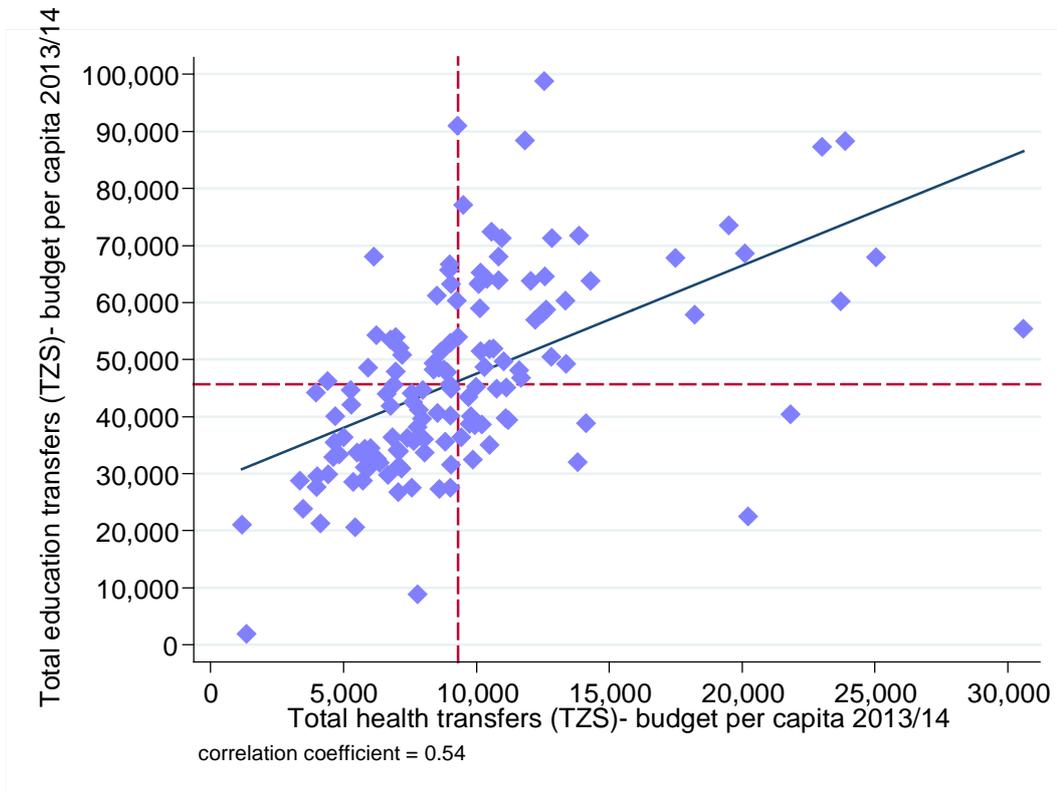
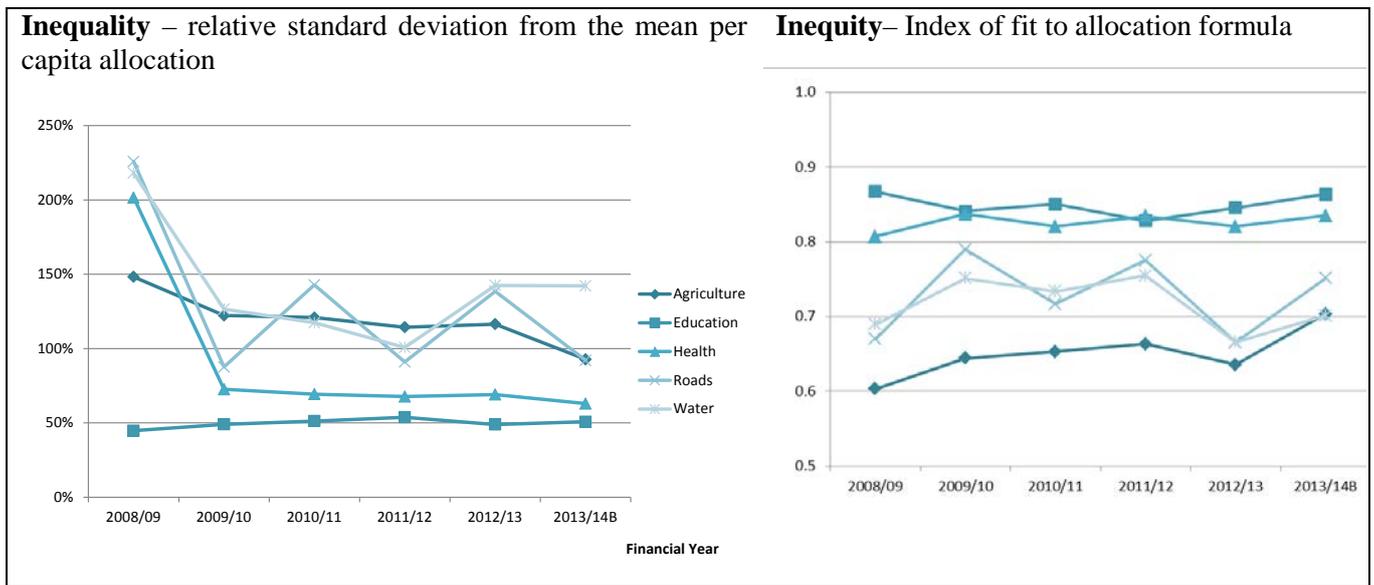


Figure 15 illustrates how the patterns of fiscal inequalities between the two largest sectors weakly reinforce each other. The LGAs that are relatively underfunded in the education sector tend also to be relatively underfunded in the health sector, reflected in the concentration of observations in the lower left corner of Figure 15. Also, both the index of inequality (standard deviation from mean per capita) and the inequity (the index of fit to formula) have been fairly constant over the years. Thus, there have been no major improvements in terms of addressing the problems of inequalities and inequities.

Figure 16: No clear patterns in recurrent block transfer disparities over time



There appears to be no common trend in disparities over time for recurrent OC and PE transfers, whether with regard to inequality or inequity across sectors, although there are some trends for individual sectors. Disparities in education have been consistent over the review period. There appeared to be a significant decrease in inequality for the health, water and roads sectors in 2009/10, however there appears to be little discernible trend in those sectors over a longer period. Only the agriculture sector has seen a steady trend of reducing disparity and increased equity over time.

Nevertheless, Figure 17 shows clearly that the inequality is driven by PE in all sectors but roads, where the subvention is the major source of inequality. In 2012/13 the standard deviation for PE in primary education, secondary education, and health far outweighed the inequalities in OC and basket funds. That is not to understate the importance of disparities in operational charges, which directly affect the ability of service providers to deliver those services effectively.

Figure 16 illustrates inequity in terms of index of fit – the degree to which different sectors are aligned with the official allocation formula. A value of 1 indicates a perfect fit. The primary education and health sectors adhere most of all to their allocation formula for PE and OC – with indices of fit of over 0.8. This still implies that it would take a reallocation of 20% of the global transfer amount to align allocations with the actual formula. The relatively low indices of fit of approximately 0.6 for roads, agriculture and water imply that the allocations are made with little regard to the allocation formula. With the exception of health, it appears that subventions are less equitably distributed than PE and OC transfers.

Figure 17: Composition of inequality – standard deviations from equal per capita allocations (TZS per capita 2012/13 outcome)

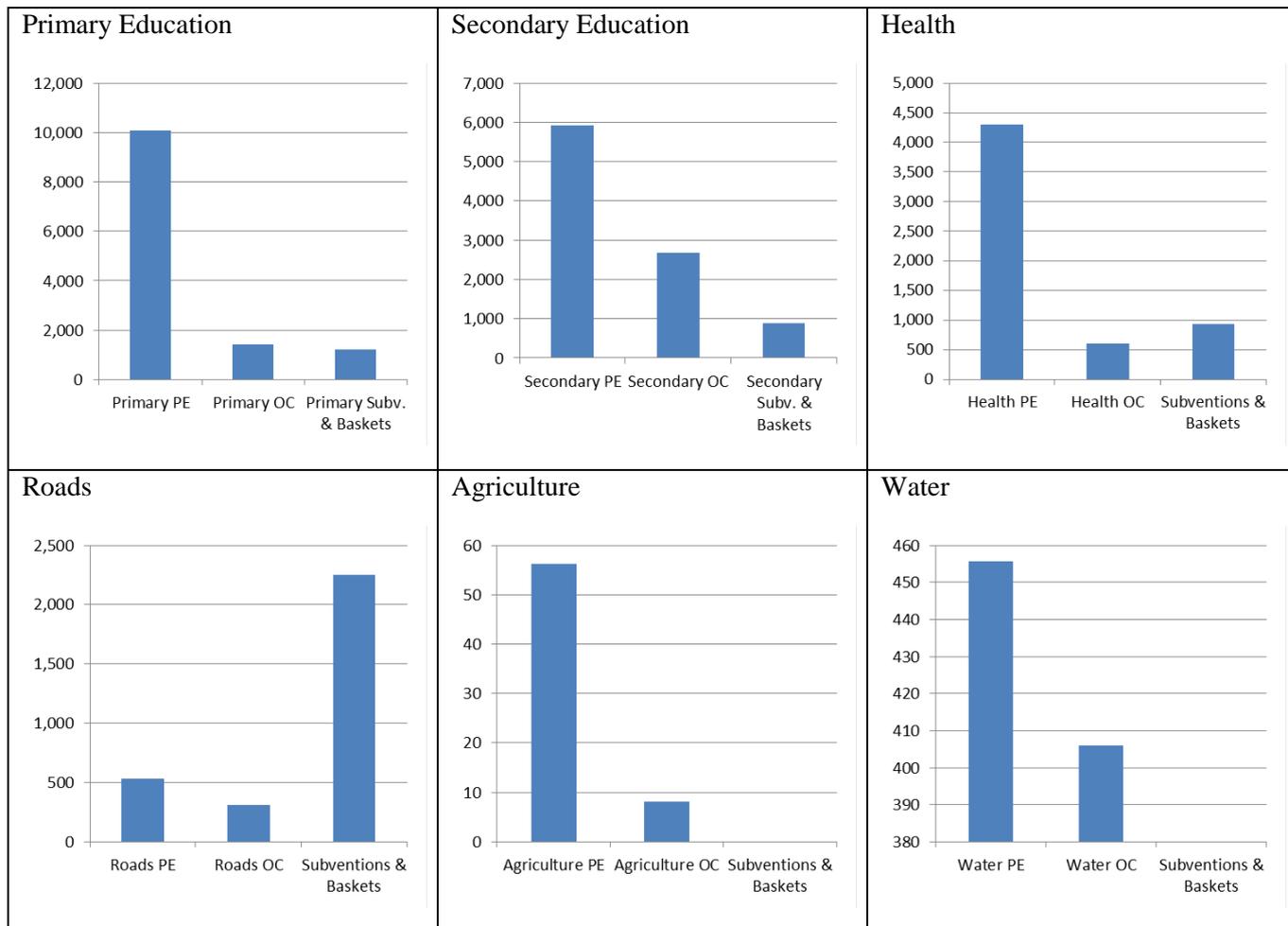
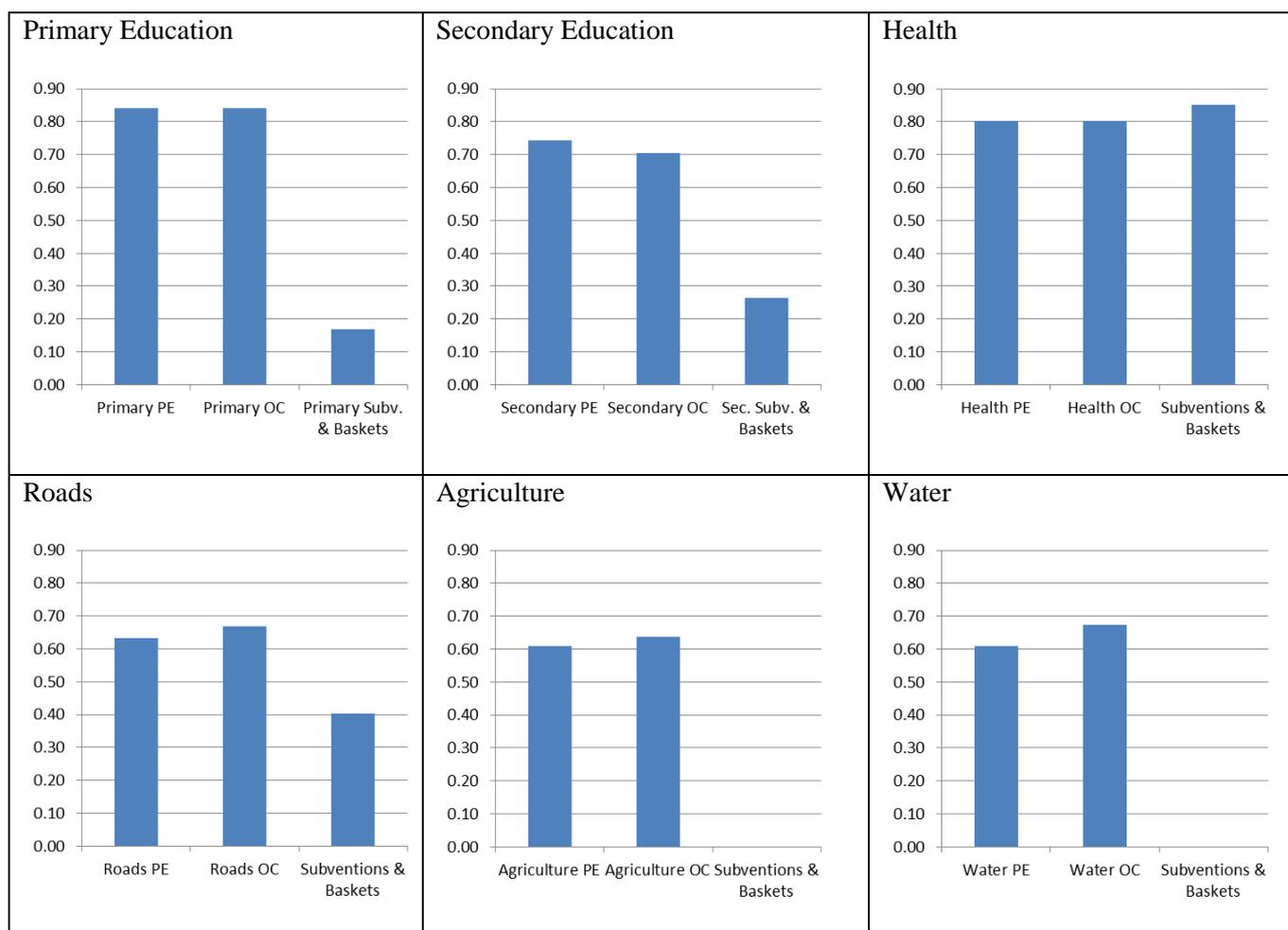


Figure 18: Composition of inequity – index of fit to allocation formula



2.4 Analysis of internal disparities in resource allocations within districts

We now turn to analysing disparities in resource allocation and service delivery within LGAs. During fieldwork in 11 LGAs the team collected available data on the internal resource allocation patterns, and inputs. As the majority of service delivery inputs are in kind – whether personnel or medicines, then the distribution of these inputs gives an important indication of disparities in the distribution of resources within LGAs. In fact, the only major fiscal transfers from LGAs to facilities are in the form of the capitation grants to schools. The biggest variations in resource allocations at the facility level are in the form of staff allocations.

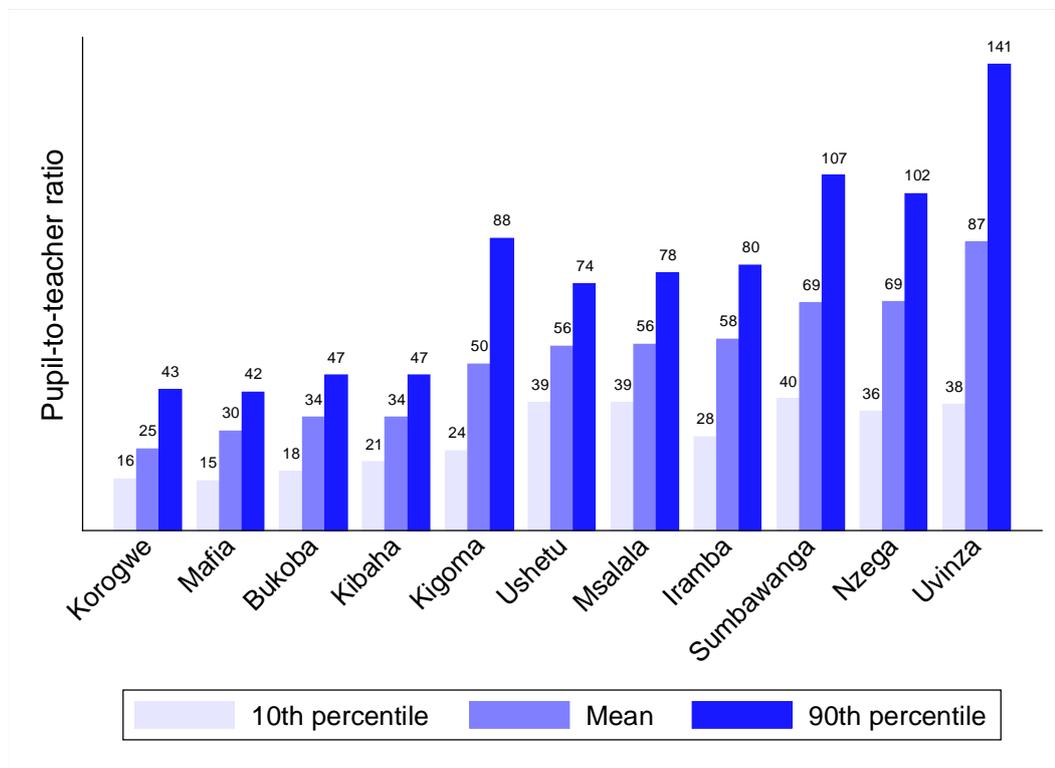
There are pronounced differences in outcomes for primary schools within districts. Primary school pass rates vary from as high as 100% of students in 6 of 11 districts surveyed, to as low as 0% of students in 8 of the 11 districts surveyed. These outcome disparities were more pronounced in the disadvantaged LGAs compared to the more non-disadvantaged LGAs, indicating that the worst outcomes were observed in the LGAs with the lowest transfers (Table 3). In primary education, the PTR varies significantly within districts. The highest observed disparity was found in Uvinza DC, where the lowest PTR is 19 and the highest PTR is 780, but very wide PTR disparities were also found in Iramba DC (434 versus 11), Sumbawanga DC (298 versus 19), and Kigoma DC (224 versus 11). These PTR disparities were more pronounced in the disadvantaged LGAs compared to the more non-disadvantaged LGAs.

