Draft Inception Report

Local Government Authority (LGA) Fiscal Inequities and the Challenges of “Disadvantaged” LGAs in Tanzania
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V.1.0

Department for International Development
Local Government Authority (LGA) Fiscal Inequities and the Challenges of “Disadvantaged” LGAs in Tanzania
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Local Government Authority (LGA) Fiscal Inequities and the Challenges of “Disadvantaged” LGAs

Draft Inception Report

Per Tidemand (team leader), Nazar Sola, Alloyce Maziku, Tim Williamson, Helen Tilley, Julia Tobias, Francesca Bastagli, Ahmed Ali.

Key messages

- LGAs receive very uneven allocations of recurrent grant allocations, - in particular for salary related transfers (PE) for basic education and health, and followed by agriculture.
- These inequities benefit urban LGAs at the expense of rural, but there are also substantive differences between rural LGAs.
- There is some evidence that the inequities in fiscal allocations are not only “unfair” but also lead to substantive inefficiencies in serve delivery: it appears that reallocation in favour of relatively underfunded LGAs will lead to better service outcomes.
- The procedures for staff allocation, staff preferences for postings and LGAs ability to offer location specific incentives are preliminary identified as key drivers of these fiscal inequities.
- A proposal is made for the completion of the assignment, including the approach to fieldwork in 8 LGAs.
Acknowledgements

This Inception Report presents the initial understanding of the assignment of the consultant team and the proposed work plan for completion of the assignment. The Inception Report is based on review of available background documentation and a five-day mission to Tanzania by Per Tidemand (team leader) and Tim Williamson where consultations were made with Government of Tanzania, Development Partners and the two Tanzanian based consultants (Nazar Sola and Alloyce Maziku). The team appreciate in particular the arrangements made by the Government of Tanzania to arrange for a well-attended kick-off meeting with the inter-ministerial task force for initial discussion of the assignment. The team would in particular like to thank Mr A. Matembele (Ministry of Finance), M. Kabunduguru (Presidents Office- Public Service Management) and J. Nyingi (Prime Minister’s Office – Regional and Local Governments) for their guidance in this very initial stage of the assignment.
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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ACCGEN</td>
<td>Accountant General</td>
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<tr>
<td>ALAT</td>
<td>Association of Local Authorities in Tanzania</td>
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<tr>
<td>GBS</td>
<td>General Budget Support</td>
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<td>DP</td>
<td>Development Partner</td>
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<tr>
<td>GoT</td>
<td>Government of Tanzania</td>
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<td>HTRS</td>
<td>Hard to Reach and Stay</td>
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<td>LGA</td>
<td>Local Government Authority</td>
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<td>LGDG</td>
<td>Local Government Development Grant</td>
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<td>LGFA</td>
<td>Local Government Finances Act</td>
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<tr>
<td>LGFA</td>
<td>Local Government Finances Act</td>
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<td>LGRP</td>
<td>Local Government Reform Programme</td>
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<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
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<td>MMAM</td>
<td>Primary Health Services Development Programme (Swahili acronym)</td>
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<td>MOF</td>
<td>Ministry of Finance</td>
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<tr>
<td>MOHSW</td>
<td>Ministry of Health and Social Welfare</td>
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<td>MTEF</td>
<td>Medium Term Expenditure Framework</td>
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<tr>
<td>NBS</td>
<td>National Bureau for Statistics</td>
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<td>NGO</td>
<td>Non-Governmental Organization</td>
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<td>NHIF</td>
<td>National Health Insurance Fund</td>
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<tr>
<td>OC</td>
<td>Other Charges (non-wage recurrent spending)</td>
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<tr>
<td>OPD</td>
<td>Out-Patient Department</td>
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<tr>
<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>P4P</td>
<td>Pay for Performance</td>
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<tr>
<td>PE</td>
<td>Personal Emoluments (recurrent spending on wages)</td>
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<tr>
<td>PER</td>
<td>Public Expenditure Review</td>
</tr>
<tr>
<td>PMO-RALG</td>
<td>Prime Minister’s Office – Regional and Local Government</td>
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<tr>
<td>PO-PSM</td>
<td>President’s Office – Public Service Management</td>
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<tr>
<td>PTR</td>
<td>Pupil Teacher Ratio</td>
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<tr>
<td>RBA</td>
<td>Rapid Budget Analysis</td>
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<td>TZS</td>
<td>Tanzania Shillings</td>
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1 Introduction

1.1 Background

The Public Expenditure Review (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”, most notable those for Personal Emoluments (PE). These funds are not distributed in accordance with the established need-based formula, but allocated primarily in accordance to the number of staff posted and existing facilities in respective LGAs. It is recognized that these patterns of unequal allocation of recurrent grants across LGAs have persisted through the years and remain a critical issue for equal access and quality of basic social services - in particular for health, education and agriculture. Other sectors like water and roads are not financed by recurrent Other Charges (OC) and PE transfers to the same degree, although roads maintenance is funded by a subvention.

The 2012 Rapid Budget Analysis (RBA) indicated for instance that average health and education recurrent allocations per capita to urban councils are 68 000 shillings and 45 000 shillings for rural councils. As shown in Table 1 below, the extreme cases in FY 2012/13 were Bukoba where basic services were provided with 126,224 TZS per capita and Kasulu that was allocated only TZS 22,373 per person.

| Table 1: Distribution of Sector (Recurrent) Budgets at LGAs in FY 2012/13 (TZS per capita) |
|-----------------------------------------------|--------|--------|--------|--------|--------|
|                                | All recurrent | Health | Education | Edu and Health OC | Edu and health PE |
| Average                        | 49 738       | 8 997  | 40 741   | 7 241             | 42 497             |
| Top decile                     | 86 349       | 20 077 | 71 812   | 17 038            | 75 032             |
| Bottom decile                  | 27 928       | 3 891  | 22 687   | 3 522             | 23 769             |
| Highest                        | 126 224 (Bukoba) | 30 755 (Pangani) | 111 643 (Bukoba) | 29 284 (Longido)   | 110 599 (Bukoba)    |
| Lowest                         | 22 373 (Kasulu) | 2 810 (Lushoto) | 18 483 (Kasulu) | 2 640 (Nzega)      | 18 607 (Kasulu)     |

The problems of fiscal inequity in LGA budget allocations have been discussed on several occasions, e.g. as part of Government of Tanzania Development Partner General Budget Support (GoT DP GBS) dialogue and reflected upon by Government in e.g. its recent Pay and Incentive Policy\(^1\), but a more comprehensive and cross sector analysis has been lacking and disparities have persisted.

\(^1\) President’s Office-Public Service Management (PO-PSM) 2010: Public Servants Pay and Incentive Policy.
The Government has been aware of these inequities for several years and 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 use of formulas. However, it has been realized that such an approach is difficult in 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 etc.). The main strategies for addressing the disparities have therefore focused on more equitable distribution of staff and been twofold: (1) for recruitment of new staff priority has been given to LGAs with the most significant deficit and (2) “development” funds have been allocated to allow LGAs to create more a more enabling and attractive environment for staff – as staff otherwise in the “disadvantaged LGAs” have tended resist placements or leave shortly after reporting. Other proposals, such as 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 pursued.

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 ensure 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 preferential allocation of staff to LGAs”. The proposed study will provide practical recommendations for how these strategies can be supported through reformed fiscal LGA allocations.

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 should take account of service delivery on the ground, be forward looking and provide recommendations for significant improvements that practically can be implemented.

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

1.3 Reporting and Management Arrangements of the Assignment

The consultant team reports to an inter-ministerial task force. According to Terms of Reference (ToR), Prime Minister’s Office – Regional and Local Government (PMO-RALG), Ministry of Finance (MOF), President’s Office – Public Service Management (PO-PSM), and Development Partner (DP) representatives from DFID and World Bank compose this task force. During the inception visit it was


realised that it is critical that representatives from key sector ministries like Education, Health and Agriculture are also included in this group.

The study is funded by DFID, who also leads the contractual management of the consultants on behalf of the Task Force.

1.4 Overview of Inception Report

This inception report presents preliminary key observations on the assignment and proposal for data collection analysis and fieldwork. More specifically:

Chapter 2 presents preliminary and selected key findings of the team.

Chapter 3 presents the overall approach to the assignment – in particular with regards to the initial desk based analysis of nationally available statistics.

Chapter 4 presents the approach and methodology for fieldwork including recommendations for the field site selection.

Chapter 5 presents recommendations for the structure of the final report and composition of workshop for discussion of draft final report. The chapter also summarises key issues where guidance is requested from the inter-ministerial task force.
2 Preliminary Analysis

This section provides some preliminary analysis from existing studies and data collected during the inception phase as well as interviews conducted. This is intended to help identify issues and frame the methodology and focus of investigations in the study.

2.1 Overview of the transfer system

Before analysing disparities in 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 1 shows the main flows of transfers to LGAs in Tanzania, and gives an indication of their relative size. Recurrent block transfers account for the largest share of LGA revenues, with the PE component dominating. The vast majority of these are earmarked to sectors.

Figure 1: Fiscal Transfers in Tanzania

Whilst they are relatively small in aggregate, it is important to note that for some sectors the government recurrent grants for PE and OC mentioned in the introduction represent only part of the recurrent financing for service delivery. Basket Funds and Subventions are also major sources of recurrent funding. In fact, the Health Basket Fund and Roads Subvention actually form the vast majority of non-salary recurrent funding in those sectors. Therefore any analysis of disparities of
funding for service delivery needs to factor these sources in alongside OC and PE transfers. Our initial investigations appear to point to the issue that, beyond school capitation grants, very few resources are transferred below the LGA level to service providers.

Own source revenues are also a significant source of LGA financing, and user fees/cost sharing may also represent a significant source of funding for service providers themselves. A question to explore during the field visits will be the relative size of and the degree to which own source revenues and user fees/cost sharing contributes towards inter and intra-LGA fiscal disparities.

2.2 Information on transfers is fragmented and this undermines transparency

Whilst the existence of an objective rule based formulae can contribute towards the transparency of the transfer system, the presentation of transfers in budget documentation and reports is fragmented and difficult to understand. It is almost impossible to get a comprehensive picture of transfers to LGAs from publically available documents.

Transfers are made via the development budget and via the recurrent budget. The OC and PE transfers are presented relatively clearly in the budget by sector, region, and LGA in a separate volume of the budget book, however all other transfers to LGAs, including subventions and basket funds in the development budget are presented in a haphazard manner which is difficult to understand:

- They are not broken down by LGAs.
- They appear either under national line ministry, PMO-RALG or regional votes depending on the transfer (although, the same transfer may appear in different places in different years).
- The development transfers are a mixture of transfers financing recurrent transfers and genuine capital development transfers.

The Ministry of Finance and PMO-RALG does provide some information on transfers made to LGAs, however, again this information tends to be fragmented and not systematically presented.

Overall, it is very difficult to build a comprehensive picture of transfers allocated and transferred to LGAs from national budget documentation. Therefore, whilst individual transfers may be objectively allocated on the basis of transparent formulae, the overall transparency of LGA transfers suffers from the fragmented and inconsistent presentation in budget documentation and reports. Thus whilst some transfers may be equitably (or inequitably) distributed, the overall picture may be different. For example analysis of the OC allocations do reveal significant disparities in allocation, but if combined with the Health Basket Fund (where no LGA breakdown is available in the budget), those disparities are likely to be far less pronounced, as the Basket Fund makes up two thirds of recurrent funding in that sector.

Our preliminary analysis points to the importance of setting up a comprehensive, consistent and easy to understand presentation of transfers in national budget documents and reports. Therefore in this study we will attempt to set out a clear framework that presents an understandable analysis of recurrent financing for service delivery using all of the available data, and that also highlights the disparities that exist within this system.

2.3 Defining Inequity and Inequality

The Terms of Reference for the assignment use the terms inequity and inequality interchangeably. It is important that, before we progress, these terms are clearly defined for our purposes:
- **Inequity** refers to the *unfairness* of the distribution of resources. Fairness is a subjective term. In this study we do not aim to make a subjective assessment of what fairness entails. Significant effort went into the development of objective (and fair) allocation formulae for the allocation of transfers to LGs in the 2000s, based on service delivery needs and other criteria. **In this study we will take these allocation formulae as a proxy for a fair or equitable allocation or resources.**

- **Inequality** refers to the *variation* in distribution of resources from one LGA or service delivery unit to another. In this study we will use variations in per-capita allocations as our measure of inequality. **It is important to note, in this situation, unequal allocations may in fact be equitable.**

This study uses the term **disparity** as an overarching term to refer to both inequities and inequalities in the distribution of transfers.

### 2.4 Fiscal disparities are significant and the situation appears to have worsened over recent years

Data from existing budget analyses suggest that the fiscal inequalities (in terms of per capita LGA allocations for recurrent block transfers) have persisted for years, and have worsened over past three years. Deviation from mean allocation has increased from 11,750 TZS/capita in 2010/11 to 17,663 TZS/capita in 2012/13 (see also Figure 2 below).

#### Figure 2: Allocation of Recurrent (OC and PE) TZS per Capita per LGA

As recurrent block transfers represent the largest share of LGA transfers, this picture is likely to be true in aggregate. However, these aggregate budget figures may hide some relative success stories. Thus for instance it is reported that the Pupil Teacher Ratio (PTR) for primary education has become more equal in recent years. As shown in the table below, the strongest improvements have occurred

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*RBA 2012. Budget data for all recurrent allocations (PE and OC) for all sectors to LGAs.*
in the decile with the poorest initial conditions: PTR decreased substantially from 80.37 to 61.98 between 2008-2011 among the decile with the lowest PTRs, while improvements in the decile with the highest PTR improved only modestly from 33.83 to 30.4 across the same time period.

Table 2: Primary School Pupil Teacher Ratio becomes more equal 2008-2011

<table>
<thead>
<tr>
<th></th>
<th>Pupils per teacher 2008</th>
<th>Pupils per teacher 2011</th>
<th>% change (2008-2011)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All districts</td>
<td>54.30</td>
<td>47.67</td>
<td>-12.21%</td>
</tr>
<tr>
<td>Mkinga</td>
<td>63.75</td>
<td>48.45</td>
<td>-24.00%</td>
</tr>
<tr>
<td>Morogoro Urban</td>
<td>31.68</td>
<td>27.27</td>
<td>-13.90%</td>
</tr>
<tr>
<td>Mean</td>
<td>54.88</td>
<td>47.47</td>
<td>-13.50%</td>
</tr>
<tr>
<td>Median</td>
<td>55.21</td>
<td>47.91</td>
<td>-13.22%</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>15.04</td>
<td>8.00</td>
<td>-46.77%</td>
</tr>
<tr>
<td>Average of the lowest decile</td>
<td>33.83</td>
<td>30.04</td>
<td>-11.21%</td>
</tr>
<tr>
<td>Average of the highest decile</td>
<td>80.37</td>
<td>61.98</td>
<td>-22.87%</td>
</tr>
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</table>

It is therefore important that the study carries out sectoral analysis to clearly identify where disparities are improving or getting worse.

2.5 Disparities are primarily driven by PE allocations which constitute an increasing share of LGA budgets

The Government has in recent years significantly expanded the number of staff at LGA level in particular for education and health. Development expenditure and Other Charges has remained relatively constant, in nominal terms, whilst PE has substantially increased from approximately 49 percent to 70 percent of LGAs total budgets.