Within-district differences in secondary school outcomes are less pronounced than for primary school education, but nonetheless they exist. The highest disparity was found in Bukoba MC where the school with the highest

pass rate had 72% of students passing while the school with the lowest pass rate had a pass rate of just 18%. Wide disparities were also noted in Korogwe DC and Nzega DC (Table 3). Overall, however, these outcome disparities are not more pronounced in the disadvantaged LGAs compared to the more non-disadvantaged LGAs.

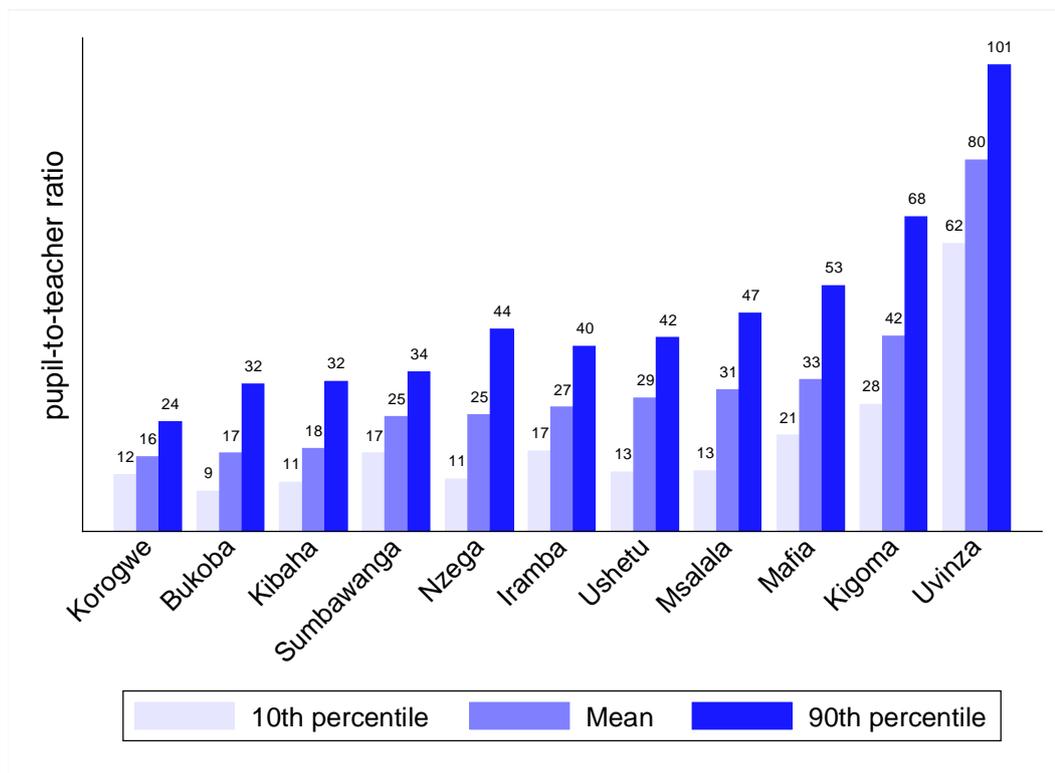
The disparities in secondary school PTRs were found to be significantly worse in Uvinza DC (89 and 23 for the highest and lowest PTR observed respectively) and Kigoma DC (149 and 42 for the highest and lowest PTR observed respectively) compared to all other districts surveyed but were also found to be high in Ushetu DC, Msalala DC and Nzega DC, indicating that these disparities are more significant for disadvantaged LGAs. The highest disparities in secondary school pupil-to-science-teacher ratios (PSTR) were found in Korogwe DC (617 and 44 for the highest and lowest PSTR observed respectively) and Msalala DC (601 and 94) for the highest and lowest PSTR observed respectively. With the exception of Korogwe DC the disparity in the allocation of science teachers is more pronounced in the disadvantaged LGAs.

Figure 19: Variation in primary education PTR across surveyed LGAs



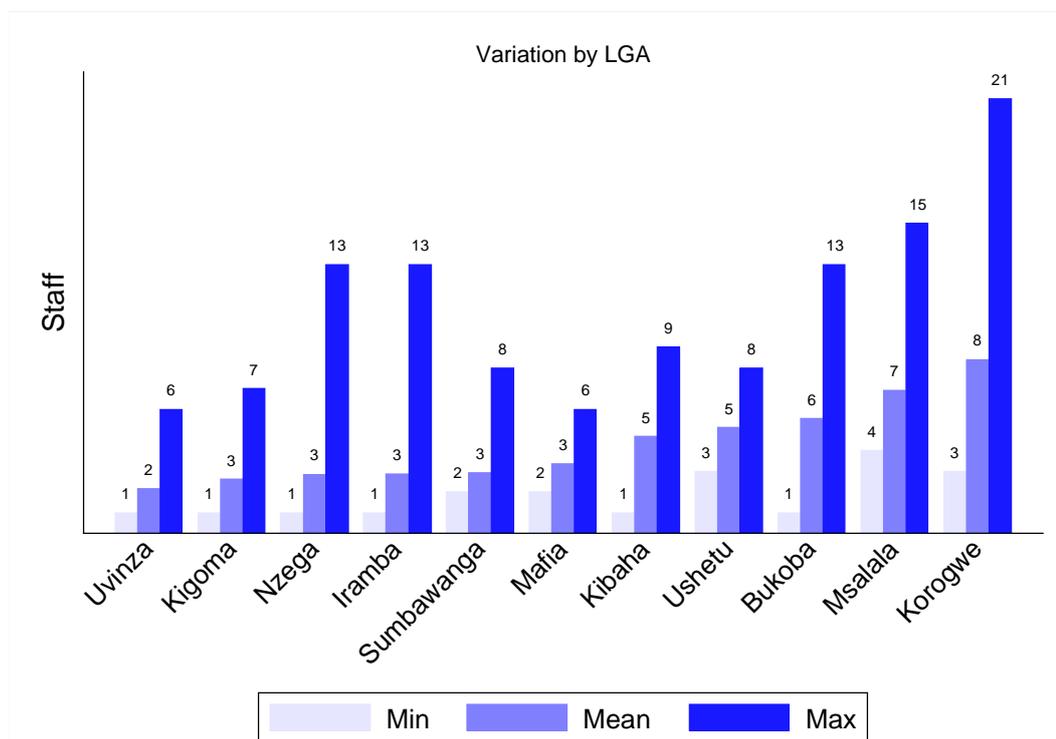
Source: LGAs data from fieldwork in 11 LGAs.

Figure 20: Variation in secondary education PTR across surveyed LGAs



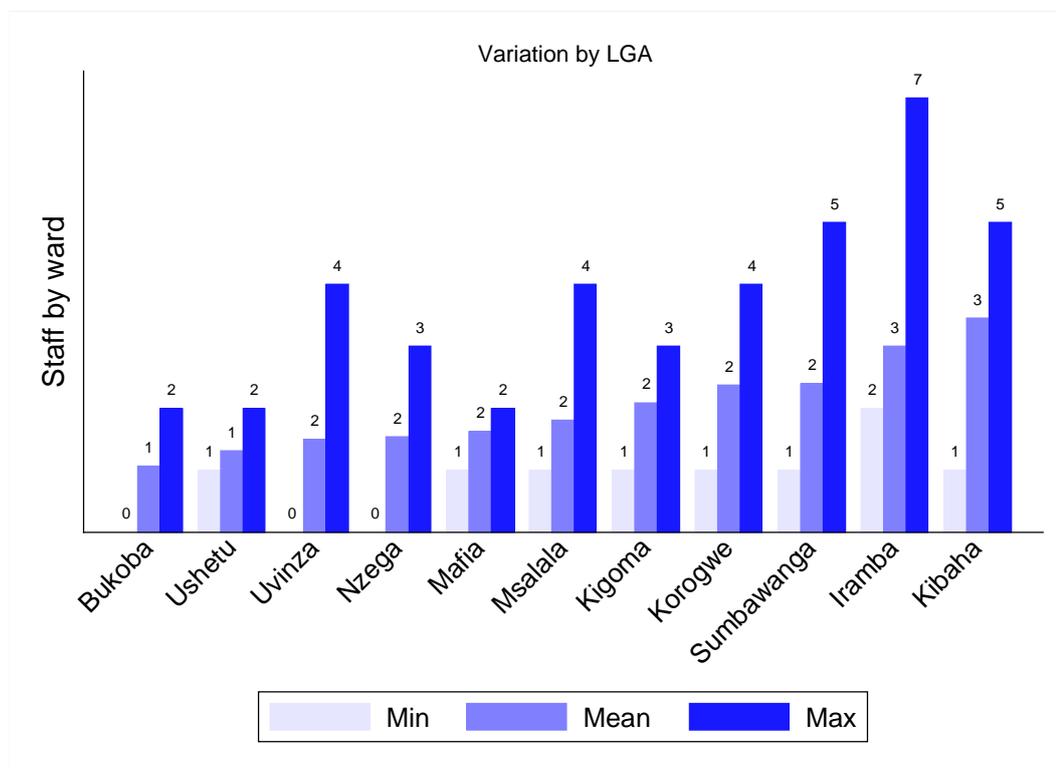
Source: LGA data from fieldwork in 11 LGAs.

Figure 21: Variation in health dispensary staff across surveyed LGAs



Source: LGA data from fieldwork in 11 LGAs.

Figure 22: Variation in agriculture staff per ward across surveyed LGAs



Source: LGA data from fieldwork in 11 LGAs.

There are wide variations in the number of outpatients visiting dispensaries, reflecting disparities in the distribution of facilities according to population density. The most pronounced disparities in the number of outpatients visiting clinics were found in Uvinza DC, Bukoba MC and Korogwe DC. In Bukoba MC the busiest dispensary sees 24,539 outpatients per annum, while the least busy dispensary sees just 41 outpatients per annum. In Uvinza the case was more extreme, with the busiest dispensary seeing 43,800 outpatients per annum while the least busy dispensary sees just 1,250 per annum.

All districts have wide levels of disparity in staffing levels at dispensaries. In 5 of the 11 districts surveyed there exists at least one dispensary with just one member of staff. However, disparities in the level of staff to outpatients were not found to be overly pronounced in either Bukoba MC or Korogwe DC, compared to other districts, suggesting a more efficient allocation of staff.

Conversely, in the case of Uvinza DC, at the busiest facility each staff member sees 21,900 outpatients per annum while at the least busy facility one staff member sees just 717 outpatients per annum. A similarly wide disparity was observed in the case of Iramba DC, where at the busiest facility each staff member sees 11,144 outpatients per annum while at the least busy facility one staff member sees just 100 outpatients per annum. With the exception of Uvinza DC and Iramba DC, the disparities in the ratio of staff to outpatients does not appear specific to disadvantaged LGAs.

Quite a wide level of variation was observed in agriculture staffing levels across the 11 districts surveyed, particularly in relation to the number of staff per ward (although the number of staff per village is more uniform) and the ratio of motorbikes to agriculture staff. Within districts there were some notable differences in staffing levels per village, particularly in the case of Uvinza DC and Korogwe DC, where the allocation of staff appears to be less than efficient.

This analysis thus far has focused on staffing allocation. However, from the perspective of service delivery, the absolute level and variations in operational inputs and funding are equally important. It is clear that absolute levels of funding are low.

2.5 Conclusions

This section has presented some overarching conclusions on the patterns of LGA financing. Chapter 3 will, in turn, explore the underlying drivers of these fiscal inequities and their impact on service delivery.

An important overall trend in LGA funding is the increasing importance of PE since other charges and development expenditures display downward trends. As PE becomes such an all-important expenditure at LGA level it is of crucial importance that it is allocated and managed in the most effective and fair manner.

Inequities in resource allocations are very significant and in several cases more significant *within* LGAs than *across* LGAs. The most important conclusion from the analysis is that the patterns of inequities within LGAs are most significant in LGAs that overall are categorised as HTRS/underfunded. However, they are still highly significant within all LGAs.

The inequities are particularly marked for primary education but are also substantial in other sectors. For example, within Sumbawanga DC the PTR ranges from 19 to 298. The data from Uvinza DC suggest an extreme variation, from 19 to 780. For secondary education, the overall range of the PTR appears as less marked than the variation within primary education. However, the range in most severe HTRS LGAs such as Uvinza is also substantial, with a PTR in secondary education ranging from 42 to 149. The most significant variation is found within science teacher allocations that for instance in Sumbawanga range from 76 students per teacher to 529 students per teacher. Even in a relatively well staffed LGA as Bukoba MC, there is significant variation in pupils per science teachers that ranges from 27 to 239.

The variation of staffing in health facilities is also very significant within districts. In some cases this is because a dispensary is in the process of being upgraded to a health centre, but even when such cases are excluded we find that the variation in the staffing of dispensaries is very significant – typically ranging from 9 to 1 staff

member per dispensary. The distribution of agricultural extension staff is also very uneven within all LGAs, with the variation at the village level around a factor of 10. The official staffing norm is one crop specialist and one livestock specialist per village, but this level of staffing is not found as an average level of staffing per village in any of the wards.

One overall disturbing pattern of LGA financing is that OC, which is designated for operating expenses for all sectors (except health), is so low that district managers have very limited capacity for effective supervision and support. In the education sector funding is particularly biased towards PE (approximately only 10% of total funding is allocated to OC) whereas health sector budgets are more balanced when the basket fund is included: the approximate share of OC is 40%. Agriculture funding is in similar manner relatively well balanced if the agriculture sector development grants are considered, but operating expenses OC allocations are very low, which makes it difficult for LGAs to carry out operational activities, such as supervising finance staff.

The main driver of inequities in fiscal allocations to LGAs is the way staff are allocated to LGAs: PE is by far the dominant element in LGA budgets. Funds for PE allocations are entirely determined by existing staffing patterns and are not subject to any formula as the LGAs are not in control of PE budget allocations. How staff are allocated to LGAs, and how they are retained and motivated for the efficient delivery of services is further discussed in the next chapter.

3 Drivers of fiscal inequity

3.1 Introduction

This chapter will investigate why fiscal disparities exist and review existing Government and LGA strategies to address them, with a view to making recommendations on how the problems can be more effectively addressed in future. The chapter also explores the extent to which the current systems for resource allocation promote efficiencies in service delivery.

Given the fact that **staffing** is the key driver for fiscal disparities, these investigations will be focused on Government policies and practices in the allocation and management of staff. The chapter will:

- provide a brief overview of the current system for staff allocation to LGAs
- discuss the extent to which the current centralised system for staff allocation to LGAs has been successful in addressing inequities and inequalities
- analyse the current problems of staff retention and motivation
- analyse experiences with local staff retention and motivation schemes.

3.2 Current formal system of staff allocations and HRM in LGAs

The current main legislation for LGA employment and staff management is the Public Service Act 2002 (and later amendments). The Act covers the employment of all public servants including health, agriculture and education staff in Ministries, Departments and Agencies (MDAs) and at sub-national level in LGAs. At LGA level, the public service is composed of staff paid by Central Government, including health workers, teachers, agricultural extension workers, engineers from works departments, as well as the bulk of general administrative personnel including the (District or Municipal) directors, planners, etc. Some of the auxiliary personnel in these sectors are paid from LGAs' own fund revenues or general purpose grants, but the majority of staff (teachers, health workers etc.) are paid by the LGAs from earmarked Central Government fiscal transfers for PE. MDAs at national level and LGAs at the sub-national level are recognised by law as employment authorities with responsibility for the recruitment, promotion and dismissal of staff. However, in practice, LGAs only play a marginal role in recruitment and several other aspects of staff management.

MDAs and LGAs propose establishment changes based on staffing norms and this is usually cleared by the President's Office-Public Service Management (PO-PSM) that also authorises recruitment to fill vacancies or to hire new staff. While LGAs in theory have the discretion to recruit staff independently, and while the Public Service Act encourages merit-based and competitive recruitment – in practice, due to acute shortages of staff, sector ministries have since the mid-2000s allocated education and health staff directly to MDAs and LGAs once they graduate from training institutes. LGAs therefore have little say on the quality of candidates recruited.