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5 Table from GBS evaluation 2012.
The allocation of transfers to LGAs for PE is not based on the formula, but on the staff on the payroll. Staffs are allocated to LGAs by central government and LGAs then deploy those staff within their areas. Therefore the disparities in PE allocations reflect disparities in staffing across LGAs.

However there are real problems in addressing these disparities, which are far more complex than just applying a formula, for example:

- There is a historical bias of facilities in certain areas, and hence staffing allocations, in part, respond to the facilities;
- Some workers will not and do not report to work if posted to certain LGAs;
- Staff are likely to be unwilling to be posted to remote areas within LGAs, even if they report to work in a given LGA;
- It is difficult to retain staff in remote areas even if they do report.

Understandably, officials noted that there was little point appointing staff to areas where they would be unwilling to report for work. Therefore, many of the fiscal disparities observed could be boiled down to a simple problem – how can teachers and health workers be attracted to work in difficult and hard-to-reach areas?

Officials from the Education, Health and Agriculture ministries and PO-PSM are clearly acutely aware of disparities in staffing, but also the difficulty in addressing the problem. For example, the Tanzania Public Service Pay and Incentive Policy (2010) aims inter alia to “attract staff to work in LGAs with staffing problems and ensure they are equitably distributed”. The policy (2010) indicated that:

1. The Government shall design and develop an appropriate incentive scheme to attract and retain staff allocated in underserved areas.
2. The Government shall improve the organisational environment and strengthen HRM in LGAs.

Source: LGA RBA 2013 (approved budget figures)
The policy is yet to be developed into an approved implementation strategy, but from interviews it is understood that it is unlikely that the Government will introduce a system of location specific pay and allowances, but instead it is likely to encourage locally grown incentive schemes developed by the individual LGAs. Second, the Government wishes through its centralised system of staff allocation to give preference to underserved areas.

The details are yet to be worked out and this study aims to provide recommendations as to how these broad strategies in practice can be supported. Possible examples include through reformed fiscal LGA allocations that effectively would enable poor and remote LGAs to implement appropriate home-grown incentive schemes, and/or staff allocation measures. In making these recommendations, the team will also examine the degree to which various initiatives, often implemented by sectors to address the staffing problem have succeeded. In addition the team will explore the viability of other strategies as outlined in World Bank (2011 op cit).

Whilst staffing allocations are likely to be the main drivers of the disparities in funding of LGAs, it is important that we do not neglect the importance of non-salary recurrent funding of service delivery. These may be important drivers for service delivery performance in themselves, and also might contribute to the motivation of staff and the willingness of staff to work in remote areas. The functionality of LGA health and education departments and other organs responsible for monitoring service delivery staff will be dependent on non-salary recurrent financing. Similarly the availability of infrastructure may be a motivating factor for frontline workers. In short, a health worker is more likely to be willing and motivated to work in a well-built health facility, with staff housing, regular and adequate funding for service delivery inputs and where he/she receives regular visits from his/her professional supervisors. The interplay of salary, non-salary recurrent and capital funding, and their absolute and relative values may well prove important.

2.6 Disparities in resource allocation exists within districts

It is acknowledged that budget allocations also are unequally distributed within many LGAs: typically the most remote areas of a LGA will receive fewer funds than the areas near urban centres. This is reflected in pupil teacher ratio in schools and staffing patterns in health facilities, for example. It is also likely that revenues from user fees and other forms of cost sharing are likely to be lower outside urban centres as well. This problem is not substantially quantified, but flagged as important in recent reports (e.g. Boex and Omari 2013). This study, and in particular the field visits, will provide an opportunity to investigate this further in both relatively well served and poorly served LGAs.

2.7 Disparities in resource allocation have contributed to substantive inefficiencies

The 2010 and 2011 Public Expenditure Reviews provide important evidence of how disparities in resource allocation can contribute to inefficiency.

The Public Expenditure Review 2010\(^7\) was undertaken with a particular emphasis on the education sector and found very significant variation in district efficiencies (measured as public expenditures per Primary School Leaving Examination (PSLE) pass). One of the key findings from the study was “there is strong evidence that shifting incremental resources to the worst served areas is likely to improve efficiency rather than reduce it.”\(^8\)

\(^7\) 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.

\(^8\) Ibid page 61.
The World Bank 2012\textsuperscript{10} concluded that geographical re-allocations could lead to TZS 240 billion in efficiency savings.

\textbf{Efficiency gains from re-allocation of resources amongst district could be substantial as illustrated by the following numeral example.}

Take first the group of 20 “underserved districts”, where mean expenditure per 7-13 year old was TSh82450 and the average pass rate was 53 percent in primary school lever’s exams in 2008/9. Then, compare this group with the sample of 20 relatively “over served” districts with average spending at TSh146000 and pass rates at 80 percent. If resources, say TSh10 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 percent 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 TSh240bn per annum might be possible just from geographical re-allocation.

The 2011 PER 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 as will be analysed in this assignment (2011 PER pages 70-76):\textsuperscript{11}

\textsuperscript{9} Figure from World Bank 2012 Tanzania Economic Update (Stairways to Heaven) page 20.
\textsuperscript{10} Ibid page 21.
\textsuperscript{11} The analysis below are ad verbatim quotes from 2011 PER.
Firstly, it was noted that although there is a positive correlation between expenditures and measured outputs, this correlation is quite weak.

- **Correlation is quite weak.** Even in a regression analysis including other socio-economic variables (poverty and education), expenditures explained only approximately 16 percent of variation in outpatient diagnoses and 34 percent of the variation in the share of births in facilities.

- **There is evidence of decreasing returns to scale.** This is illustrated in figure 5. 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 percent greater. Therefore, we would expect extra resources to have far more impact in the bottom 30 districts than in the top 30.

- **Weak correlation of inputs and outputs means a high variation in output levels in districts with similar levels of expenditure.** This implies a difference in supply side efficiency in different authorities. In many ways, this is no surprise. Local authorities’ capacity is known to be variable in public financial management, among other areas. Health staff members' technical skills may also vary across districts, although there is no comprehensive evidence on this. The evidence makes clear that it is not enough to allocate more resources to districts; it is also essential that these resources be managed well and that workers have the capacity to deliver.

A much clearer source of inefficiency may have little to do with local authority capacity and more to do with resource allocation decisions controlled from the center. There is a wide discrepancy in the use of health facilities nationwide. In 2008/09, the National Audit Office found that of 30 health centers observed, six (20 percent) handled almost half the outpatient visits, whereas the least productive six centers handled only 7 percent. The Service Delivery Indicators Survey corroborated this result for a sample of 146 dispensaries and 29 health centers. Among dispensaries, 14 (10 percent) delivered half the outpatient visits, while the 57 lowest output dispensaries (39 percent) managed only 5 percent of the outpatient visits. Among health centers, two performed half 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 local authorities in terms of efficiency. The same mismatch is also visible in the use of health workers across facilities and districts. In the NAO study, 30 percent of the health workers (138/471) conducted over 50 percent of the outpatient consultations in health centers (figure 17). The results from the SDI survey are even more pronounced: 18 percent of the total staff performed 54 percent of the outpatient consultations. In dispensaries, just 13 percent of the workers (90/672) performed over half of the outpatient consultations (Figure 6). In contrast, the bottom 40 percent of the staff (279/672) in dispensaries managed just 5 percent of the outpatient visits — which is to say that they were virtually unused.

The grants from central government to local authorities, which are the main source of funding, may contribute to the underutilization of financial and staff resources in many primary healthcare facilities. The larger part of grants to LGAs is used to pay health workers. Local authorities have virtually no discretion over what these funds are spend on. The distribution of PE resources is driven by the location of health workers and produces a persistent pattern year on year. However, LGAs do, in theory they have influence over the location of staff within their areas. However, this may itself be limited by the preference of the health workers themselves.
The lesser part of the central government transfers is for non-salary inputs – from the Block OC transfer and the Health Basket Fund. The Basket Fund is distributed using a formula based largely on the population of each district, and the OC transfers are based on the formula and other aspects of needs. Local authorities have much more discretion over the use of non-salary funds. The result is that spending is highly variable across districts and that central government staff and finances are underutilized in some districts despite the overall scarcity of resources.

Evidence of sub-optimal use of resources on a large scale includes persistent relative over-resourcing of some local authorities; steeply diminishing returns in those districts; and clear evidence of underutilization of a large part of the primary healthcare workforce and facilities network. While some facilities appear able to deliver an impressive number of outpatient visits, others are simply not functioning. The problem might be linked to the environment in which these facilities have to operate (poor financial management, low demand, and weak capacity to pay) but it is also the result of the current allocation of financial and human resources across districts — decisions made by central government.

Both Public Expenditure Reviews suggest that a major reallocation of resources, and by implication workers, away from underutilized facilities and over-resourced districts would improve efficiency. This approach will have much more impact than continuing to direct incremental resources at the same underutilized facilities.

Source: URT 2011

Figure 6: Workers and outpatient visits, dispensaries

Source: Service Delivery Indicators Survey

2.8 Preliminary Messages

The above analysis has highlighted some areas where the current study will aim to explore some of these findings in more detail. In particular the underutilization of health facilities may emerge from staff not reporting for duty on a regular basis. This study will aim to explore divergences between staff allocations and staff reporting for duty to see whether this is a factor driving the underutilization of facilities (as patients would not attend poorly staffed facilities).
Our preliminary analysis of the existing evidence would suggest:

- It is important to build a comprehensive picture of financing of LGA service delivery before analysing disparities in that financing across and within LGAs, especially at the sector level, however this is made challenging by the fragmentation of information on transfers to LGAs.
- Overall, it appears that disparities have been increasing in the distribution of recurrent block transfers, not decreasing. However this may disguise improvements in some sectors, such as education.
- The biggest factor driving disparities in funding for service delivery across local governments is the allocation of staffing, which makes up the largest proportion of transfers to LGAs.
- These disparities, driven by staffing, are likely to be a problem within as well as across LGAs.
- There is clear evidence that shifting staff and resources from well served to poorly served areas would increase the efficiency of facilities.
- However, the key problem in doing so, relates to the difficulty of attracting, motivating and retaining staff to work in difficult and hard-to-reach areas.
3 Overall Approach to Analysis

3.1 Main steps of analysis

The assignment will be undertaken through four main phases:

- Inception period (reported in this report)
- Desk review of nationally available data (preliminary analysis in chapter 2 and further suggested analysis discussed in section 3.2 below)
- Field work in selected LGAs (discussed in chapter 4)
- Consultations on recommendations and possible strategies (discussed in section 3.4 and chapter 5)

There will be three main strands of investigation in this analysis:

- Analysis of patterns and trends of recurrent financing for service delivery, including staffing across LGAs
- Analysis of disparities in recurrent financing of service delivery within LGAs
- Investigating why disparities exist and what can be done to address them

3.2 Analysis of patterns and trends of resource allocations, including staffing across LGAs

The study team will analyse the status and progress in addressing disparities in LGA recurrent funding. This will include analysis of progress, achievements and challenges. More specifically the team will:

1) Set out an overall picture of recurrent and development financing for service delivery in LGAs, overall, and specifically for the health, education and agriculture sectors. This will include the major sources of funding and their relative size.

2) Document, map and illustrate trends in inequality in terms of per capita allocation for recurrent transfers to LGAs and inequity in terms of the application of formulae – for both budget figures and actual transfers insofar as the data is available – primarily (though not exclusively) for health, education and agriculture over the last five years. The analysis will also include comparisons between grant allocations; funds actually received; and whether higher grant allocations over and above the established formulae are justified.

3) Analyse and document progress regarding staff deployment and effective retainment of staff in disadvantaged LGAs. This will initially involve a mapping of staff allocations and retention in LGAs over the last five years and subsequent exploration of qualitative issues in selected LGAs. To what extent has the situation improved over the last five years and to what extent do financial and non-financial factors explain patterns of staff deployment will be explored.
The team has received some preliminary data for the desk analysis. This includes data from ACCGEN on actual transfers, data from PMO-RALG on LGA self-reported budget and expenditure data and the budget data set used for the FY 2013/14 RBA. The team will require at least a complete set of budget data for the period under analysis (the last five years).

In addition the team is yet to receive data on personnel allocations, but is in dialogue with PO-PSM and sector ministries regarding how this can be retrieved.

3.3 Analysis of disparities within LGAs

The study will also investigate the patterns of revenues and expenditure, and disparities therein, within local governments. The team will:

1) Explore statistics from health and education that may provide an indication of local inequities in resource allocation (maybe data on staff/facilities per ward/ward population) – the team has started review of available data and is in dialogue with sectors to retrieve data of relevance.

2) On a sample basis from the 8 LGAs visited, analyse patterns of revenues and expenditures within LGAs and disparities: measured in terms of allocations per facility, ward population, and relating these to their location (see section 4).

3.4 Investigating why disparities exist and what can be done to address them

The first two strands of investigation aim to set out the exact nature of disparities in resource allocation, staffing and progress in addressing them. The third strand of investigation seeks to understand why these disparities exist, and in that context to review existing Government and LGA strategies to address them with a view to making recommendations on how they can be addressed.

Given the fact that staffing is the key driver for inequity, these investigations will be focused on government policies and practices in the allocation and management of staff. During the assignment, the team will:

- Document the existing practices for the allocation, promotion, management and supervision of LGA staff, overall and in the health, education and agriculture sectors. And, through stakeholder interviews centrally and in the sample LGs, develop a deeper understanding of the real challenges in deploying staff equitably across and within LGAs.

- Document and quantify efforts to date for supporting disadvantaged LGAs to attract and retain staff. This will include a mapping and quantification of financing of staff houses and other central or local government financed initiatives in support of attracting staff to "disadvantaged LGAs". Consideration will also be given to different types of initiative i.e. non-monetary, incentives/disincentives.

- Analyse the extent to which patterns of non-salary recurrent and development grant transfers support a more equal development by (a) analysis of the extent to which these recurrent and development funds are targeting poor and disadvantaged districts; b) the extent to which recurrent funds finance activities which are likely to motivate staff working in remote areas (b) the extent to which development funds finance facilities that are perceived to have significant impact on staff location patterns (e.g. staff houses).

- Review the Public Service Pay and Incentive Policy Strategies that deals with the issue of staff disparity in the context of the analysis conducted.
Based on the analysis the team will prepare a set of practical recommendations for significant improvements to the current situation, including and provide practical recommendations for how existing strategies can be supported through reformed fiscal LGA allocations. This is foreseen to include suggestions on: appropriate interventions which might address the critical problem with staff deployment and retention; how the LGA grant framework, guidance and allocations can be reformed in a realistic and practical manner in order to support the Government policy for a stronger needs based staff allocation in LGAs; and, where appropriate, recommendations for further follow-up analysis of expenditure efficiency and value for money issues, drawing on the recommendation of the stocktake analysis.

**Potential Strategies to address disparities in resource allocation**

Various reports have already suggested potential strategies for how to address the persistent patterns of disparity in resource allocations. Most recently the World Bank\(^\text{12}\) proposed a wide range of potential solutions clustered as:

1) Supply side solutions, including
   a. Measures to ensure equity in establishment and resource allocation
   b. Changes in scheme of service and changes in HRM
   c. Localising recruitment and training
   d. Cash and non cash incentives including performance enhancement measures

2) Demand side and accountability solutions:
   a. Internal accountability: inspection and compliance
   b. External accountability: increasing transparency

3) Market based approaches

The team will throughout the assignment consult with central and local government officials on possible strategies and summarise proposals and options in the final report.