A further centralisation of staff management took place in January 2009 when the Public Service Recruitment Secretariat was established (in accordance with the Public Service Act (Amendment) 2007, Section 29). The aim of the Secretariat is to facilitate the recruitment of employees in MDAs, LGAs and other public institutions. General administrative staff, and staff in the water sector, engineers and other specialised staff are currently recruited by the Secretariat on behalf of LGAs. At the service delivery level, such as at a school or dispensary, the officers in charge, even though they have direct responsibility for the performance of the staff and staff appraisal, can only make recommendations on the training, promotion and dismissal of staff to the council

management. Final decisions are made by the respective employment board and, in the case of teachers, the Public Service Commission Teaching Service Department.

The relative autonomy of LGAs in the management of its staff is therefore at present relatively limited: it is essentially Central Government that decides how many staff are employed each year, and it is also Central Government that decides on whom is employed (or rather where each graduate is posted). Later decisions on staff transfers, staff promotion or discipline are influenced by the LGAs, but the final decisions generally rest with Central Government institutions.

The day-to-day procedures for oversight, guidance and monitoring of staff in LGAs are characterised by multiple reporting and accountability arrangements. The sector MDA is responsible for policy-making, the regulation of standards in service delivery including staffing levels and qualifications, and monitoring performance and outcomes in service delivery countrywide. As an MDA, PMO-RALG has a critical role in coordinating the implementation of sector policies by LGAs, the provision of financial resources to LGAs and coordinating LGA monitoring and reporting on service delivery. At the regional level, Regional Administrative Secretariats (RASs) advise and supervise LGAs' service delivery functions. RASs also oversee sector ministry functions at the regional level, including the regulation of quality and standards in health and education. RASs are supported at the district level by the District Administrative Secretariat, which is also part of Central Government oversight of LGAs. LGAs thus operate within an accountability framework that has a significant upward vertical accountability to Central Government.

At the council level, the District Medical Officer (DMO) and District Education Officer (DEO) oversee service delivery in health and education respectively. The DMO is supported in this function by the Council health management team and the respective health facility boards that represent stakeholders. In education, the DEO works closely with Parents Teachers Committees (PTCs) to manage service delivery at facility level. Both the health facility boards and PTCs represent the citizens' voice in service delivery, even though their functions are not yet fully developed.

3.3 Practical experiences with staff allocations to LGAs

LGAs have a very limited role in the recruitment process. They identify their staff needs during the preparation of the annual budget. The PE budget and new staff requirements are submitted to PO-PSM for its approval and the issuance of recruitment permits. The priorities of LGAs are rarely met in full as the staff requirements (based on national norms) generally are significantly above what is affordable or can be supplied by the labour market. However, the mix of staff that LGAs receive does not match local priorities. Kibaha DC reported for instance that it continues to receive arts (secondary school) teachers even when there is an excess of 66, while it continues to face a shortage of science teachers.

Since the mid-2000s teachers and health workers (and lately also agriculture extension staff) are upon completion of their studies assigned by their respective sector ministries to the LGA of their first duty assignment. The candidates have only limited choice in determining their preferred post – they are asked to indicate three preferred regions – and the respective ministry will try to accommodate these priorities. Once the staff report to the LGA, the LGA (the Council Director in close consultation with the relevant head of department) then allocates the staff to specific schools, health facilities or wards/villages within the district. After their initial posting, staff can be transferred within and between districts when vacancies arise due to retirement, death, promotions or the relocation of current staff.

Some LGAs use a strategy of assigning new staff to facilities located in more remote parts of the district, as it can be difficult to encourage staff who start out in central locations to move to further out locations. Other districts offer newcomers to work in locations near the district headquarters and will only send them to more remote areas once they are generally accustomed to the environment. The various practices are to a significant degree the result of the relative bargaining positions of the staff. For health staff (who are generally in high demand and have the potential to seek alternative jobs if unsatisfied with work conditions) it appears that LGA management makes a greater effort to accommodate staff concerns, whereas fresh graduates in primary education (who have fewer alternatives) often are sent directly to more remote locations.

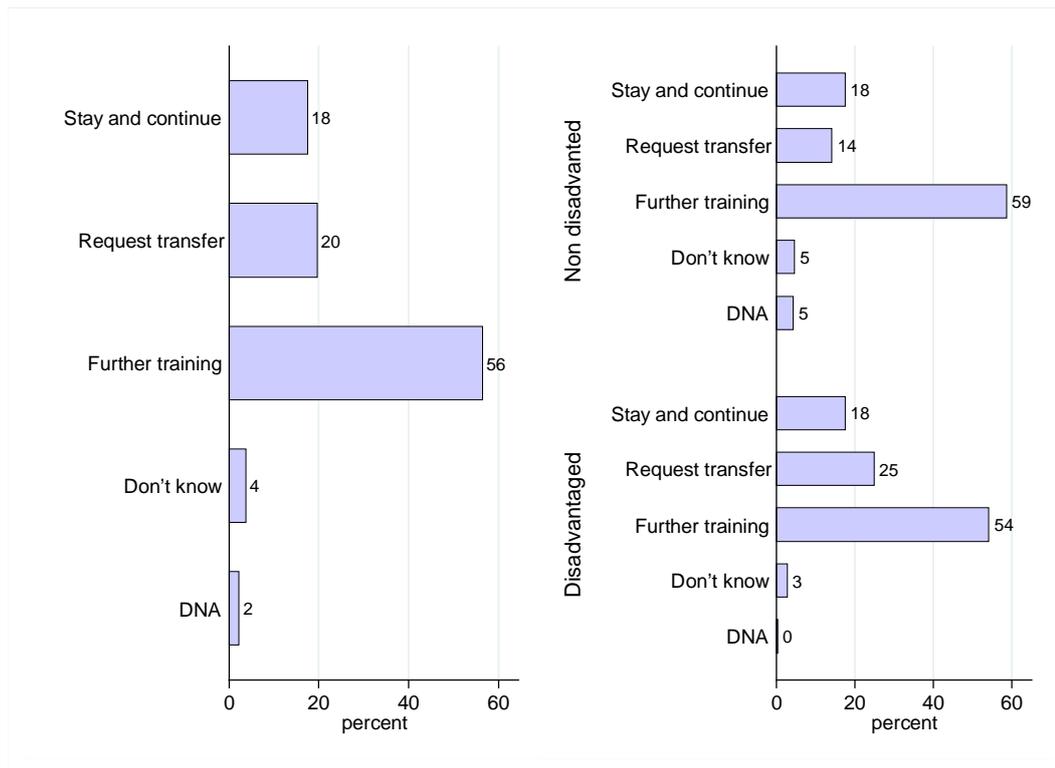
Once staff have been located in a specific district and specific facility, they can apply for more desirable locations. From the staff survey¹⁷ it emerged that 26% of the staff interviewed had been posted to a particular post after making a specific request (for example, with reference to medical grounds or location of spouse). Staff thus have some influence on actual postings even after being centrally deployed by the MDA. The direction of staff allocations after the initial postings is generally to relatively urbanised areas: staff are seeking a posting in areas with relatively good coverage of facilities such as electricity, piped water, quality health facilities and proximity to their spouse. The latter in particular determines the preferred postings of female staff, and it appears that female frontline workers generally have been more successful in obtaining postings in more comfortable urban areas than their male counterparts. The relatively more urbanised and well developed areas of the country continue in this manner to experience a continued in-flow of staff (in particular female staff) in spite of some Government efforts to locate staff to more needy areas. The gender balance of staff (in particular teaching staff) is to a large extent an indication of whether the area is considered HTRS. Thus while female teachers constitute approximately 51% of the total government teacher work force, they constitute more than 80% of the teachers in areas such as the municipalities of Dar es Salaam, Moshi Urban and Kibaha Urban, while in areas considered HTRS, they constitute a minority, for example Sumbawanga DC (33%), Songea Rural (31%) and Kigoma Rural (38%). Within the rural HTRS LGAs the female teachers are furthermore clustered in the relatively well developed areas.

In most of the districts visited, the management noted that the pressure from staff to relocate within or outside the district was significant. Occasionally the management is placed under pressure from politicians (at council level or even from Parliament) to transfer particular staff from one post to another. On the other hand, interviews with the management reveal that political pressure to ensure the equitable distribution of staff is less common and generally expressed as vague policy intentions without strong incentives.

The pressure from staff to relocate or to go for further training is both significant and common. From the questionnaire it emerged that when asked about their future plans, only 18% of respondents (110) stated that they wished to stay and continue within their present post. This was the same across both non-disadvantaged and disadvantaged LGAs (Figure 23).

¹⁷ 625 LGA staff were interviewed in 11 LGAs – see details in Appendix 6.

Figure 23: Future plans



The survey indicated that 25% of the staff in disadvantaged LGAs were planning to request a transfer and a much larger part (54% in disadvantaged LGAs and 59% in non-disadvantaged LGAs) were planning to study further. Further study is generally perceived by staff as an opportunity for not only promotion but also relocation.

3.4 The system for centralised staff allocations is (only) slowly addressing inequities in staff allocation to LGAs

The Government has since 2009 made specific efforts to target the LGAs that have been most disadvantaged in terms of levels of staffing – the so-called HTRS LGAs. This has been managed through its centralised allocations of local level service delivery staff to LGAs.

PO-PSM published a report in 2010 that analysed trends in deployment in 2009 and 2010. This report argued that most of the fresh graduates in the education and health sectors were allocated to the most underserved areas just as the best-served areas did not receive any new teachers through the central allocation mechanism.¹⁸

Government’s efforts to achieve a more equitable allocation of staff have been most successful in the primary education sector.

¹⁸ PO-PSM 2010: ‘Attraction and Retention of Human Resources in the Underserved Areas for Equitable Service Delivery’. Prepared by DPP Mathias Kabunduguru for the annual *GBS Review* December 2010. The report documented staff allocations to the ten most needy LGAs as well as data on the most well served LGAs, although it did not document total deployment patterns.

Table 4: Patterns of teacher allocation (PTR) 2010-13

	2010	2011	2012	2013
PTR national average	51	47	46	43
LGA PTR min	26	24	26	25
LGA PTR max	105	74	61	76
LGA PTR st. deviation	11.9	9.1	7.7	8.5
LGA PTR above 50	68	50	31	37

Source MoEVT (Basic Education Statistics – BEST) 2013

These data on staff allocations differ from earlier patterns where staff deployments to a far lesser degree targeted the most needy areas. Thus the education PETS of 2009 indicated that in 2008, while the planned allocation of graduate teachers for Dar es Salaam was only 182, the number of actual staff deployed was 441. In contrast, the allocation in rural areas was 1,271 but the actual number of staff deployed was only 444.¹⁹ This practice stopped from around 2009 when MoEVT made more concerted efforts to target disadvantaged LGAs.

Table 4 clearly indicates that overall staffing levels now approach the national target of a PTR of 40 and that the inequities gradually diminish from 2010 to 2012.²⁰ However, recent statistics from 2013 suggest that this trend has been reversed and that inequities (the standard deviation from the mean) actually increased in 2013. The reason for this reversal of the otherwise positive trend was the creation of many new LGAs (between 2012 and 2013) which revealed significant inequities within the previous mother LGAs. For instance the overall PTR of Kigoma Rural DC was 54 in 2012 – after the split of the district into the new Kigoma DC and Uvinza DC the PTR of the two LGAs were respectively 41 and 61.²¹ The major inequities within the old Kigoma DC were revealed in the above statistics as the LGA was split. A similar pattern emerged from other LGAs and thus resulted in an overall apparent increase in inequity across LGAs.

The experience from the primary education sector suggests two important lessons: first, it is possible to make a deliberate effort to target the most needy LGAs through central staff allocations and through this reduce inequities; and second, despite these efforts the problems of inequitable staff allocations *within* LGAs persist.

The problems of staff allocation and retention appear to have been more challenging in the health sector. PO-PSM (2010) reported that the health sector in 2009 and 2010 made special efforts to assign staff to underserved areas. However, the same report also illustrated problems with regards to ensuring that staff actually report to their duty station. This was reported as a challenge for all sectors, but was particularly the case for the health staff, where only 55% of staff who were allocated to their (HTRS) LGA actually reported in 2009.²² A subsequent report from MOHSW in 2011 indicated that only 43% of staff posted in the period 2007-2010 actually reported for duty.²³

¹⁹ MoEVT (2009) Education PETS, Table 11.

²⁰ There were no comprehensive data on absenteeism rates to explore whether there is a relationship between absenteeism and the extent to which LGAs are disadvantaged. However, the qualitative interviews revealed high absenteeism rates mainly in rural disadvantaged LGAs due to parents' ambivalence towards the benefits of education, particularly where children are required to work.

²¹ For details see Appendix 5, Table 19.

²² The same report only included selected data on numbers of teachers who actually reported to their duty station, with figures ranging from 85% to 100%.

²³ MOHSW Tanzania Human Resource Project – 17 May 2011 (tracking of posted staff).

Table 5: Many health workers in underserved LGAs do not report for duty

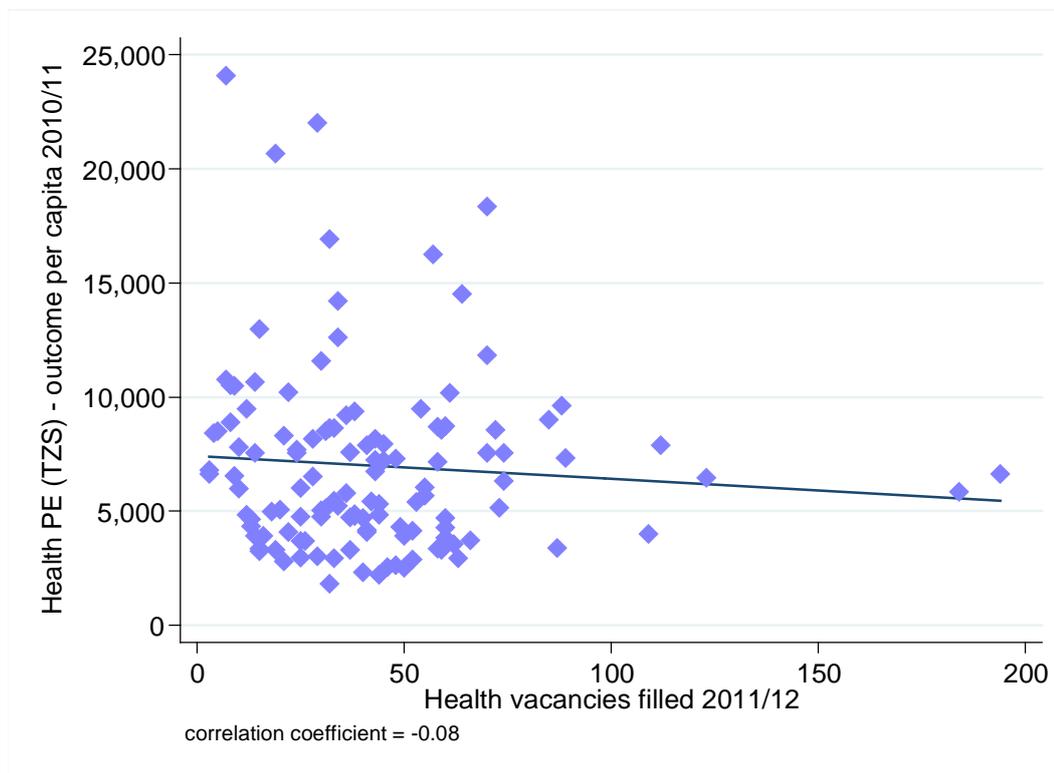
LGA	2009			2010		
	Allocation	Reported	% of the staff reporting	Allocation	Reported	% of the staff reporting
Nkasi	22	19	86	6	0	0
Bahi	18	10	56	22	12	55
Monduli	45	24	53	13	6	46
Kondoa	0	0	0	19	16	84
Bariadi	78	42	54	79	69	87
Chato	49	31	63	25	25	100
Kigoma Rural	19	15	79	0	0	
Tabora Rural/ Uyui	-	0		87	28	32
Ngorongoro	43	14	33	20	8	40
Bukombe	109	55	50	29	26	90
Total	152	210	55%	300	190	63%

Source: MOHSW (2010) quoted in PO-PSM 2010.

Available statistics²⁴ suggest, however, that MOHSW has not only targeted the most needy LGAs: in recent years, staff have continued to be centrally allocated to relatively overstaffed LGAs (in comparison to national averages) such as the municipalities in Dar es Salaam, Kibaha, etc. (see Appendix 5). Figure 24 shows the relationship between health PE per capita and the number of vacancies filled, and illustrates the lack of priority given to health PE in relatively underfunded LGAs.

²⁴ MOHSW: Data on staff postings for 2011/12 and 2010/11.

Figure 24: New health staff are not allocated to the most underfunded LGAs



Source: MoHSW data on staff allocations to MDAs and LGAs for 2011/12.

The reasons for continued Central Government targeting of relatively well staffed LGAs is that these LGAs are staffed below national norms. MOHSW is also concerned about the retention of health workers generally and therefore is cautious about targeting HTRS LGAs, given the risk that staff may look for alternative employment.