**3.5 Overall work plan and team composition**

The assignment is undertaken by a consulting team from ODI

<table>
<thead>
<tr>
<th>Per Tidemand</th>
<th>Team Leader</th>
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<tbody>
<tr>
<td>Nazar Sola</td>
<td>LG HRM Specialist</td>
</tr>
<tr>
<td>Alloyce Maziku</td>
<td>LG PFM Specialist</td>
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<tr>
<td>Tim Williamson</td>
<td>Intergovernmental Transfer Systems / QA</td>
</tr>
<tr>
<td>Ahmed Ali</td>
<td>LG Fiscal Analysis</td>
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<tr>
<td>Julia Tobias</td>
<td>Service Delivery / Governance Analysis</td>
</tr>
<tr>
<td>Francesca Bastagli</td>
<td>Fiscal Analysis / Technical Methods</td>
</tr>
<tr>
<td>Helen Tilley</td>
<td>Management / QA</td>
</tr>
<tr>
<td>Kevin Watkins</td>
<td>Senior Technical Review</td>
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</tbody>
</table>

\(^{12}\) World Bank 2011: Equity in Public Services in Tanzania and Uganda, Report number 56511 – AFR.
The assignment was originally intended to be undertaken within a relative short period (ten weeks). However, it was during the inception visit realised that the originally intended period for field work (November – December) would be unpractical because of the school holidays and absence of both teachers as well as other public servants in Tanzania. The team has subsequently sought to adjust the work schedule and proposes the following for completion of the assignment:

- Inception Report submission: Monday 2 December,
- Discussion of Inception Report and proposals for fieldwork at stakeholder workshop + further consultations with sector ministries: 13 - 17 January,
- Desk Analysis Report: early January (will depend on how fast we will receive all the relevant data - we have received a fairly comprehensive fiscal data set but data on personnel allocations has not been received yet),
- Fieldwork in selected LGAs: 3-21 February,
- Draft Final report: 11 March,
- Presentation of report to Government: 18 March
- Final report: 25 March

A key event will be the presentation of the findings and recommendations at an inclusive workshop that will facilitate policy consensus and agreement on practical implementation. Further discussion of possible recommendations and proposal for composition of workshop is presented in chapter 5.
4 Field Work Proposal

4.1 Objective of Field Work

Fieldwork will be undertaken to explore three main issues:

1) Patterns of disparity within districts;

2) Drivers of the current state of disparities: primary factors that impact on the ability of LGAs (and specific areas within LGAs) to attract and retain staff; and

3) The effectiveness of possible strategies for improved staff attraction and retainment in these “Hard to Reach and Stay” (HTRS) areas.

4.2 Selection of Field Work Sites

Fieldwork will be undertaken as case studies with a primary emphasis on understanding the qualitative aspects of inequities rather than pursuing statistically representative sampling. The main criteria for selection of the areas for fieldwork are:

1) Examples of relatively underserved LGAs that have faced significant and consistent problems in attraction and retention of staff;

2) Examples of relatively well-served LGAs that have above average levels of PE/OC funding and above average levels of staffing;

3) Examples of LGAs that have introduced and implemented relatively successful schemes for staff retention/attraction and/or LGAs where sector ministries and PMO-RALG/PO-PSM have experienced relative success in improving PE/OC and staff allocations.

The TOR suggests that fieldwork be undertaken in a sample of minimum 8 LGAs. The sample will be drawn from a short-list of most “advantaged” and “disadvantaged” LGAs (in terms of how much they annually receive as recurrent grants) and will include examples of “middling” LGAs chosen as far as possible to reflect variation in expenditure efficiency. According to the TOR, the list will be based on historical recurrent grant allocations and will take account as far as possible of own revenues. For illustrative purposes, Table 3 below shows the top and bottom five districts over past three years in terms of per capita recurrent allocations only.
As discussed in annex 2, the most significant variation in LGA revenue generation is found between rural and urban LGAs (urban LGAs generally collect 5 times as much as rural LGAs). Including both urban and rural LGAs in the sample would therefore capture variation on local revenue collection.

During the consultations with Government (in particular PO-PSM) it was suggested to include Iramba and Sumbawange Districts as examples of LGAs that had made a special effort to retain and attract staff (education and health in particular) by introduction of various local incentives.

Based on these criteria, it is proposed to undertake fieldwork in the following 8 LGAs:

### Table 4: Proposed LGAs for fieldwork

<table>
<thead>
<tr>
<th>Regions</th>
<th>Selected LGAs</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>LGA with interesting local incentive schemes</td>
</tr>
<tr>
<td>Coast</td>
<td>Kibaha DC</td>
</tr>
<tr>
<td>Kagera</td>
<td>Bukoba MC</td>
</tr>
<tr>
<td>Kigoma</td>
<td></td>
</tr>
<tr>
<td>Shinyanga</td>
<td></td>
</tr>
<tr>
<td>Tabora</td>
<td></td>
</tr>
<tr>
<td>Tanga</td>
<td>Korogwe TC</td>
</tr>
<tr>
<td>Rukwa</td>
<td>Sumbawanga DC</td>
</tr>
<tr>
<td>Singida</td>
<td>Iramba DC</td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

Total urban LGAs: 2, total rural LGAs: 6.

Note: TC = Town council and MC = Municipal Council. The rural councils are all called District Councils = DC.
4.3 Fieldwork Methodology

Fieldwork will be undertaken in 8 LGAs by a consultant team of 2 finance specialists, 2 HRM specialists and the team leader. It is recommended to include representation from key ministries and offices in the fieldwork. More specifically, it is proposed to include representation from the key sectors (education, health, and agriculture) in addition to PMO-RALG, MOF, and PO-PSM. The participation of these representatives aims to draw upon the expertise of central government staff, to encourage a dialogue between local and central government and to facilitate the sharing of the tools used in the analysis with government representatives. The team will initially work jointly in two councils and then split in two groups to cover the remaining 6 LGAs. A total of 3.5 days is set aside for each LGA including travel time.

Fieldwork will include:

1) Introductory meeting with management team: Council Director, HRO, Planner, Council Treasurer and Heads of key departments (Education, Health and Agriculture). This will explore:

a. How the management deals with staff deployment within the LGA as well as how it works to attract and retain staff;

b. The management relationship between the LGA departments and frontline service delivery staff.

c. The allocation and distribution of non-salary funds and inputs to service providers.
2) Meetings with decentralised bodies involved in human resources management and monitoring of service provision:
   a. Local representatives of the various public service commissions located in the LGAs and Regions;
   b. Education inspectorates and any other relevant supervisory bodies at regional or district level.

3) Review of geographical distribution of facilities across the LGA:
   a. Distribution and relative quality of schools per ward, including staff housing;
   b. Distribution and relative quality of health facilities per ward, including staff housing.

4) Review of statistics on staff deployment and retention across the LGA – statistics will be compiled accordant to each facility and administrative units (village/ward) and the team will explore the option of graphic mapping:
   a. Teachers per school (PTR) and according to wards;
   b. Health staff per facility and according to wards;
   c. Agriculture staff per village and ward.

5) Analysis of overall LGA resource allocation in health, education and agriculture:
   a. Sources of funding for sector budgets;
   b. Composition of sector budgets and expenditure, including the source of revenue and composition of expenditure.

6) Analysis of fiscal resource allocations across service facilities within the LGA, from transfers, own source revenues and cost sharing and composition of expenditure:
   a. Review of LGA transfers to schools, health centres and villages/wards where they are made;
   b. Review of the budgets of facilities visited (School budgets, Health facility budgets, ward/village budgets for agriculture?).

7) Interview with front line service providers (teachers, health staff and agricultural extension staff) regarding:
   a. Procedures for their deployment to the specific post;
   b. Their relative satisfaction with the posting;
   c. Their work burden/performance (number of patients attending to etc.);
   d. Their job motivation (applying criteria for assessing);
   e. Their views of alternative postings – what would it take for staff in well served areas to locate to “hard to reach areas”;
   f. Staff views on the relative importance and fairness of possible incentives for staff to work in “hard to reach areas”.

Standard templates for financial information and questionnaire guides will be developed and field-tested in one LGA (Morogoro Rural or Morogoro Municipality, West of Dar es Salaam) prior to the start of the fieldwork. At least two full working days will be spent in each LGA. The team will aim to
visit 4 primary schools, 4 health facilities and 4 wards/villages in each LGA – or these two hard to reach/remote and two easy to reach/in urban areas. GPS coordinates of the facilities visited will be collected.
5 Concluding Remarks

5.1 Tentative proposed outline of Final Report

The main target group for the report is key Government policy makers. Several members of the target group will be experts in selected policy and practice areas discussed in the report, but not all will be equally acquainted with all aspects of policy and management practices related to the topic of this report. Several aspects of the report have in the past been discussed in general terms – e.g. as part of GBS dialogue – but more elaborate discussions of the specifics of “inequity”, the underlying causes and implementable actions have been missing. The report from this assignment will therefore aim to provide the readers with a succinct overview in order to generate a consensus on underlying causes of disparities and the specific strategy options in a manner that will facilitate policy adjustments. The report is tentatively suggested to include the following main headings:

0) Executive summary

1) Introduction and methodology

2) Equity in Financing of Service Delivery
   a. Overview of Financing of Local Government Authority Service Delivery
   b. Sectoral Analysis of Financing and Staffing Across LGAs
   c. Analysis of Sectoral Revenues. Expenditure and staffing within LGAs
   d. Expenditure and Service Delivery Results
   e. Conclusions

3) Drivers of Disparity – and Initiatives to counter this
   a. Historical imbalances in allocations of service facilities
   b. Procedures for personnel allocation, management and supervision
   c. Retention and staff turnover
   d. Analysis of the role of non-salary recurrent and development funding
   e. Review of Government initiatives for targeting staff to HTRS LGAs
   f. Review of local Incentive schemes

4) Recommendations (see Inception report Chapter 5)
   a. Procedures for staff allocations / management of staffing norms
   b. Guidelines for local incentive schemes
   c. Financing arrangements for local incentive schemes
   d. Other recommendations that may arise from the analyses
5.2 Workshop Attendance

The TOR requires that the findings and recommendations will be presented in a workshop that will facilitate policy consensus and agreement on practical implementation. We suggest this workshop to include representatives from:

1. Prime Minister’s Office Regional and Local Governments (Permanent Secretary or Dept. PS)
2. Ministry of Finance (including preferably The Deputy Permanent Secretary (Policy and Resource Mobilisation) Assistant Commissioner for Budget Regional and Local Governments, Accountant General),
3. President’s Office – Public Service Management (Director of Policy and Planning)
4. Ministry of Health and Social Welfare, (Director of Policy and Planning)
5. Ministry of Education Director of Policy and Planning)
6. Ministry of Agriculture Director of Policy and Planning)
7. ALAT (General Secretary)
8. Relevant development partners (DFID and World Bank)
9. Representatives from the 8 LGAs visited during the assignment

5.3 Summary of Issues for Inter-Ministerial Task Force

In addition to any general comments from the Inter Ministerial Task Force on this draft Inception Report, the team would appreciate comments and guidance on the following key areas:

1. Selection of Government representatives to participate in fieldwork. We recommend that this includes key staff from the following institutions with expertise in the subject matters of this study: Ministry of Health and Social Welfare, Ministry of Education, Ministry of Agriculture, Ministry of Finance, PO-PSM and PMO-RALG.

2. Confirmation of proposed LGAs for fieldwork (chapter 4.2) and issuance of introduction letters to each of the selected LGAs.

3. Provision of relevant data for analysis of staff allocations to LGAs:
   a. From each sector Ministry: sector data on staff allocations for each LGA for the last five years (number of staff allocated and number of staff reporting) and where possible staff allocations per facility and ward.
   b. From PO-PSM (Lawson HRM MIS) data on staff allocations for each LGA for the last five years (number of staff allocated and number of staff reporting).
References

Boex, Jamie and Selemani Omari 2013: Strengthening the Geographical Allocation of Resources within the Health Sector in Tanzania: Towards Greater Equity and Performance, June 2013

Claussen and Mussa Assad 2010: Public Expenditure Tracking Survey for Primary and Secondary Education in Mainland Tanzania

DEGE Consult 2012: Evaluation of LGSP Implementation (Component 1 and 3. The Local Government Development Grant) to Inform the Preparation of the Project Implementation Completion Report (ICR)


PMO-RALG 2005: “Study on the staffing problems of peripheral or otherwise disadvantaged local government authorities” (Crown Management Consultants Limited, 2005 for PMO-RALG/LGRP)

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


Tidemand 2013: Stocktaking of Recent Experiences with PETS and Recommendation for Future Surveys – a brief study for DfID.

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

Appendix

Appendix 1: TOR

Terms of Reference for a Consultancy Assignment to Review Efforts for Addressing LGA Fiscal Inequities and the Challenges of “Disadvantaged” LGAs

1 Background

1.1. These Terms of Reference should be read in conjunction with the companion report: “A Stocktaking of Recent Experiences with PETS and Recommendation for Future Surveys” (Tidemand 2013) which analyses key challenges in the Tanzanian local government financing system and methodologies for analysing underlying causal factors in relation to each. The present Terms of Reference focus on the specific issue of disparities. Further complementary studies would be required to address the full range of challenges summarized in the stocktaking report.

1.2. Local Government Authorities (LGAs) manage a range of basic services - in particular basic education, basic health, rural roads, agriculture and water services. Funds for provision of these services are foremost provided by Central Government through a system of recurrent and development/capital grant transfers. LGAs own revenues from local taxes and other local revenues like fees and licenses account for less than 10% of total expenditure at LGA levels – the remaining is provided as fiscal transfers from central government.

1.3. The fiscal transfers for recurrent financing (PE and OC) has over the last three years accounted for 70-83% of total LGA budgets. These funds are not distributed in accordance with formula, but allocated primarily in accordance to the number of staff posted and existing facilities in respective LGAs. It is recognized that these patterns of unequal allocation of recurrent grants across LGAs persists through years and remains a critical issue for access and quality of basic social services - in particular for health, education and agriculture (other sectors like water and roads are not financed by recurrent grant allocations to the same degree). Health and education recurrent (PE and OC) allocations in this FY 2012/13 amount to approximately TSH 2 trillion (1,615 for education and 354 for health). This represents about 60% of total allocations to the LGAs.

14 The first detailed study of the underlying problems is found Tanzania situation in the 2005 study on “the staffing problems of peripheral or otherwise disadvantaged local government authorities” (Crown Management Consultants Limited, 2005 for PMO-RALG/LGRP) – the most recent comprehensive analytical update is found in: URT/PSRP: Tanzania Public Service Situation Analysis: Towards A Revised Public Service Pay Policy 2009 – A report by Crown Management Consultants, Ltd

15 Figures on budget allocations and quantitative aspects of inequalities are based on the Rapid Budget Analysis for FY 2012/13.
1.4. For instance, average health and education recurrent allocations per capita to urban councils are 68 000 shillings and 45 000 shillings for rural councils. As shown in Table 1, the extreme cases this year are Bukoba where basic services are provided with 126 224 Tshs per capita and Kasulu which gets only Tsh 22 373 per person.