The conclusions from the experiences with Central Government staff allocations of health sector staff to relative underserved areas are first, that such measures have to be accompanied with some form of additional incentives to ensure that staff are effectively retained and motivated; and second, that the targeting of underserved areas has to be guided by a clear measure of relative needs rather than absolute staffing norms.

3.5 LGA staff views on deployment, retention and transfers

During fieldwork the team interviewed staff in 11 LGAs about their experiences with and perceptions of staff deployment and transfers. The full report from the survey is included as Appendix 6 and selected results are summarised below.

First, it should be noted that the majority of staff – also in HTRS – generally expressed satisfaction with their posting. Satisfaction levels were found to be higher among respondents *in non-disadvantaged LGAs compared to disadvantaged LGAs*. Only 23% of respondents in disadvantaged LGAs stated that they were not satisfied with their current location / deployment compared to 18% in non-disadvantaged LGAs.

In general staff expressed concerns over the levels of staffing of their facilities – partly because they compare their staffing levels in the LGA with the currently unaffordable fulfilment of national norms, and because they are not fully aware of the situation in other LGAs. Even in LGAs that are substantially better staffed than others, 35% of respondents believe that staffing levels in their districts are worse compared to other districts in the country. It should also be noted that staff in schools that are better staffed than the national norm (a PTR of 40) complain about staff shortages caused by the temporary absence of teachers due to illness and studies; and even

teachers in well-staffed schools tend to complain about staffing levels. This can be interpreted as a lack of general awareness among public servants in LGAs of the significant levels of staff inequity across and within LGAs.

3.5.1 Willingness to relocate

When asked about their willingness to relocate to a more remote location:

- 56% of respondents stated that they *would prefer NOT to be posted to another location*, while 5% stated they would resign if asked to relocate to another region, implying that 61% of respondents would resist or only reluctantly accept a transfer to a more remote location.
- 30% of respondents stated that they would relocate to a more remote region if they were asked to do it, while just 3% stated that they *would very much appreciate it if they were relocated to another place*. 7% of respondents did not answer any of the questions related to willingness to relocate.

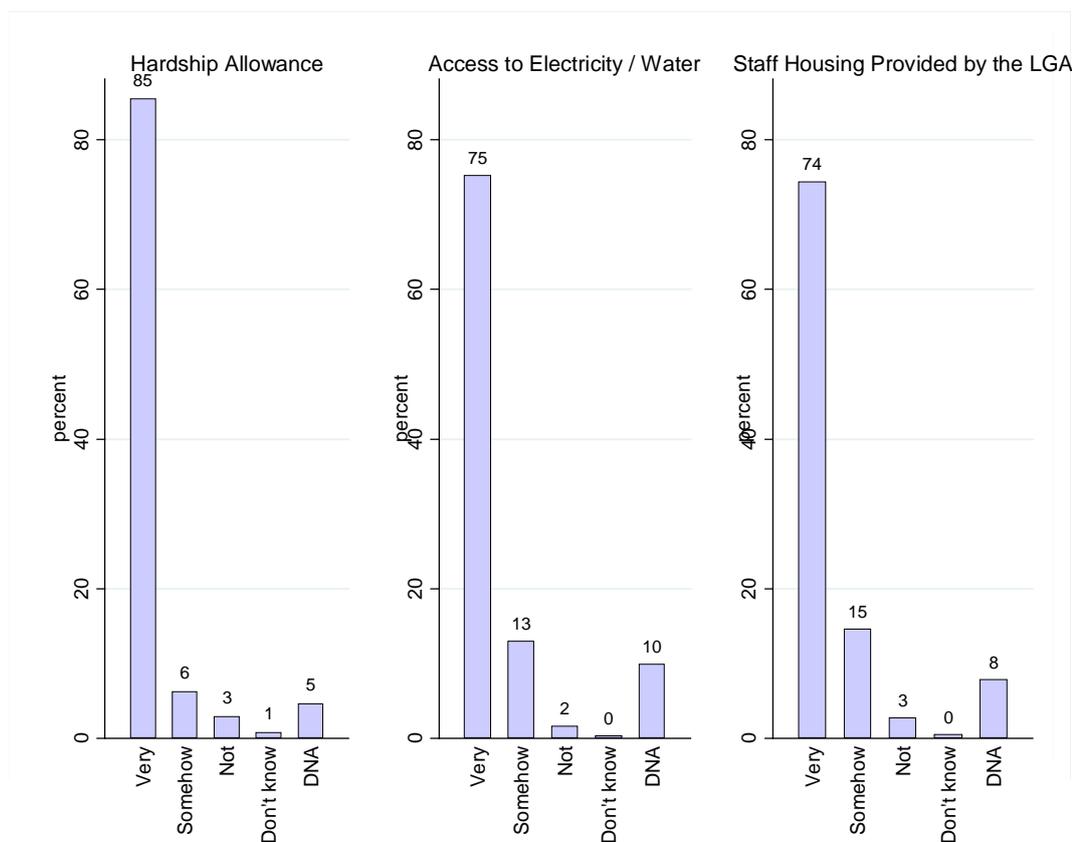
Although only 5% specifically indicated that they would resign if asked to relocate, the overall conclusion from the survey is that most staff would resist or only reluctantly accept a transfer to another more remote location. It is therefore crucial that relocations to HTRS areas are accompanied with relevant types of incentives.

3.5.2 Factors affecting satisfaction

When asked about factors that would positively influence their satisfaction with their deployment to a new and more remote location, according to a scale of importance:

- The three highest rated factors were hardship allowances, access to electricity and water, and staff housing.
- 85% of respondents stated that a hardship allowance would be a very important influence on their job satisfaction, with a further 6% stating it would be somehow important.
- 75% of respondents stated that access to electricity and water would be a very important influence on their job satisfaction with a further 13% stating it would be somehow important.

Figure 25: Factors affecting satisfaction with location / deployment



Supervision and support from the employer, proximity to their spouse, support from the community and the quality of the facility were also all deemed very important influences on job satisfaction by over 60% of respondents (see details in Appendix 6).

Factors rated as very important by less than 60% of respondents were availability of land and housing (60%), the commuting distance to work (51%), transport provided by the LGA (51%), other income opportunities (49%), a desire to develop the area (47%) and the social environment (41%).

3.6 Experiences to date with local schemes for staff motivation and retention

Only a few of the LGAs visited had any elaborate scheme for staff motivation and retention. In general the LGAs argued that they had inadequate funding for any type of incentive schemes, but that they tried to:

- ensure general staff motivation by paying statutory allowances in time and to generally treat staff in accordance with the regulations
- mobilise resources for staff houses – but there are often very few compared to total needs and generally without any particular targeting of the most needy areas and without any realistic arrangement for maintenance of staff houses, thus leading to their rapid decline
- provide staff with access to loans (but not specifically targeting the most critical staff categories).

The two most elaborate arrangements of local incentive schemes identified during fieldwork in the 11 LGAs included an attempt to establish a regionally managed fund (in Rukwa DC) and a LGA council-endorsed scheme (in Kigoma DC).

In Rukwa RC a regional fund was established based on an initiative by the Regional Commissioner in 2000. The Fund (*Mfuko Wa Mwalimu Nyerere wa Kuboresha Mazingira ya watumoshi Mkoa wa Rukwa*) worked for some time on fund mobilisation and effectively took off in 2006. The fund is managed by a three-person secretariat and reports to a board composed of representatives from the RCs (Rukwa RC and now also Katavi RC) and LGAs. After initial fund-raising (of approximately TZS 1.2 billion, it was expected that the scheme would become sustainable through annual contributions from each of the LGAs (TZS 30 million per annum) and households (1,000 per annum). However, these resources are not forthcoming as the fund has management problems and as the participating LGAs feel that they have fund shortages and also are in a better position to manage the funds than the regional structure.

The fund has had success with some initiatives:

- Staff houses were provided to medical staff to ensure that they were motivated to report and stay in post. In addition the staff have been provided with salary advances and furniture.
- Contracts were entered into with nurses (at St Bakhita Health Institute) whereby the fund paid their fees in return for their commitment to work in the region (the 11 students supported to date are gradually repaying their loan, while a total of 18 students are currently studying at the institute).
- 402 secondary school teachers have been supported with various incentives to ensure their willingness to report and stay in the region (upon reporting: TZS 1 million is paid to science teachers and TZS 0.7 million is paid to others).

The scheme has primarily focused on the retention of secondary education teachers and health workers. Interestingly, however, it can be noted that the LGAs (for example, Sumbawanga DC) in the same period have been extremely successful in improving the PTR in primary education. This points to the importance of other mechanisms such as consistent Central Government focus on deployment of staff and some local non-monetary efforts by Sumbawanga DC to retain teachers (probably also combined with the fact that the supply of teachers overall increased significantly, that staff salaries for teachers had improved and that teachers had limited alternative jobs).

In Kigoma DC, the full council has endorsed a scheme that is targeting its health staff:

A: for new employees:

- a bed and mattress (TZS 200,000)
- a house or rent allowance (TZS 240,000 annually – calculated at TZS 20,000 per month due to the rural setting)
- cash payment to assist with settlement (TZS 400,000)
- allocated to reachable facilities (those who accept being posted to the most difficult areas on arrival receive a motivation payment of TZS 400,000).

B: for all employees stationed along the Lake Tanganyika shore (most difficult areas):

- eligible for assistance of 100% pay of secondary education costs to up to two children per family/employee for government schools and 50% of the fees and examination costs for private schools
- a two-monthly free trip by boat from their facilities to town for their personal/family needs including salaries.

C: All facility in-charges:

- monthly airtime of TZS 10,000 to facilitate reporting and communication.

Funding source is OC for group A and B while Group C is basket funding.

In addition to the above, the LGA has ensured external funding for staff houses and improved facilities. These have all contributed to significant improvements of health service delivery in the most remote wards (that are located in the Lake Zone without any all-weather road connections to district headquarters and with limited or no mobile phone coverage). The reported improvements from Kigoma include decrease of maternal

mortality and increased vaccination coverage.²⁵

In addition to the various fiscal incentives, Kigoma DC has also initiated a number of other measures to ensure that new staff are welcomed and settled in an appropriate way in the LGA. This includes welcome arrangements by the communities as well as by the senior management of the LGA: the Director will often personally escort new staff to their new postings to ensure that they are comfortable and that they understand the importance that the LGA attaches to their posting.



The District Executive Director (Mrs Miriam P. Mbagi) escorts new staff to a remote posting in the Lake Zone (Photo courtesy of Kigoma DMO.) This is an example of good practice, whereby the management of the LGA takes responsibility for deployment of staff to the most remote and under-served parts of the LGA in a manner that motivates staff to take up the challenges. In other LGAs, staff that are posted to remote locations will often perceive this as a punishment and their posting will be administered without the personal involvement of the management.

The conclusions that emerge from comparisons of the experiences from the 11 LGAs' use of local incentive schemes are:²⁶

- Most LGAs have not yet developed any deliberate or comprehensive strategies for staff retention and motivation.
- A well-targeted incentive schemes (as in Kigoma DC) can make a substantial difference and successfully target areas within the LGA that are considered HTRS, with corresponding improvements in local service delivery: in Kigoma the retention rate of staff increased overall in the health sector, facilities in the more peripheral parts of the LGAs (the lake zone) were staffed, and the corresponding delivery of services drastically improved.

²⁵ See Appendix 8: Presentation by Dr Kilimba (DMO Kigoma): 'Attracting, Retaining and Improving Productivity for Human Resource in Kigoma DC' – for the Workshop 'LGA fiscal inequities and hard to reach areas' (26 March , 2014).

²⁶ See also presentation of experiences from Kigoma in Appendix 8.

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- The sustainability of the schemes depends on several factors, including the institutional complexity (the scheme in Kigoma DC operates under a much clearer legal and institutional framework than the regional scheme).
 - Staff retention and motivation are not only driven by financial incentives: the attitude of management and communities in the form of moral support, appreciation and follow-up also make a significant impact.
 - The financial viability of the scheme depends in part on local resource mobilisation and local support (as reflected for example in full LGA council endorsement of the scheme in Kigoma). But it will also require some additional external funding because the underserved areas by definition are receiving fewer fiscal allocations than average LGAs. In Kigoma DC it was only possible to introduce the scheme in the health sector because the health sector has relatively better levels of OC funding than the education and agriculture sectors, for example.

3.7 Conclusions

Fiscal inequities are driven by PE allocations and these are in turn determined by staff allocation patterns. The procedures for allocation of staff to LGAs are highly centralised, which in theory provides Central Government with an opportunity to allocate staff to the most needy areas. However, in practice it has proved difficult to ensure a more equitable level of staffing across and within LGAs through this mechanism for three main reasons: first, Central Government allocation of staff to LGAs has not systematically targeted the most needy LGAs except where the national staffing norms are met (as for primary education); second, even when Central Government posts staff to disadvantaged LGAs then it is for many staff categories difficult to ensure that they effectively report on duty and are retained by the LGA; and third, the problems related to inequities of staff allocation within LGAs are not addressed through this mechanism.

Once deployed to LGAs, staff are allocated *within* LGAs by the local management to respective schools, health facilities, wards and villages. The LGA management is faced with the dual challenges of allocation of staff to areas where the need for services is greatest, while at the same time having to ensure that staff are attracted, retained and motivated to work in such areas that are perceived as HTRS. Local staff can exercise significant pressure on management to be transferred to relatively urban and favourable locations away from areas that are rural, remote, with few services and less receptive communities. At present, LGA management have few tools at their disposal to encourage staff to work in more remote areas, however it is recognised that a package of various incentives can ensure that staff report to remote locations and continue to work effectively there. However, at present few LGAs have developed such local schemes for retention and motivation of staff: mainly because of the costs involved and partly because of inadequate management attention to the problems and potential solutions.

4 Consequences of fiscal inequity

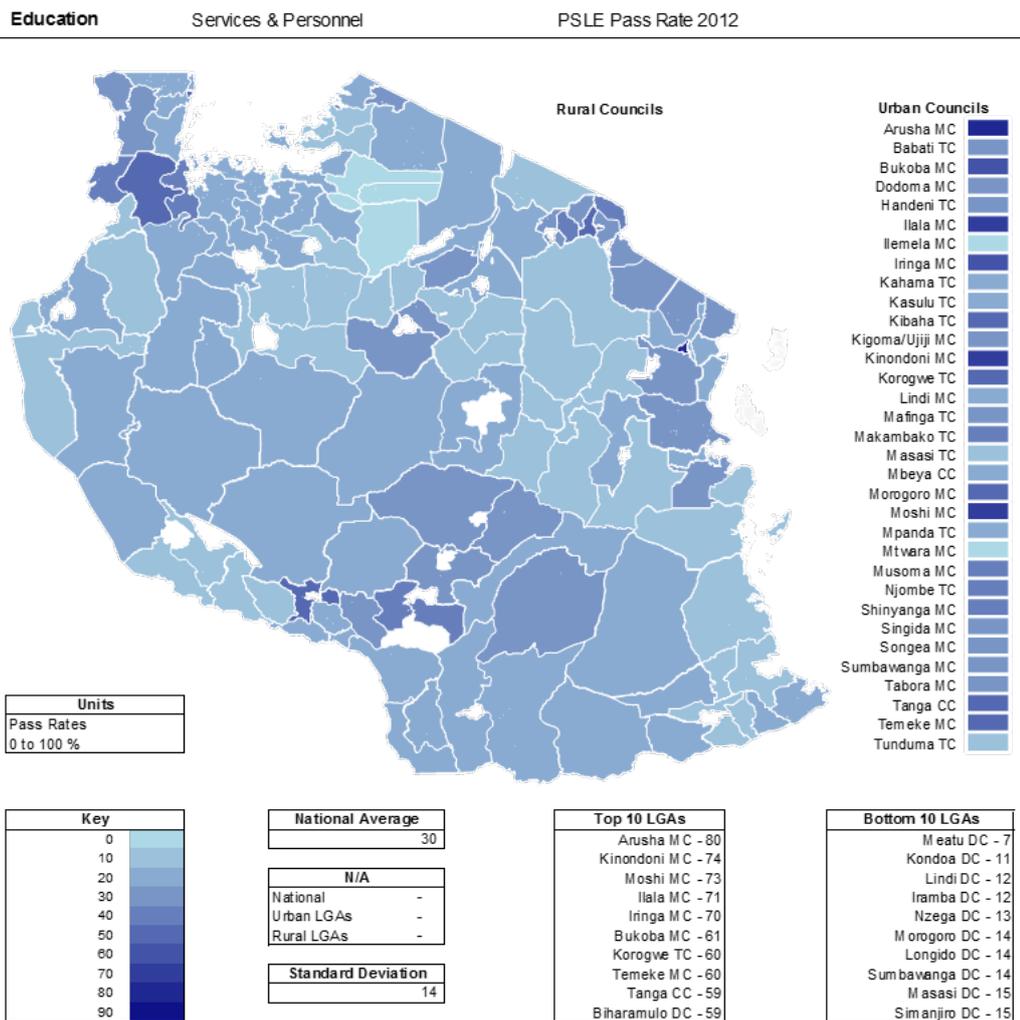
4.1 Introduction

This chapter explores the consequences of fiscal inequities and inequities of staff allocation. The following key issues are explored: the extent to which disparities of resource allocation across and within LGAs lead to similar disparities in service delivery outcome; and the extent to which the current patterns of resource allocation (across and within LGAs) are leading to inefficiencies in service delivery.