Table A1: Distribution of Sector (Recurrent) Budgets at LGAs in FY 2012/13

<table>
<thead>
<tr>
<th></th>
<th>All recurrent</th>
<th>Health</th>
<th>Education</th>
<th>Edu and Health OC</th>
<th>Edu and health PE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>49 738</td>
<td>8 997</td>
<td>40 741</td>
<td>7 241</td>
<td>42 497</td>
</tr>
<tr>
<td>Top decile</td>
<td>86 349</td>
<td>20 077</td>
<td>71 812</td>
<td>17 038</td>
<td>75 032</td>
</tr>
<tr>
<td>Bottom decile</td>
<td>27 928</td>
<td>3 891</td>
<td>22 687</td>
<td>3 522</td>
<td>23 769</td>
</tr>
<tr>
<td>Highest</td>
<td>126 224 (Bukoba)</td>
<td>30 755 (Pangani)</td>
<td>111 643 (Bukoba)</td>
<td>29 284 (Longido)</td>
<td>110 599 (Bukoba)</td>
</tr>
<tr>
<td>Lowest</td>
<td>22 373 (Kasulu)</td>
<td>2 810 (Lushoto)</td>
<td>18 483 (Kasulu)</td>
<td>2 640 (Nzega)</td>
<td>18 607 (Kasulu)</td>
</tr>
</tbody>
</table>

1.5. The biggest disparities appear to be in health OC, where the top decile (13) councils receive five times more funds than the bottom decile councils. Disparities in allocations have persisted for years, and have apparently worsened over the past three years. Some variation in per capital allocations could be desirable – i.e. if the variation corresponded to similar variation in the cost of provision of services – as e.g. reflected in the (in principle) agreed formula for recurrent grant allocations (for the health sector based on population, mortality rates and health mileage). The detailed extent to which actual grant allocations are aligned with formula will be explored in the study – but it is evident from the current patterns of disparity (e.g. relative “over” funding of urban LGAs) that actual grant allocations at present divert significantly from the formulae.

1.6. Inequities in the education sector and agricultural sector are also significant – with an urban bias in a similar way as for the health sector. There is some evidence that teacher allocations gradually have become more equal — but inequalities continue to be distinct – both across LGAs as well as within individual LGAs where some parts (typically near urban centres) are better served than others (typically “remote” and rural).

1.7. In addition it is acknowledged that budget allocations also are unequally distributed within many LGAs: typically the most remote areas of a LGA will receive less funds than the areas near urban centres. This is e.g. reflected in pupil teacher ratio in schools and staffing patterns in health facilities. However, this problem is not substantially quantified. It is also acknowledged that a potential factor contributing to inequitable service delivery is variability in the efficiency of expenditures at local level.

1.8. The Government has been aware of these inequities for several years and in various ways tried to address the problem. It has for some time been discussed how these recurrent funds can be distributed in a more transparent and equal manner – possibly by use of formulas. However, it has been realized that such an approach is difficult in 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 cost

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16 See e.g. Evaluation of General Budget support in Tanzania 2013. See data for PT rations.
implications of past investments (existing health facilities, schools and funding the activities of the staff already in place etc.). The main strategies for addressing the inequalities have therefore focused on more equitable distribution of staff and been twofold: (1) for recruitment of new staff priority has been given to LGAs with the most significant deficit and (2) “development” funds have been allocated to allow LGAs to create more a more enabling and attractive environment for staff – as staff otherwise in the “disadvantaged LGAs” have tended resist placements or leave shortly after reporting. Other proposals, such as possible introduction of special allowances for staff in “disadvantaged districts” or a special fund for these LGAs have been discussed for long but not pursued.18

1.9. The recent Public Service Pay and Incentive Policy Implementation Strategy for 2012/13 – 2016/17 (May 2012) deals with the issue of staff disparity, and establishes –as one of its key policy objectives- to “attract staff to work in LGAs with staffing problems and ensure 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 preferential allocation of staff to LGAs”. The proposed study will provide practical recommendations for how these strategies can be supported through reformed fiscal LGA allocations.

2 Objectives of Proposed Assignment

2.1. 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 should take account of service delivery on the ground, be forward looking and provide recommendations for significant improvements that practically can be implemented.

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

3 Scope of work

3.1. The consultancy team will analyse the efforts made for the last five years regarding ways of addressing inequalities in LGA recurrent funds with special emphasis on health, education and agriculture sectors, and including water and rural roads. This will include analysis of progress, achievements and challenges. More specifically the team will:

3.2. Document and quantify trends in per capita allocation for recurrent transfers (PE and OC) – both budget figures and actual transfers – primarily (though not exclusively) for health, education and agriculture over the last five years. The analysis should also include comparisons between grant allocations, funds actually received and agreed formula for the respective sectors (analyses of “index of fit”)19; and whether higher grant allocations are justified due to higher costs of service provisions

3.3. Analyse and document progress regarding staff deployment and effective retention of staff in disadvantaged LGAs. This will initially involve a mapping of staff allocations and retention in LGAs over the last five years and subsequent exploration of qualitative issues in selected LGAs. To what extent has the situation improved over the last five years? To what extent do financial and non-financial factors explain patterns of staff deployment?

3.4. On a sample basis (8 LGAs) analyse patterns of inequities within LGAs: measured in terms of allocations per ward and relative allocations per facility (e.g. allocations per enrolled child etc.), and as far as possible track the extent to which funds are arriving and being spent in an efficient manner (the consultants will in their inception report propose a methodology for assessment of effectiveness and efficiency of grant expenditures).

3.5. Document and quantify efforts for supporting disadvantaged LGAs to attract and retain staff. This will include a mapping and quantification of financing of staff houses and other central or local government financed initiatives in support of attracting staff to “disadvantaged LGAs”.

3.6. Analyse the extent to which patterns of development grant transfers support a more equal development by (a) analysis of the extent to which these development funds are targeting poor and disadvantaged districts and (b) the extent to which these development funds finance facilities that are perceived to have significant impact on staff location patterns (e.g. staff houses).

3.7. Review the Public Service Pay and Incentive Policy Strategies that deals with the issue of staff disparity and provide practical recommendations for how these strategies can be supported through reformed fiscal LGA allocations. Consideration will also be given to other i.e. non-monetary, incentives/disincentives.

3.8. Based on the analysis the team will prepare a set of practical recommendations for significant improvements to the current situation. This is foreseen to include detailed guidance on how the LGA grant allocations in a realistic and practical manner can be reformed in order to support the Government Policy for more need based staff allocation in LGAs (and subsequent alignment of existing PE allocations with the agreed sectorial LGA grant formula for PE/OC). Where appropriate, recommendations will be developed for further follow-up analysis of expenditure efficiency and value for money issues, drawing on the recommendation of the stocktake analysis (para 1.1).

3.9. The findings and recommendations will be presented in an inclusive workshop (composition and format to be proposed in Inception report) that will facilitate policy consensus and agreement on practical implementation.

4 Methodology

4.1. Based on the TOR the team will prepare a detailed methodology including a plan for fieldwork that will be presented in an Inception Report.

4.2. It is foreseen that the work will include (1) desk analysis of previous studies, (2) compilation of national level data from PO-PSM, sector ministries, PMO-RALG and MOF regarding staff allocation and budget allocations and (3) fieldwork in selected LGAs that represent the variation in recurrent grant allocations.