4.2 Disparities and inefficiencies in service delivery outcomes across LGAs

The very uneven allocation of fiscal and staff resources leads not surprisingly to similar disparities in service delivery outcomes. The following map illustrates the disparities in average pass rates across the country (Figure 26, PSLE 2012).

Figure 26: Disparities in average pass rates across the country



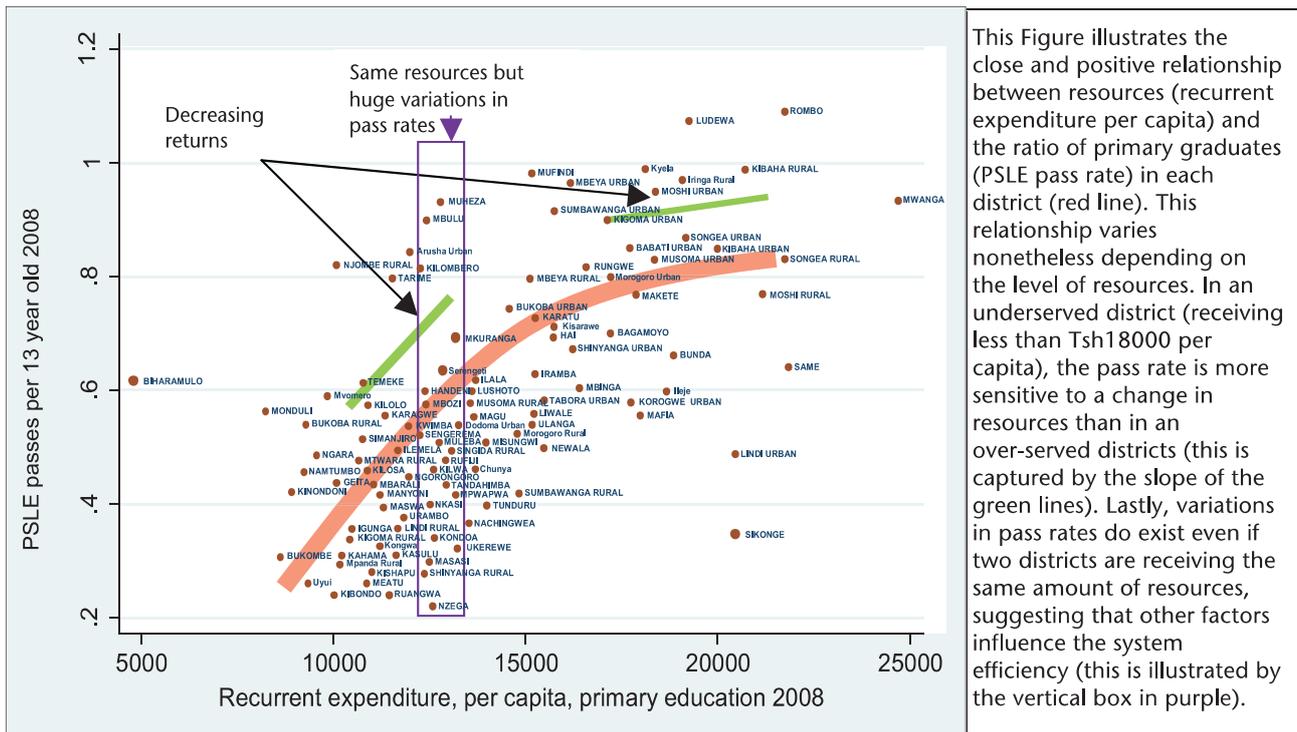
These disparities not only imply unfair access to services. The 2010 and 2011 PERs provided important evidence of how disparities in resource allocation can contribute to **inefficiency**.

The 2010 PER²⁷ was undertaken with a particular emphasis on the **education** sector and found very significant variation in district efficiencies (measured as public expenditures per PSLE pass). One of the key findings from the study was that ‘there is strong evidence that shifting incremental resources to the worst served areas is likely to improve efficiency rather than reduce it’.²⁸

²⁷ United Republic of Tanzania (2011) Public Expenditure Review 2010, World Bank, prepared by the members of the macro group of the Tanzania PER Working Group.

²⁸ Ibid page 61.

Figure 27: PSLE pass rates and resource allocation across LGAs



Source: Figure from World Bank (2012) Tanzania Economic Update (Stairways to Heaven), page 20.

The World Bank 2012²⁹ concluded that geographical re-allocations of staff and PE transfers could lead to TZS 240 billion in efficiency savings: ‘Take first the group of 20 underserved districts, where mean expenditure per 7-13 year old was TZS 82450 and the average pass rate was 53% in primary school leavers’ exams in 2008/9. Then, compare this group with the sample of 20 relatively over served districts with average spending at TZS 146000 and pass rates at 80%. If resources, say TZS 10 billion, are re-allocated from the second to the first group, the net increase of passers will be as much as 3827 or over 200% gains for those 40 districts. This net increase accounts for the gain of 5606 in underserved districts and the loss of 1779 in over served ones. For larger sums the amount of gain would diminish but efficiency savings of around TZS 240bn per annum might be possible just from geographical re-allocation’.

Another PER study was undertaken with a particular emphasis on the **health** sector. The report noted with concern several service delivery efficiency issues that all are related to the system of resource allocations across LGAs (2011 PER, pages 70-76):

- *Correlation between resource allocation and service delivery is quite weak.* Even in a regression analysis including other socioeconomic variables (poverty and education), expenditures explained only approximately 16% of variation in outpatient diagnoses and 34% of the variation in the share of births in facilities.
- *There is evidence of decreasing returns to scale.* Spending per capita is 3.5 times greater in the top 30 districts than in the bottom 30. Outpatient visits and the share of births in facilities are only 50% greater. Therefore, we would expect extra resources to have far more impact in the bottom 30 districts than in the top 30.

Various studies have over the years documented a wide discrepancy in the use of health facilities nationwide. In 2008/09, the National Audit Office found that 20% of the facilities handled almost half the outpatient visits,

²⁹ Ibid page 21.

whereas the least productive 20% handled only 7%. The Service Delivery Indicators Survey corroborated this result for a sample of 146 dispensaries: 10% of the facilities delivered half the outpatient visits, while the 39% lowest output dispensaries managed only 5% of the outpatient visits. This is a serious value-for-money issue, because many health facilities have been underused while they have continued to receive significant resources. This explains much of the variation in their performance and the differential performance of LGAs in terms of efficiency. The same mismatch is also visible in the use of health workers across facilities and districts. The results from the survey indicated that in 18 dispensaries, just 13% of the workers performed over half of the outpatient consultations. In contrast, the bottom 40% of the dispensaries (with the fewest staff) managed just 5% of the outpatient visits — which is to say that they were virtually unused. Therefore staffing levels (proxied by PE per capita) are not aligned with staffing requirements, as measured by both deliveries per district and outpatient visits.

Our study confirmed the main findings from the previous PER analyses: the relationship between resource allocation and service delivery outcomes remains generally weak, but the return on additional resource allocation to the least funded LGAs is higher than additional funding for relatively well funded LGAs (see Figure 28 and Figure 29 and Appendix 4 for detail).

Figure 28: Primary school pass rate is weakly correlated with PE per capita

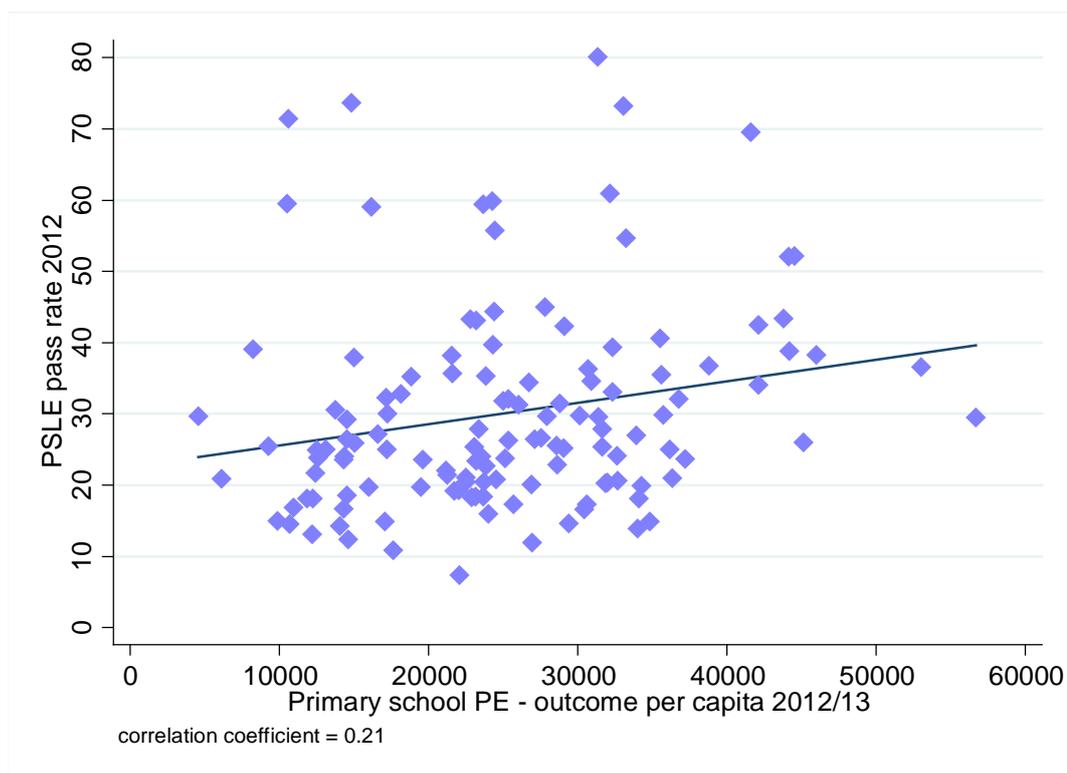


Figure 29: Secondary school pass rate is weakly correlated with PE spending per capita

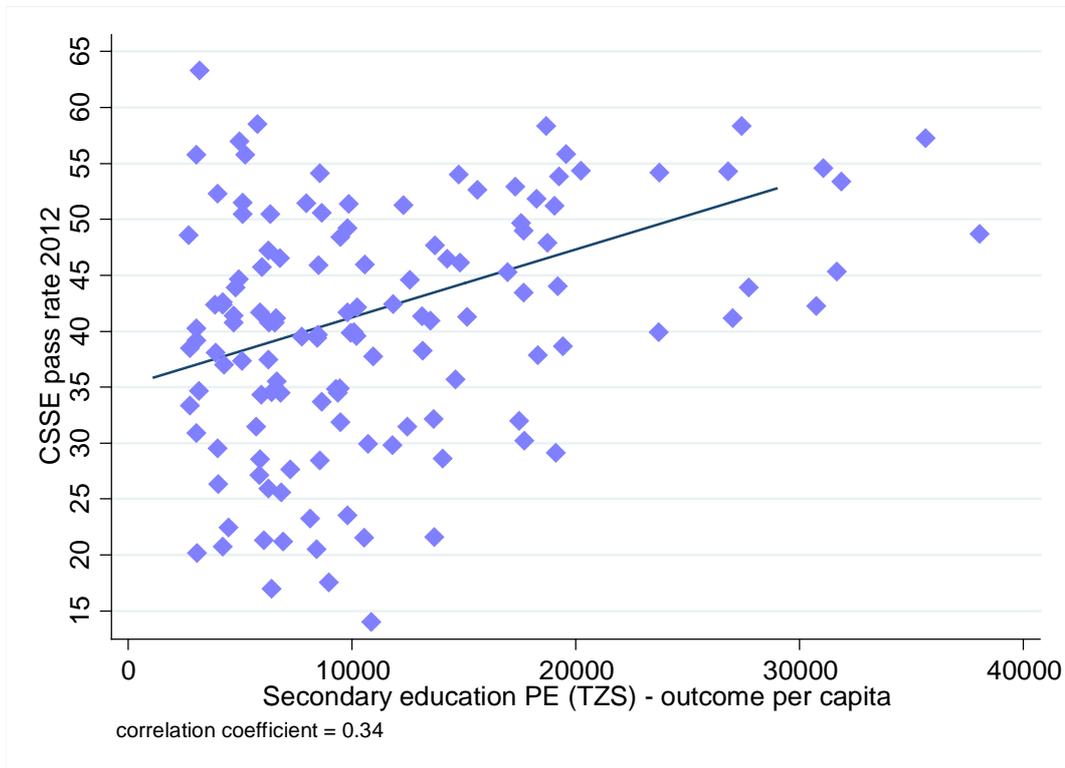
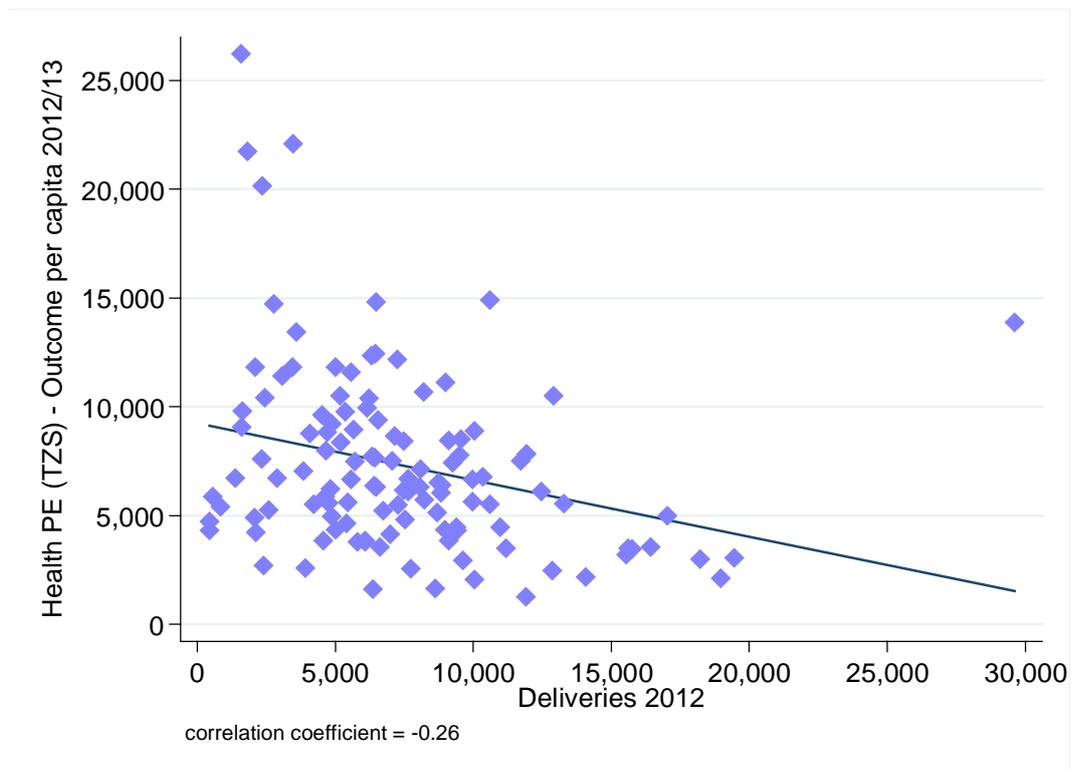


Figure 30: Health PE per capita is weakly negatively correlated with deliveries

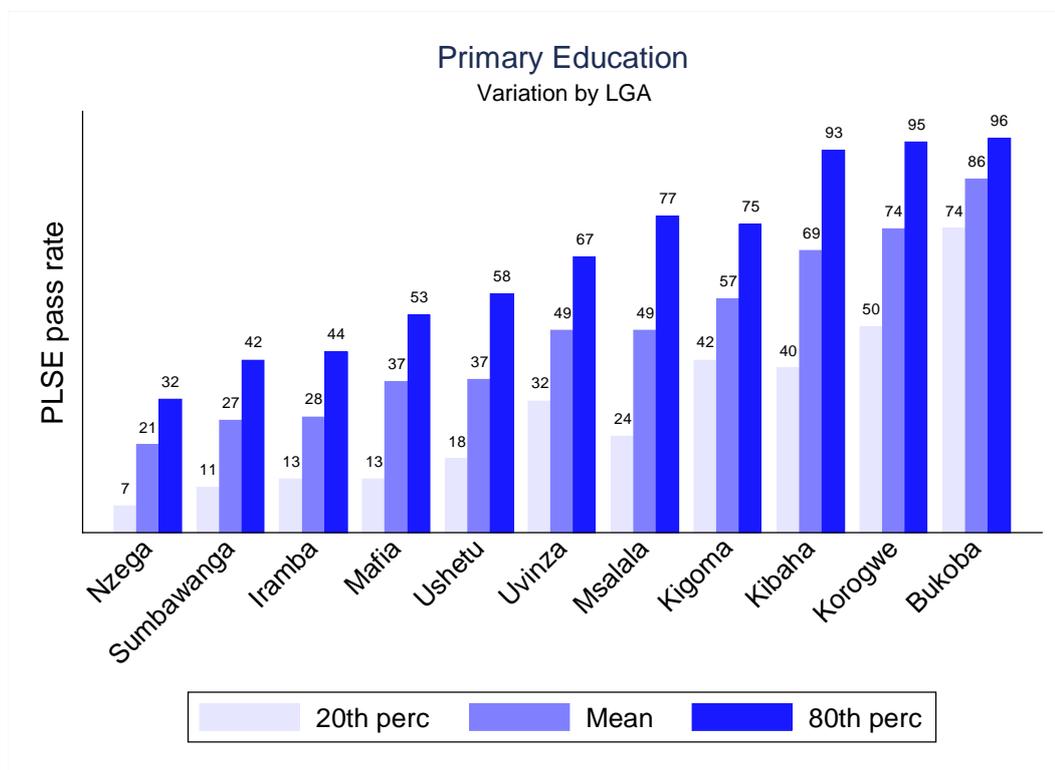


4.3 Disparities in service delivery levels within LGAs

Section 2.4 of this report documented the substantial internal disparities of resource allocation within LGAs: each LGA would have some wards and villages where staff levels were substantially below that of the centre of the LGA; in particular with huge variation of PTR in primary education, but also with marked variation in other sectors. The analysis in section 2.4 concluded that the interval variation within HTRS LGAs was more substantial than the variation within LGAs that are staffed above average.

Our study also indicated that huge *internal LGA* variation of facility level resource allocations leads to very substantial variation in service delivery outcomes (details in Appendix 4). The data indicated below are self-reported LGA data on staffing levels and service outcomes.³⁰

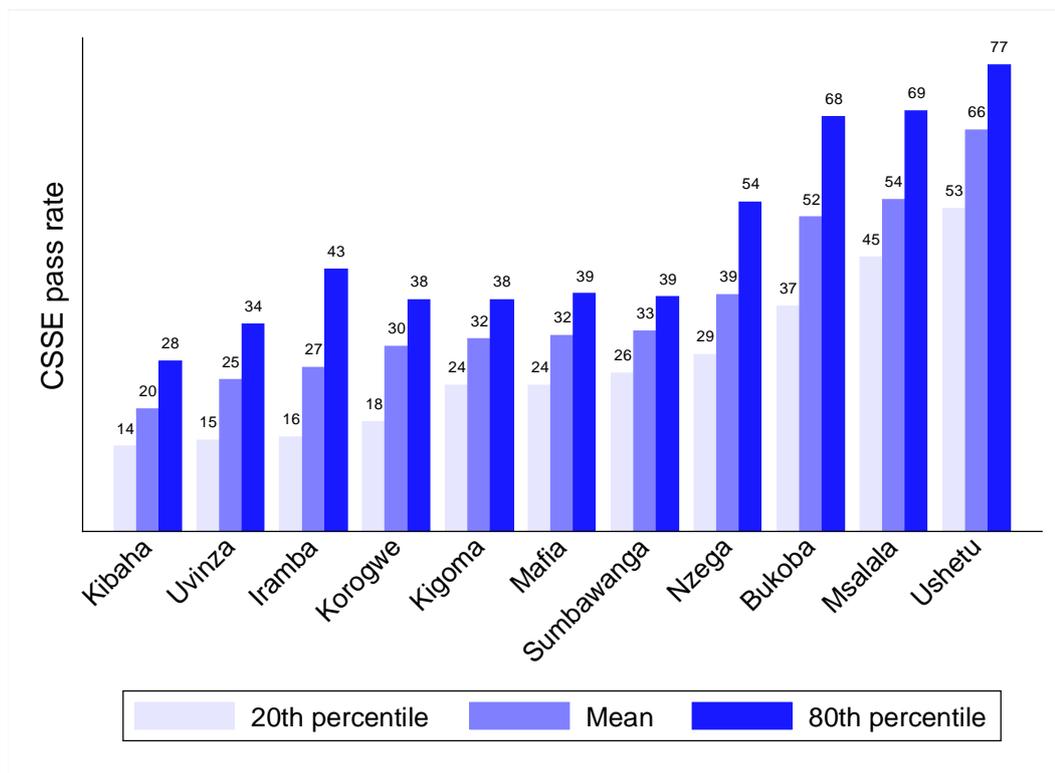
Figure 31: Variation in primary school PSLE pass rates across surveyed LGAs



Source: LGAs data from fieldwork in 11 LGAs.

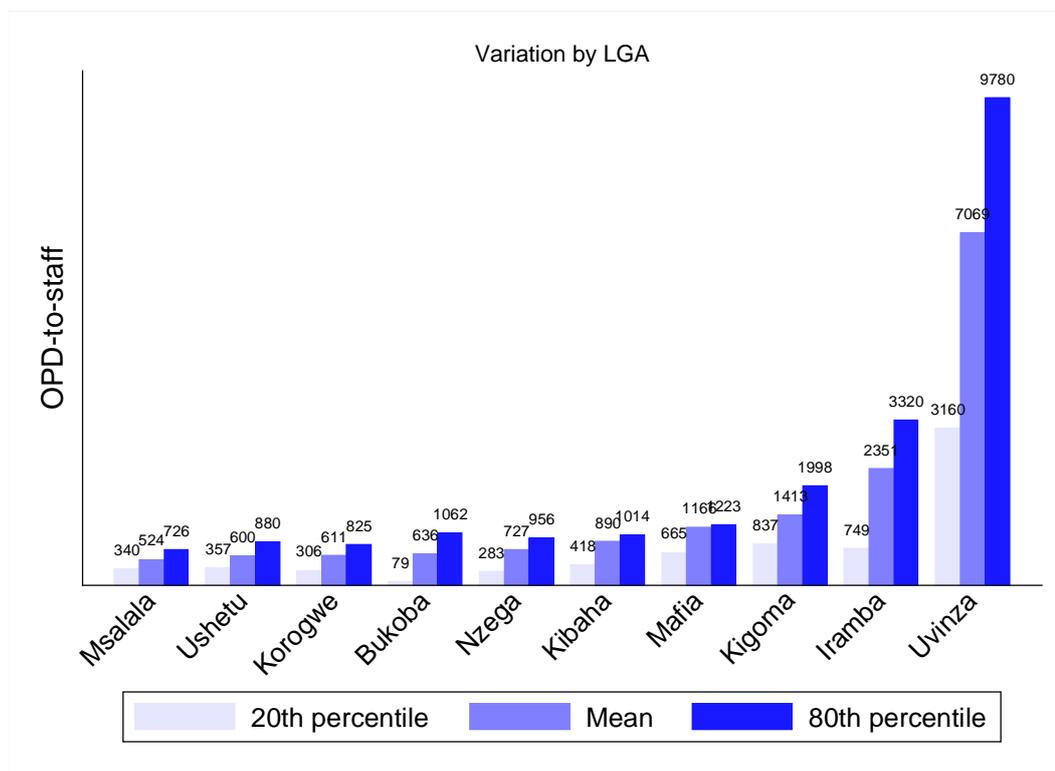
³⁰ Data were collected from each LGA by the respective Heads of Departments and data collection was generally coordinated in each LGA by the HRO and Planning Officer. LGAs filled in a questionnaire that was distributed by PMO-RALG in advance of the fieldwork. During fieldwork, the consultant team assisted the LGAs to complete the data collection. Some of the data on staffing levels in various facilities could be cross-verified in the field for those 117 facilities visited by the team, just as some (but not all) service delivery data could be verified with nationally available data from NECTA etc.

Figure 32: Variation in secondary school CSSE pass rates across surveyed LGAs



Source: LGAs data from fieldwork in 11 LGAs.

Figure 33: Variation in staff-to-outpatient ratios across surveyed LGAs



Source: LGAs data from fieldwork in 11 LGAs.

For primary education outcomes, it can be noted that there are pronounced differences in outcomes for primary school pass rates across and within LGAs. The survey data indicate that pass rates on average are highest in the sample of relatively well resourced LGAs (Bukoba MC, Kibaha DC and Korogwe DC) with the exception of Mafia DC. The variation within each LGA is substantial for both non-disadvantaged and disadvantaged LGAs, but generally most marked in disadvantaged LGAs.

For secondary education it can be noted that pass rates for some of the disadvantaged LGAs are better than for some of the relatively well funded LGAs – in particular the well-funded Kibaha DC perform relatively poorly with regards to secondary education pass rates. It can be noted that it is in particular the well-funded LGAs (Korogwe DC, Kibaha DC and Bukoba DC) that display significant variation in pass rates.

For the health sector it is difficult to measure service delivery directly, but a measure of the relative use of the health facility is the number of outpatients per year per staff member. The most pronounced disparities in the number of outpatients visiting clinics were found in Uvinza DC, Bukoba MC and Korogwe DC. In Uvinza the case was most extreme, with the busiest dispensary seeing 43,800 outpatients per annum while the least busy dispensary sees just 1,250 per annum. However, disparities in the level of staffing to outpatient were not found to be overly pronounced in the more advantaged LGAs such as Bukoba MC and Korogwe DC, compared to other districts suggesting a more efficient allocation of staff.

Conversely, in the case of Uvinza DC, at the busiest facility each staff member sees 21,900 outpatients per annum, while at the least busy facility one staff member sees just 717 outpatients per annum. A similarly wide disparity was observed in the case of Iramba DC, where at the busiest facility each staff member sees 11,144 outpatients per annum while at the least busy facility one staff member sees just 100 outpatients per annum.

With the exception of Uvinza DC and Iramba DC, the disparities in the ratio of staff to outpatients does not appear specific to disadvantaged LGAs.

4.4 Some LGA level staff management practices lead to inefficiency

Staff productivity is not equally high in all facilities and all LGAs – but at the same time there are indications of generally low levels of effective workload, low productivity and efficiency when compared to other countries.

The data (quoted above and in section 2.4) on differences in PTR and health staff by patients, clearly indicate that some staff work substantially more than others, while some staff appear to be clearly underutilised.

Previous studies on primary school teachers have concluded that ‘on average Tanzanian teachers spend only sixteen hours of their time each week in classroom teaching, compared with an average of 26.3 hours for teachers in sub-Saharan countries..... This teaching load is the lowest among the 16 countries surveyed in the Sub-Saharan countries, which ranges from 30 hours (in Burkina Faso, Cote d’Ivoire, Guinea and Mauritania) to 16 in Tanzania.’³¹.

From the fieldwork it appeared that teachers sometimes taught much less than what one would expect from a certain PTR. For instance in Morogoro DC the team found that, even though the overall PTR in some visited schools was 1 teacher for 40 students, then because of limited numbers of classrooms one single teacher would teach 100 students at a time, while other teachers were resting or undertaking activities other than classroom teaching.

More disturbingly, the team found that many secondary schools were overwhelmingly staffed with arts teachers who only were assigned teaching in two subjects, with the result that many secondary school teachers de facto only were assigned five hours of classroom teaching per week. The effective cost of one hour of classroom teaching can in this manner reach close to TZS 40,000.

On the other hand it was evident that the productivity of *contract hired* teachers (either secondary teachers from neighbouring schools or Form VI leavers) is many times above the average of secondary teachers. There are of

³¹Suleiman, S. (no year) *The Living and Working Conditions of Teachers in Tanzania: A research report from HakiElimu.*

course several problems associated with the arrangement of contract teaching. For example, Form VI leavers are not trained as teachers and contract hiring of teachers from neighbouring schools cannot substitute fully for any full-time and permanent teacher in terms of pupil interaction and relationships. However, the services delivered by these teachers at an average pay of TZS 75,000 – 150,000 per month are impressive: in some LGAs the DEO claimed that results in science were as good as in arts, in spite of such limited teachers' inputs³². It is notable that whereas the teachers' salaries are paid through earmarked fiscal transfers from Central Government, then the LGAs and individual schools have themselves to mobilise funds for the contract hiring of teachers (from parents' contributions and the capitation grant).

A time and motion study conducted in 2006 on a sample of 158 health workers from two districts reported that only 60% of the working time was spent on productive activities. Of this, only 40% was spent on direct patient care, while the rest was on other productive work. The main conclusion from this study was that even though the country faces a shortage of health workers, where they are available, they are not fully utilised³³. More importantly, the statistics from the fieldwork on outpatients by health worker (above section) indicate enormous significant variation in workload and productivity across and within LGAs.

LGA management is generally aware of the wide variation in workload and productivity. However, it is not measured systematically and there seem to be no minimum requirements, for example, teaching inputs per teacher or other measures of productivity.

During the LGA planning process, the service delivery targets are to a large extent defined through inputs. For example, LGAs strive to ensure equal levels of staffing by facility (and indeed the official Government norms focus on such measurements) but in planning service delivery, these inputs are not systematically related to outputs and outcomes in a manner than could ensure the more efficient use of (staff) resources.

4.5 Conclusion

The main conclusion arising from this chapter is that the existing inequities of resource allocation across and within LGAs lead to very significant inefficiencies. In addition it is unfair since citizens in different parts of the country are offered different levels of service delivery. This is an important conclusion as the Government strives to achieve Big Results Now within a constrained fiscal framework. This study clearly confirms earlier analysis with regards to inefficiencies in resource allocation across LGAs and at the same time concludes that similar observations can be extended to resource allocation patterns *within* LGAs. Fieldwork and desk research indicated that the effective utilisation of staff resources in general is low and in some cases extremely low. A key conclusion emerging from the analysis is that better management of staff inputs (both in terms of allocation across LGAs as well as internally within LGAs and at each facility) could lead to significant improvements in service delivery and cost efficiency gains. The evidence of patterns of inequities across and within LGAs is very strong. The attempts at correlating resource allocations with service delivery outcomes are more challenging, but there is strong evidence that the current allocation patterns across LGAs lead to sub-optimal outcomes: a better distribution of resources – in particular staff – across facilities could, with the same overall investment in PE, lead to substantive service delivery improvements.

³² Interview with Secondary Education DEO Kigoma – later confirmed by selected schools in Kigoma DC.

³³ Leon et al., 2006 quoted in O. Maestad, O. and Mwisongo, A. 'Productivity of Health Workers: The case of Tanzania', in *Human Resources*.

5 Conclusions and recommendations

5.1 Summary conclusions

LGA financing in Tanzania has evolved significantly over the last decade. First, total LGA budgets have increased significantly. In the current fiscal year the total LGA budget constitutes almost 29% of the total Government budget. Some reforms have taken place to enhance transparency and equality in the financing of LGA services: notably the introduction of formula-based development grants (the LGDG system) from 2004/05 as well as a partially implemented system of formula-based allocations of OC. However, the bulk of LGA budgets comprise sector (recurrent) block grants that are mainly earmarked payments for salaries for public servants allocated by the Central Government. The Government has launched a number of studies to investigate improving the system of LGA financing: in addition to this study there is also a study mapping the transfer of funds to LGAs (2013)³⁴ and a study on formula-based allocations. The three studies are intended to complement each other.

A major concern with recent trends in fiscal transfers to LGAs that is not explicitly addressed by any of the ongoing studies is the very substantive decrease of OC funding that has taken place in recent years (discussed in Chapter 2). Funding in the education sector is particularly biased towards PE with only around 10% of total funding allocated to OC. Health sector budgets are more balanced when the basket fund is included with an approximate ratio of PE to OC of 2:1. Allocations for OC to agriculture and other sectors have also declined, having an impact on the ability of LGAs to supervise and manage their staff. For example, schools are rarely visited, LGAs have hardly any funds to arrange for the transfer of teachers to the schools with the greatest shortages, and agriculture staff are not supervised and not provided with any funding for transport.

This study has documented the very uneven allocation patterns of fiscal resources across LGAs that are primarily driven by unequal allocations of salary expenditures (PE) as a result of the very inequitable allocation of staff. While there has been some progress in improvement of Central Government staff allocations to HTRS LGAs, patterns of inequity have persisted across LGAs, with some LGAs still being overstaffed relative to others.

There are also significant inequities and inequalities in resource allocations *within* LGAs, in particular within the HTRS LGAs.

The trend of declining OC allocations in LGAs limits and reduces the more effective use of existing staff resources. Furthermore, the low utilisation levels of some staff categories and inefficiencies in the use of staff resources is compounded by the declining rate of return to staffing in relatively well-staffed areas compared to investment in staff in HTRS areas.

The system of recurrent fund resource allocations has, in summary, been persistently unequal, inequitable and inefficient, with a negative impact on both access and quality of service delivery in Tanzania. The initiatives undertaken to date have had some limited impact but have not been sufficient to address the problems. Nevertheless, there is evidence that some strategies can work: for primary education the Government has demonstrated that it is possible to target relatively poorly staffed LGAs and in this manner decrease inequities, just as some local level initiatives (such as the Kigoma incentive scheme) have demonstrated that local incentive

³⁴ Ministry of Finance 2013: *Study on Mapping of Transfer of Funds to Local Government Authorities (LGAs)* Draft Report, July 2013. Prepared and submitted by Tanscott Associates Limited.

strategies can improve local retention and motivation of frontline workers. However, such strategies require substantial improvements and dedicated support in order to address the challenges effectively.

5.2 Overview of proposed strategies

Various reports have previously suggested potential strategies for addressing the persistent patterns of disparity in resource allocations. A recent report from the World Bank³⁵ clustered potential solutions as:

1. Supply side solutions, including:
 - measures to ensure equity in establishment and resource allocation
 - changes in scheme of service and changes in HRM
 - localising recruitment and training
 - cash and non-cash incentives including performance enhancement measures.
2. Demand side and accountability solutions:
 - internal accountability: inspection and compliance
 - external accountability: increasing transparency.
3. Market-based approaches.

These are all deemed relevant, but at the same time it is also clear that some of these solutions are more appropriate to the current situation in Tanzania than others. Some potential solutions are only practically implementable in the long term. For instance, in the long term it may be possible to provide LGAs more autonomy in the management of their staff. If LGAs were given the full autonomy to hire and fire and to manage their own establishment budget, then it would be possible for Central Government to ensure equity through the budget process by allocation of PE resources according to an agreed formula that reflects local service delivery needs and costs. Currently it is considered premature in Tanzania to embark on reforms that would grant each LGA the autonomy to hire and fire staff and control the staff establishment within the overall (formula-based) fiscal ceiling. Nevertheless, the Public Service Pay and Incentive Policy (PO-PSM 2010) aims (in the long term) to “decentralize [the] management of [the] payroll...” and some minor steps in that direction (in the form of allowing LGAs to hire selected staff on a contract basis) are proposed below as part of local plans for staff allocation and motivation.

The Public Service Pay and Incentive Policy Implementation Strategy for 2012/13 – 2016/17 (draft in progress) deals with the issue of staff inequity and proposes, as a key policy objective, to ‘attract staff to work in LGAs with staffing problems ...to ensure that they are equitably distributed’. The policy document proposes two implementation strategies. First, the strategy document calls for ‘locally grown incentive schemes specific to a local authority [to be] designed and implemented to attract staff for underserved areas’. Second, the document calls for the ‘Central Government to develop [a strategy for the] preferential allocation of staff to LGAs’.

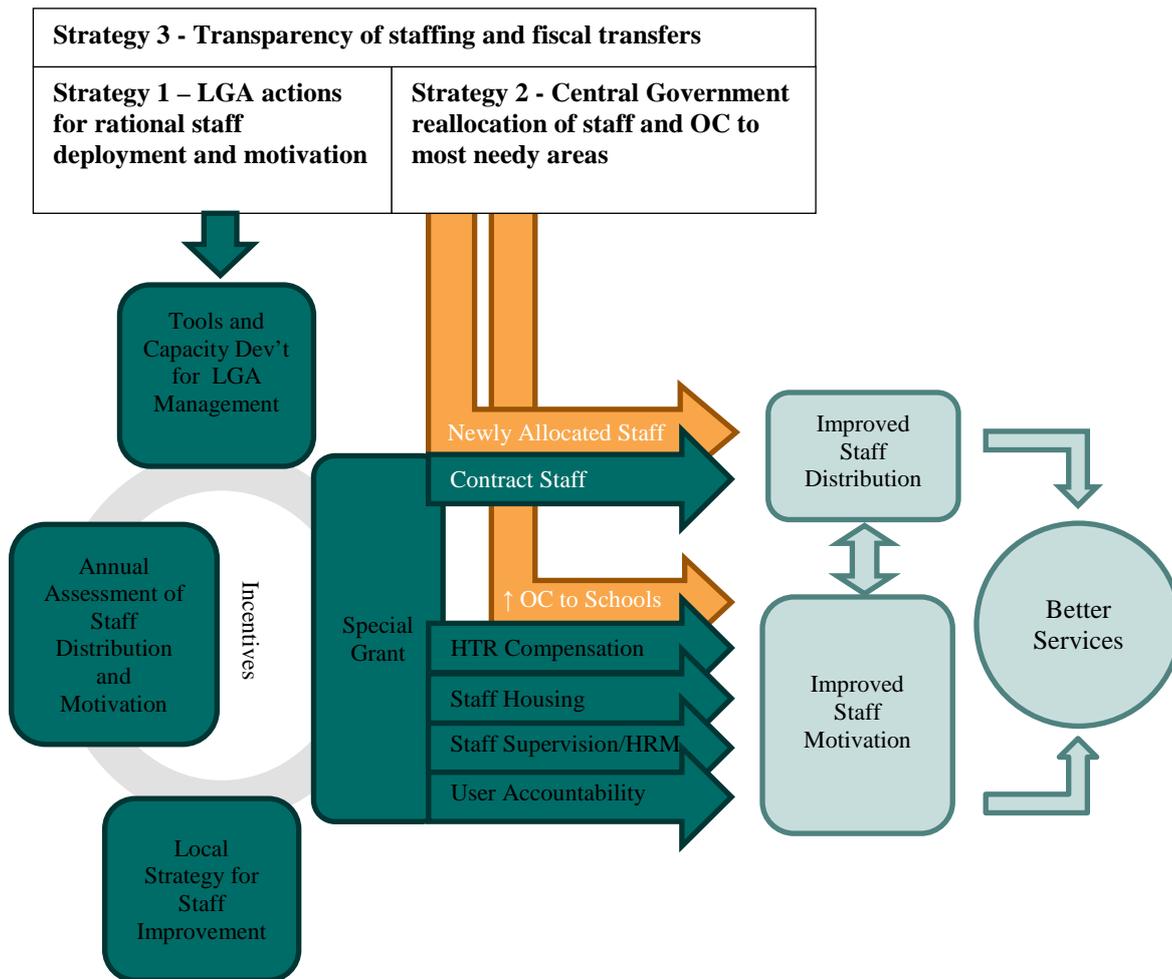
These two strategies are deemed the most crucial and viable and a proposal for their operationalisation is described below in three mutually supporting strategies that aim to address fiscal inequities across LGAs:

- Strategy 1: Enabling and supporting local level initiatives for retention and deployment to address intra-LGA inequity. Support would be provided to a special grant which facilitates and incentivises local actions to improve the distribution, retention and motivation of staff in HTRS areas. PMO-RALG would have an important role in taking this forward.
- Strategy 2: Streamlining and prioritising human resource allocation and deployment for addressing inter-LGA inequity. Central Government introduces a preferential allocation of staff to the most underserved areas. PO-PSM would be at the helm.

³⁵ World Bank 2011: *Equity in Public Services in Tanzania and Uganda*, Report number 56511 – AFR.

- Strategy 3: Enhancing operational funding and fiscal transparency around resource allocations and utilisation. In addition to these two main strategies, it is recommended that initiatives are implemented to support increased transparency of LGA resource allocations and the more effective utilisation of resources at central and local levels. This strategy would be led by MOF.

Figure 34: Improving staff distribution and motivation within LGAs



Underpinning these three strategies it is recommended that tools and systems are developed for the improvement of HRM practices at the local level. Options for market-based approaches to local service delivery should also be elaborated.

A proposed action plan to put these recommendations in place is outlined below and is followed by proposals for institutional arrangements to support its implementation. The strategies are now explored in more detail.

5.3 Strategy 1: Enabling and supporting local level initiatives for retention and deployment to address intra-LGA inequity

LGAs have, with a few exceptions, only vague and limited plans in place for how to retain and motivate staff. This is partly for fiscal reasons as LGAs have rarely any meaningful budget provisions for such schemes. However, LGAs rarely identify how they can more effectively utilise their existing staff as they have little incentive to do so. A system that both facilitates and incentivises improvement in staff motivation and allocations should include:

- the development of local strategies for improvement of staff distribution and motivation;
- the introduction of a special grant to understaffed LGAs to support the implementation of their strategies, with a recurrent and development component. Access to the special grant would be provided to only those LGAs that fulfil basic pre-conditions, such as the existence of a strategy that meets certain standards;
- a programme of technical assistance and capacity-development which:
 - develops systems and tools for improving staff allocation and motivation;
 - builds the capacity of LGA management to implement these tools;
- an annual assessment of LGAs' implementation of their systems for improving staff allocation and motivation. Access to the development component of the special grant would be tied to the results of this assessment.

While initially this model would be focused on disadvantaged LGAs, aspects of it could be rolled out to all LGAs – in particular the tools, systems and capacity development activities, and the annual assessment. Although limited access to the special grant would weaken incentives, the annual assessment could in itself provide the motivation for LGAs to improve.

5.3.1 Local strategies for improvement in staff motivation and allocation

Developing local strategies for improvement in staff motivation and allocation should be a requirement before any external funding is allocated. Detailed guidelines for such plans will have to be developed and it is recommended that they include the following:

1. An initial situational analysis, drawing upon the results of the annual assessment of staff distribution and motivation:
 - a. analysis of existing levels of staffing of facilities within the LGA;
 - b. relative use and effectiveness of staff/facilities/units to deliver services – this would include analysis of performance indicators such as the PTR and pass rates for each school, delivery of specific health services by facility, OPD/staff, etc;
 - c. determination of the most relatively understaffed areas within the LGAs;
 - d. identification of the key factors that define specific areas within the LGA as HTRS.
2. Plans to improve the equity and efficiency of the distribution of services and staff:
 - a. proposed plans for more rational and equitable staff allocations:
 - i. plans for staff transfers within the LGA that target the most underserved areas;
 - ii. plans for staff supervision and support;
 - iii. use of contract staff (teachers, health workers etc.) either in the form currently practised in many LGAs (where students are employed on a temporary basis as science teachers or where science teachers from neighbouring schools are paid for additional teaching) or in a more formalised manner whereby fully professional science teachers are contracted on a temporary basis. The precise details, including detailed guidance from central government, will have to be developed.
 - b. outsourcing services (to private health facilities or schools): this is to some extent already practised in some health services financed through the health basket fund – however,

there is scope for further development of the model, including possible use in the education sector.

3. Proposed incentive structure for retention and motivation of staff in HTRS:
 - a. staff facilities
 - i. targeted support for staff housing in areas where no alternatives are available and with an indication of maintenance plans;
 - b. staff compensation
 - i. transport: refund of use of public transport or access to motorbike, etc.
 - ii. training scheme targeting staff in HTRS;
 - iii. funds for settling in;
 - iv. staff attendance bonuses in HTRS;
 - c. staff supervision
 - i. structured staff supervision in service delivery sectors;
 - d. user accountability
 - i. training of user committees on roles in staff supervision and follow-up.
4. Budget: indication of costs and sources of funding partly from a special grant and partly from LGAs' own resources, with possible community and private sector contributions.
5. Assessing the impact of the scheme through:
 - a. monitoring staff attendance at the facility level;
 - b. monitoring staff work load (OPD/staff, effective teaching hours etc.);
 - c. service delivery in the LGA, by facility and in the HTRS areas;
 - d. benchmarking unit costs of service delivery to determine best local practices and areas for potential improvements.

5.3.2 Special grant for funding LGA strategies for staff distribution and motivation

An important question regarding the implementation of locally defined incentive schemes is how they should be financed. LGAs may contribute some funding from their own source revenue, but this will be difficult for the HTRS LGAs. Core financing will have to be through a Central Government grant. There are no fair or realistic alternatives as the disadvantaged LGAs by definition are underfunded and receive less than their fair share of existing fiscal transfers. Two difficult and interrelated issues have to be resolved: first, which (and how many) LGAs should be targeted; and second, what should be the size of the special budget allocation?

In view of budgetary constraints it is recommended to focus on the *most* underserved areas as they not only have overall level of resource constraints, but they also include the most significant internal HTRS. The selection of the most underserved areas can either be made through an analysis of their overall PE allocations or through a sector-by-sector analysis. In Appendix 7 we present some different scenarios. As is evident from the analysis in Appendix 7, the results do not differ substantially and our preliminary recommendation is therefore simply to use the most recent past overall sector PE budget allocation as an indicator of relative levels of understaffing.

The size of the special budget allocation will depend on the number of LGAs to be included in the schemes and an assessment of the approximate cost of the LGA interventions as well as an assessment of the fiscal space within government budget.

If we assume that the initial focus will be on the 30 most disadvantaged LGAs, then an allocation of up to TZS 4 billion per LGA will allow each LGA to undertake different initiatives, planned through local situational analyses. For example we can make the following estimates of cost requirements and implications (see Box 1):

- Recurrent activities
 - distribution of staffing
 - contract employment and contracting out of services
 - internally transfer approximately 5% of staff to the most needed areas

-
- staff motivation
 - monthly transport allowances for 5%
 - provide fiscal incentives for 20% of staff located in the most HTRS areas of the LGA
 - some training interventions
 - Capital development supporting staff motivation
 - construct a number of staff houses (to cover 3% of staff if the construction is fully funded)
 - provide various transport facilities e.g. motorbikes for 3% of staff.

This is just an illustration of the possible use of the funds, based on the categories identified in the local strategy. Each LGA will develop its own plans according to assessments of how most significantly to impact on local staff deployment, retention and motivation.

The precise criteria for distribution of the special budget across the needy HTRS LGAs will have to be developed at a later stage. It could be done through a combination of equal share and formula-based allocations relating to the level of understaffing in that particular LGA.

Box 1: Example of possible budget for LGA retention and motivation scheme

Reallocation of staff to most needy areas			
Cost of Reallocation of one staff member within LGA			3 million TZS
Assuming approx	2000		
Reallocate	5.0%	100 staff	300 million TZS
Staff Houses			
if fully constructed			50 million TZS
If mainly community constructed			10 million TZS
No of houses	60		
to cover		3% of total staff	
Costs if community constructed			600 million TZS
Costs if fully LGA constructed (excuding solar etc)			3,000 million TZS
Transport			
Transport for most remote areas(monhtly)			30,000
Assume this will cover	10.0%	of staff	72 million TZS
Motorbikes			4 million TZS
Assume	3.0%	of staff	240 million TZS
Contracting of services			
Hire of part-time/temporary science teachers			
Approximate annual fee		part time teachers	1 million
Assuming	60		60 million TZS
Approximate annual fee		Full time science teachers	10 million
Assuming	20		200 million TZS
Fiscal incentives			
Monthly allowance for hardship areas			70,000
Assume	30.0%	600 staff	
Annual costs			504 Million TZS
Monthly performance allowances			70,000
Assume	25.0%	500 staff	
Annual costs			420 Million TZS
Settling in allowance for newcomers in remote areas (per staff)			0.4 Million TZS
Assume	50	new staff	20 Million TZS
Training interventions etc			
		Average cost	0.4 Million TZS
To include	10.0%	of staff	80 Million TZS
Total		(Costs if housing is community constructed)	2,496 Million TZS
Total		Costs if fully LGA constructed	4,896 Million TZS

5.3.3 Tools and systems and capacity development

A third pillar of this approach is to develop tools and systems for improving staff allocation and retention for use at the local level and building the capacity of LGAs to use these tools.

- Intra-LGA staff allocation:
 - simple benchmarking tools for identifying, assessing and addressing disparities and inefficiencies in staff allocation

-
- guidelines for the equitable and efficient distribution of staff categories across service delivery units
 - guidelines for the contracting out of staff and services.
 - Staff motivation and retention:
 - a mechanism for the systematic categorisation of the degree to which facilities are hard to reach or not, to enable the improved targeting of interventions for staff motivation
 - guidelines for the provision of staff facilities and compensation for HTRS areas
 - guidelines and tools for staff supervision and HRM.

Following the development of tools and systems, in partnership with LGAs, the capacity of LGAs should be developed to enable their implementation. This should be developed through a combination of formal training and on-the-job mentoring support.

5.3.4 Annual assessment of staff distribution and motivation

An annual external assessment should be conducted to assess the degree to which LGAs have planned for and actually improved staff distribution and motivation. This assessment should assess progress along four dimensions:

- actual achievement of an improved distribution and allocation of staff
- planning for the improved allocation and motivation of staff
- implementation of systems and guidance for improving staff allocation
- implementation of systems and actions for improving staff motivation.

The assessment should be external, contracted by Central Government and it should benchmark performance along the four dimensions. The results of the assessment would be made public and also be linked to accessing the capital development element of the special grant for staff distribution and motivation. This would help to provide incentives for LGAs to make improvements and to use the funds, tools and capacity development support effectively.

5.4 Strategy 2: Streamlining and prioritising human resource allocation and deployment to address inter-LGA inequity

The funding of local strategies for improving staff allocation and motivation, will not address disparities in service delivery or staff motivation. In parallel, it is important that Central Government is more deliberate in allocating staff to the most needy areas and also increases operational funding for service delivery, especially in underserved areas. This will help reduce disparities across Tanzania and also motivate staff, with positive implications for service delivery.

5.4.1 Central allocation of staff to most needy areas

The Government has to a certain extent during recent years targeted the most needy LGAs when additional staff have been deployed to LGAs. It is recommended to continue these efforts but also to consider some of the shortcomings related to this approach to date:

- Although understaffed areas have received additional staff, it is also evident that areas that are already relatively well staffed (or even overstaffed, for example, according to the PTR) have also received additional staff. After posting, staff tend (albeit in limited numbers) to move away from the HTRS areas. The end result is that the goal of increasing equity is only being attained very partially and very slowly.

- Staff allocations are made to each LGA based on sector norms for appropriate staffing. However, since the sector norms are generally very far from being achieved (especially in health sector, agriculture and secondary school science teachers) it implies that even relatively well staffed LGAs have shortfalls.
- The approach has not been able to target inequities *within* LGAs. This has had severe implications for inequities across communities and results in the inefficient use of staff resources. Further, as LGAs split up, these patterns of within-LGA inequities also become evident in statistics across LGA resource allocations.

While the support for locally developed LGAs may address most of the problems related to attraction and retention of staff in HTRS LGAs, it is important that the Government also continues with some targeting of HTRS LGAs in its central allocation of new graduates.

Two adjustments to the existing strategy are proposed:

1. **The HTRS LGAs should be prioritised for the allocation of new staff to all sectors in relation to their relative degree of understaffing.** Thus for each sector or main staff category, an assessment should be made of whether the LGA is staffed above or below average. If the LGA is staffed above average it should not be granted any new graduates before the below-average LGAs have been supported. This is a departure from the existing approach where staff allocations do not strictly follow relative needs.
2. **Some reallocation of staff away from the most well-staffed areas should be considered.** Although this may be controversial, it will result in immediate improvements in the most underserved areas if staff deployed to these locations are retained. For instance, whereas the average PTR in Tanzania now is just above the agreed target of 40, then there are 43 LGAs with more teachers than required. In fact there is a surplus of 9,936 teachers in these LGAs.³⁶ It is noted that staff transfers are costly and also may lead to significant demotivation of staff in some circumstances.³⁷ Thus a careful case-by-case analysis is required to investigate the scope for a realistic reallocation.

5.4.2 Increased and more equitable allocation of operational funding

While allocations to PE may be the major driver behind inequity, the low level of operational funding for service delivery undermines the ability of staff to deliver quality services. While disparities in PE are being tackled, it is crucial that the level of operational funding for service delivery is increased and disparities are addressed in parallel. A target could be to restore levels of funding to 2009/10 levels in real terms from 2014/15 onwards. Some of the resulting increases in global allocation should be used to reduce disparities across LGAs.

A more equitable allocation of OC can be achieved through strict adherence to an agreed equitable and needs-based formula.

5.5 Strategy 3: Enhancing operational funding and fiscal transparency around resource allocations and utilisation

5.5.1 Improved transparency

In order to pursue a strategy for increased equity and equality of resource allocations to LGAs it is necessary to improve on the transparency of the allocations. This involves better data on LGA finances and human resources as well as greater transparency through improved publication of the data. Tanzania has joined the Open Government Partnership (OGP) initiative and enjoys high-level political commitment and support from the

³⁶ This includes a surplus of 2,300 teachers in Kinondoni, 840 in Arusha (urban and rural) 265 in Kibaha etc., whereas LGAs like Sumbawanga, Lushoto and others have similar significant deficits.

³⁷ For example a transfer of a teacher from one region to another may cost TZS 5-10 million depending on the specific salary of the teacher, number of years in service, travel distance to new post, etc.

Tanzanian leadership.³⁸ Demonstrating this, President Kikwete of Tanzania, in his keynote address at the OGP annual summit in Brazil in 2012, affirmed efforts to strengthen good governance. The Government has committed itself to report on progress on its related action plan for greater transparency.³⁹ It is noticeable from the progress reports that areas where Government has faced most significant problems to date include MOF managed LGA budget allocation and budget execution data and other issues related to local level transparency.⁴⁰ Nevertheless, PMO-RALG currently publishes information on LGA budgets and expenditures in a fairly clear, consistent and user-friendly manner. This allows for a reasonable tracking of the main trends in LGA finances, although the data are not fully updated.⁴¹

MOF does not publish its data in a similarly transparent manner and the structure of the budget does not make it easily accessible. Much of the development expenditures and many subventions are not as clearly presented as part of an LGA budget allocation as block grants (sectoral PE and OC allocations). Discussions have been held regarding the inclusion of a separate LGA vote in the budget (at present LGA budgets are presented under regional votes – in particular the development budget), which would substantially improve transparency in LGA resource allocations. Another measure that is under discussion is the introduction of a revised approach to formula-based allocations. This may also contribute in the long term to greater transparency in LGA fiscal allocations. However, as is evident from the analysis in this report, as long as PE resources are allocated in accordance to existing staff allocations it is more important to address inequities in staff allocations than to fine-tune the use of a formula for OC and development allocations.

Improved transparency of staff allocations

Data on staff deployment and existing staff established in all LGAs should be made publicly available.⁴²

At present there are only very limited data available to the public on how human resources are distributed across LGAs. A more transparent system would allow LGAs to advocate for their fair share of staff and would allow policy analysts and the public to track commitments to a fairer, more equitable and effective deployment of staff.

Transparency of staff allocation is on the other hand almost absent. There is neither publicly available data that systematically track staff allocations to LGAs nor clear plans to develop a system to increase transparency in this area. However, given the fact that a modernised system for the monitoring of staff and the payroll has been developed (and is being rolled out to LGAs) it should be relatively easy to develop a simple public reporting tool on: existing staff in LGAs; annual deployment of new staff to LGAs by sector; and data on transfers across LGAs. Without such data it will be very difficult to track progress on equity in staff allocations across LGAs.

5.6 Other supporting activities

5.6.1 Improved HRM and performance management

Effective human resource management (HRM), performance management and related supervision and inspection are critical elements for the effective use of PE resources. The Government has in various stages of its public service and Local Government reforms sought to institute improvements to these through the Open Performance Review and Appraisal System (OPRAS).⁴³ A number of studies have indicated that OPRAS does

³⁸ Launched by US President Obama in 2011 www.opengovpartnership.org

³⁹ See . <http://www.opengovpartnership.org/country/tanzaniasself-assessment/self-assessment>

⁴⁰ <http://www.opengovpartnership.org/sites/default/files/Tanzania%20OGP%20IRM%20public%20comment%20%28Eng%29.pdf>

⁴¹ At the time of writing data on the current fiscal year were not uploaded.

⁴² See also section 4.6.

⁴³ OPRAS was introduced in 2004 and replaced a former confidential performance appraisal. OPRAS seeks to improve performance through setting individual goals (related to the overall plans and goals of the MDA or LGA), measuring the achievement of the goals and providing feedback.

not work as intended⁴⁴ and that wider improvements in HRM would provide cost-effective means to improve public sector performance.⁴⁵

As a wider policy objective PO-PSM has indicated that ‘the Government shall strengthen the use of OPRAS to ensure linkage between pay and performance’⁴⁶, but options for doing so are still being explored. The introduction of earmarked support for LGAs to enhance their deployment and use of staff could be used to incentivise LGAs to use improved HRM practices – possibly including OPRAS.

5.6.2 Strengthen demand side of accountability

Creating and strengthening a culture of accountability to the users of public services requires long-term change but has the potential to substantially influence the quality of public services. Tanzanians have embarked on a range of initiatives – primarily driven by various NGOs such as HakiElimu, Twaweza and Policy Forum. They have introduced various tools for enhancing local level transparency and accountability, including citizen score-cards, local (participatory) public expenditure tracking, and social accountability management systems.

The Government has in general welcomed such work and both Central Government and LGAs have cooperated with NGOs and CSOs on these initiatives. However, the capacities of local CSOs, and challenges related to communication and co-coordination have weakened the impact. Various NGOs now collaborate with Government on increasing transparency on issues related to local level public spending as well as service delivery outcomes. In particular the education sector has made great progress in this regard.

It is highly recommended that such efforts be continued for all sectors, with enhanced efforts to develop partnerships between Government and CSOs. The immediate emphasis of Government should be on the creation of a facilitating framework for greater citizen accountability – primarily focused on improving the transparency of public resource allocations and utilisation (Section 4.5). This framework should be developed in close consultation with CSOs.

5.6.3 Market-based approaches

Introducing various market-based approaches to increase access and the quality of services to citizens may be an approach that can be pursued. Voucher schemes have for instance been used in the education sector in several countries in order to offer citizens a choice and to increase the quality of services through competition.⁴⁷ In Tanzania there has been some use of the private sector in the health sector, whereby LGAs are encouraged to enter into various forms of Public Private Partnerships (PPPs) with faith-based organisations, see Box 2 for findings of how PPPs are working in the health sector.

⁴⁴ Eg Songstad et al. *Globalization and Health* 2012, 8,33: ‘Assessing performance enhancing tools: experiences with the open performance review and appraisal system (OPRAS) and expectations towards payment for performance (P4P) in the public health sector in Tanzania’: ‘The findings of our study indicate that OPRAS does not work as intended due to its modalities of measuring performance, the poor implementation of the feedback mechanism and health workers experience of not seeing any tangible benefits of OPRAS.’

⁴⁵ Therkildsen and Tidemand 2008, PO-PSM 2009: *Tanzania Public Service Situation Analysis: Towards a Revised Public Service Pay Policy 2009*. Report by Crown Management Consultants, Ltd.

⁴⁶ PO-PSM 2010. Public Service and Pay and Incentive Policy.

⁴⁷ Barrera-Osorio, F; Patrinos, A.H.; Wodon, Q. 2009. ‘Emerging evidence on vouchers and faith-based providers in education: case studies from Africa, Latin America, and Asia’. *Directions in development; human development*. Washington, DC: World Bank.

Box 2: Findings on health sector PPPs from the mid-term review of the health sector⁴⁸

There are 53 service agreements in the country with FBOs, often replacing previous working arrangements between Council Health Management Teams and church health facilities (of the 99 FBO health institutions). In general, the Health Basket Fund is used for payment, but due to limited budgets it is difficult to honour the service agreements as often districts do not budget enough funds to honour them. This is partly an issue of priority setting, partly an issue of lacking capacity to cost services properly and partly an issue of not putting a ceiling on services being offered (leading to high bills). A few districts have begun to address related issues and already have plans and budgets for PPP activities in their plans, as envisaged in the Health Sector Strategic Plan III.

There are no service agreements with private (for-profit) providers and – according to the PPP coordinator in the MOH – this is only possible when the Government is convinced that such contracts offer value for money. The MTR team concludes that there is still a high level of mistrust between government and private for-profit sector in health.

Although MMAM – the primary health services development programme – envisaged that the private health sector would be stimulated to open new facilities in rural areas, it is clear that the private sector is not expanding significantly and certainly not in rural areas. Private for-profit facilities are still concentrated in urban areas.

There is generally some scepticism in Tanzania regarding the potential for increased use of market-based approaches.⁴⁹ However, the Tanzanian economy is rapidly developing and urban areas are expanding. In particular urban residents are already making significant use of private sector schools and health facilities and increased collaboration rather than competition may provide the most efficient use of public funds for the delivery of basic services. It is recommended to further explore the potential for market-based approaches through exploratory studies.

⁴⁸ Adapted from the Mid Term Review of the Health Sector Strategic Plan III 2009-2014, Annex: Governance, page 9.

⁴⁹ For instance in the previously quoted World Bank 2011: *Equity in Public Services in Tanzania and Uganda*, Report number 56511 – AFR.

5.7 Draft plan of action

The above-mentioned strategies are recommended to be implemented in the following phases:

Action	Type of costs	Timing	Cost estimate 000' USD
Strategy 1 (PMO-RALG)			
Develop comprehensive local plans for staff attraction, deployment, retention and motivation in selected LGAs			
1. Develop guidelines	TA	May – July 2014	50
2. Train and support/mentor LGAs in development of plans in 30 most needy HTRS LGAs	TA, DSA and travel	October to December 2014 December 2015	300 50
3. Review experiences after year 1; improve guidelines	TA	January 2016	
4. Train and support/mentor LGAs in remaining LGAs	TA, DSA and travel		600
Finance local plans for staff retention/motivation through special budget allocations			
1. Develop detailed guidance on fund utilisation and reporting,	TA	July – August 2014	50
2. Budget allocation 2015/16	Government budget	January 2015	7,500 (1.2 bn TZS)
3. Review experience and adjust budget allocations 2016/17	TA	January 2016	50
Develop systems and tools and build capacity			
1. Develop LGA tools and manuals for staff allocation /Motivation	TA, DSA	May – July 2014	50
2. Train LGAs on their use and implementation	TA, DSA	October to December 2014	300
Conduct annual assessments of staff allocation/motivation			
1. Develop assessment manual and process	TA, DSA	October 2014	50
2. Conduct assessments in HTRS	TA, DSA	January 2015	150
Strategy 2 (PO-PSM)			
Central Government (re) allocation of staff to most needy areas			
1. Detailed analysis of relative understaffing of each LGA for each staff category and	TA	May – July 2014	100

development of medium-term staff allocation plan	TA	May – July 2014	100
2. Assessment of scope (sector by sector) for reallocation of staff away from relatively overfunded areas – detailed plan by LGA	Government budget allocations for PE	January 2015	to be determined
3. Fiscal allocations for staff transfers			
4. Monitoring of staff allocations compared to relative needs (annual report)	TA for development of first report	January 2016	50
Address level and disparities of operational funding for service delivery to facilitate service delivery			
1. Increase allocations of OC transfers to service delivery (The funding levels in FY 2009/10 (adjusted for inflation) will serve as a medium term target).	Government task force – possibly supported by TA	Inclusion in budget guidelines January 2015	To be determined
2. Target increases on			
a. Funding to service delivery units (capitation grants, require a share of recurrent funding to be transferred to health units)	and Government budget allocations		
b. Under funded LGAs, ensuring a minimum level of LGA funding relative to allocation formula			
Strategy 3 (MOF)			
Enhanced transparency in resource allocations (and utilisation) at LGA level			
1. Develop system for reporting on LGA staff allocations and existing staff establishments	TA	May– December 2014	150
2. Develop MOF website for reporting on LGA budget allocation and actual transfers and improve PMO-RALG website	TA	December 2014	100
Support Activities			
Improved HRM and performance management in LGAs			
1. Review existing HRM and OPRAS practices (including Payment 4 Results) – recommend for inclusion in local plans for	TA Government OC allocation or DP funding	May– December 2014	100 to be determined

<p>staff strategies</p> <ol style="list-style-type: none"> 2. Test use of performance incentives in relation to OPRAS in HTRS 3. Review experiences of performance incentives 	<p>of pilot</p> <p>TA</p>	<p>2015/16</p> <p>August 2016</p>	<p>50</p>
<p>Explore potential for increased use of market-based approaches</p> <ol style="list-style-type: none"> 1. Review existing experiences in health, education and agriculture and develop models for testing in selected LGAs 2. Testing of models in selected LGAs 3. Review experiences of the relative efficiency of market-based approaches 	<p>TA</p> <p>GoT OC allocation or DP funding of pilot</p> <p>TA</p>	<p>May– December 2014</p> <p>2015/16 –2016/17</p> <p>August 2017</p>	<p>100</p> <p>to be determined</p> <p>50</p>

5.7.1 Fiscal space for proposed activities

Several initiatives are recommended within this report. This section presents some reflections on the fiscal space required for the implementation of these initiatives. The emphasis below is on those recommendations that require substantial additional government budget allocations. It is assumed that development partners may assist with provision of technical assistance, capacity-building and relevant studies associated with these strategies.

The most critical element of the recommendations is Strategy 1: the proposal for a special budget allocation in support of local strategies for staff retention and motivation. Section 5.4 above recommends this to be approximately TZS 4 billion per participating LGA, equivalent to a total of up to TZS 120 billion annually if applied to the 30 most disadvantaged LGAs.

In addition the report recommends Strategy 2 for distributing the central allocation of staff to the most needy areas. This will in itself not have any significant additional costs as the recommendations mainly are concerned with how to allocate an already agreed increase of overall levels of staffing across LGAs. If this strategy can successfully redirect newly hired staff to the most needy LGAs it will gradually allow for some decrease of the special budget allocations. Thus while TZS 120 billion annually may be required for the first year of implementation, in later years this may be reduced as the LGAs gradually receive more staff. However, it should be noted that the underfunding of the 30 most needy LGAs is substantial: above TZS 200 billion annually and that such a gap cannot realistically be closed in the medium term.

Finally, the report makes recommendations for increases in OC allocations similar to the level five years ago. This is a recommendation that goes beyond the specific issue of addressing inequities in fiscal and staff allocations across LGAs and service facilities, but rather aims to balance LGA capabilities to deliver services more generally.

The proposed TZS 120 billion for the special budget allocation amounts to approximately 0.95% of actual Government spending in 2012/13– or approximately 5% of total PE allocations to LGAs. This will ensure that these 30 most disadvantaged LGAs can come close to average levels of recurrent grant allocations. To close the gap completely they would have to be allocated TZS 228 billion. In other words, after the allocation of an extra TZS 120 billion to these 30 LGAs they will still be underfunded by approximately TZS 100 billion. In previous years the allocations to LGAs have increased by approximately TZS 200 billion annually and an additional allocation of TZS 120 billion will substantially limit the fiscal space for other activities such as the recruitment of additional staff or general increases in OC allocations.

It is beyond the scope of this report to come up with details of future LGA budget allocations, but it can generally be observed that i) the LGA budget share of the total budget is relatively low, especially when PE allocations are excluded or when PE/OC ratios are compared between local and central government; and that ii) the recent significant increase in staff allocations will only have a limited impact on service delivery unless procedures for local level staff allocations and motivation are improved. There are therefore good arguments for general increases in LGA budgets beyond what has been achieved in recent years. If that cannot be realised, priority should be given to the special budget over general increases in staff, except for the most needy LGAs and within the most needed staff categories (including science teachers, nurses and clinical officers).

5.7.2 Institutional arrangements for management of improved equity and staff performance in LGAs

It is recognised that the management of the strategies proposed in this report will be a complex undertaking that requires the involvement of a range of central and sector ministries in addition to the LGAs. The MDAs involved include: MOF, PO-PSM and PMO-RALG in addition to the main sector ministries: in particular MOE, MOHSW and MAFS.

In view of the fact that the main implementation responsibilities will rest with the LGAs and PMO-RALG, it is tentatively recommended that PMO-RALG is charged with programme coordination. It is therefore recommended that:

1. a steering committee is established – composed of MOF, PO-PSM, PMO-RALG, MOE, MOHSW, MAFS, ALAT and selected LGA representatives;

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2. in the event of some DPs being willing to finance the activities, they should also be included in the steering committee;
 3. the steering committee is chaired by PS PMO-RALG;
 4. a secretariat is established with senior representatives from the above institutions and possibly supported by technical assistance.

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