4.3. Fieldwork will be undertaken in a sample of minimum 8 LGAs. The sample will be drawn from a short-list of most “advantaged” and “disadvantaged” (in terms of how much they annually receive as recurrent grants). LGAs, and will include examples of “middling” LGAs chosen as
far as possible to reflect variation in expenditure efficiency. The list will be based on historical fiscal recurrent grant allocations and take account as far as possible of own revenues. For illustrative purposes, Table 2 below shows the top and bottom five districts over past three years in terms of per capita recurrent allocations only. An early task will be to refine the shortlist to take account of other resource available to LGAs, perceived efficiencies/inefficiencies, and make detailed analyses for each of the major recurrent grants.

Table A2: Trends of Allocation to Top 5 and Bottom 5 Districts

<table>
<thead>
<tr>
<th></th>
<th>2010/11</th>
<th>2011/12</th>
<th>2012/13</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOP 5</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kibaha DC</td>
<td>Kibaha DC</td>
<td>Bukoba MC</td>
<td></td>
</tr>
<tr>
<td>Korogwe TC</td>
<td>Korogwe TC</td>
<td>Kibaha DC</td>
<td></td>
</tr>
<tr>
<td>Pangani DC</td>
<td>Bukoba MC</td>
<td>Iringa MC</td>
<td></td>
</tr>
<tr>
<td>Bukoba MC</td>
<td>Mwanga DC</td>
<td>Korogwe TC</td>
<td></td>
</tr>
<tr>
<td>Mwanga DC</td>
<td>Moshi MC</td>
<td>Mwanga DC</td>
<td></td>
</tr>
<tr>
<td><strong>BOTTOM 5</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tabora</td>
<td>Mpanda</td>
<td>Kasulu</td>
<td></td>
</tr>
<tr>
<td>Kigoma</td>
<td>Biharamulo</td>
<td>Nzega</td>
<td></td>
</tr>
<tr>
<td>Bukombe</td>
<td>Tabora</td>
<td>Tabora</td>
<td></td>
</tr>
<tr>
<td>Mpanda</td>
<td>Nzega</td>
<td>Kigoma</td>
<td></td>
</tr>
<tr>
<td>Kasulu</td>
<td>Kigoma</td>
<td>Kahama</td>
<td></td>
</tr>
</tbody>
</table>

4.4. In addition to review of the experiences of LGAs it is also deemed relevant to review the positive experiences of some of the LGAs that have experienced some equalization in the education sector (LGAs to be identified during the consultancy). As a complementary task, an explanatory analysis will be provided in relation to highest and lowest LGAs shown in Table 1.

4.5. The suggested sample of LGAs to be analysed will be presented in the Inception Report and approved by the Taskforce (see section 6 of TOR) before the fieldwork is initiated.

5 Timeframe

5.1. The assignment will be undertaken over a period of ten weeks, with the following tentative schedule:

5.2. _Inception period_: two weeks for review of background literature and development of consultants detailed work plan and methodology including identification of relevant data sources and selection of sites for fieldwork.

5.3. _Desk Analysis_: two weeks: (1) compilation and analysis of fiscal transfer data for the last five years: actual and budget allocations for LGAs recurrent (PE and OC) and (2) analysis of data on staff allocations across LGAs for the last five years.

---

20 Analyses of PTR in LGAs over the last five years suggest that some of the previously under-staffed LAGs have been relative succesful in "catching up".
5.4. Fieldwork for three weeks in eight selected LGAs: three “top performers” and three “bottom performers” (ref Table 2) and two LGAs that have been relative successful in catching up with the backlog of teachers.

5.5. Draft report by week 8 and workshop in week 9.


6 Reporting Arrangements and deliverables

6.1. The Consultant team will report to an interministerial task force composed by: PMO-RALG (chair), MOF, PO-PSM and DP representations including DFID who are leading this study from the DP side. PMO-RALG will inform and invite sector ministries as relevant.

6.2. The consultant will prepare the following outputs: (1) Inception report, (2) Desk Analysis (3) Draft Report and (4) final report, (5) Policy brief and (6) subject to agreement with the taskforce, outline ToRs for future surveys of expenditure efficiency and value for money issues in the local government system.

7 Consultants Inputs

7.1. The consultants’ team will include one team leader, one senior LG PFM specialist and one senior HRM expert.

7.2. The team leader will work for ten weeks and coordinate the overall assignment. The team leader will hold a PhD or Master’s degree of relevant discipline and have a minimum of ten years of experience with local government HRM and LG Finance from international assignments and from previous work in Tanzania.

7.3. The LG PFM specialist will work for 8 weeks on the assignment. He/she will have a minimum of 8 years of experience with local government finance from international assignments and from previous work in Tanzania.

7.4. The LG HRM specialist will work for 8 weeks on the assignment. He/she will have a minimum of 8 years of experience with local government HRM from international assignments and from previous work in Tanzania.

7.5. At least one of the experts should be fluent in Swahili.

7.6. International consultants will work to help build the capacity of local consultants and experts involved in the review.

8 Arrangements for Procurement of Consultancy Services

8.1. The assignment will be financed by DfID and procurement of consultancy services will be managed by DfID with Government participation in the selection process.
Appendix 2: Data on LGA Own Revenue

This annex provides background information on LGA own revenue data.

Data is unless otherwise stated based on PMO-RALG published data\(^{21}\) that is based on LGA self-reported budgets and accounts.

Table A3: Size and Composition of LGA Own Revenue Budgets FY 2012/13

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Annual Budget Plan</th>
<th>Relative importance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property taxes</td>
<td>18,500,200,078</td>
<td>5.4%</td>
</tr>
<tr>
<td>Land rent</td>
<td>8,835,182,867</td>
<td>2.6%</td>
</tr>
<tr>
<td>Produce cess</td>
<td>66,085,591,213</td>
<td>19.4%</td>
</tr>
<tr>
<td>Service levy</td>
<td>46,342,050,534</td>
<td>13.6%</td>
</tr>
<tr>
<td>Guest house levy</td>
<td>6,175,334,199</td>
<td>1.8%</td>
</tr>
<tr>
<td>Other Levies on Business Activities</td>
<td>12,772,966,099</td>
<td>3.8%</td>
</tr>
<tr>
<td>Licenses &amp; Permits</td>
<td>46,493,491,047</td>
<td>13.7%</td>
</tr>
<tr>
<td>Fees &amp; Charges</td>
<td>48,114,673,481</td>
<td>14.1%</td>
</tr>
<tr>
<td>Other Own Revenues</td>
<td>87,213,084,245</td>
<td>25.6%</td>
</tr>
<tr>
<td>Total Own Revenues</td>
<td>340,578,800,131</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: computed from PMO-RALG data (http://lginf.pmoralg.go.tz/)

The local government level is often criticized for their inadequate revenue collection efforts, as local own source revenues only contribute a small share to the overall financing of local governments. However, the criticism that local governments do not try hard enough to collect own source revenues is not fully deserved. There are a number of reasons why local own source revenues form only a small share to LGA resources: among others, the revenue sources assigned to the local level often have a limited revenue yield and are difficult to collect. Furthermore, the geographic distribution of the economic activities in Tanzania is highly concentrated across the national territory, with a disproportionate share of economic production taking place in urban areas. While rural local governments on average collect less than TSh 2600 in own source revenues per capita (US$ 1.63), revenue collections in urban authorities average TSh 12,500 per person (US$ 7.88).

Table A4: Local Own Source Revenues, FY 2005/06 – FY 2010/11

<table>
<thead>
<tr>
<th>Per Capita Revenues, by Type of LGA</th>
<th>Mainland</th>
<th>Urban</th>
<th>Urban ex DSM</th>
<th>Rural</th>
<th>DSM</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>1,291</td>
<td>3,957</td>
<td>2,875</td>
<td>698</td>
<td>5,525</td>
</tr>
<tr>
<td>2006-07</td>
<td>1,599</td>
<td>4,957</td>
<td>3,426</td>
<td>851</td>
<td>7,177</td>
</tr>
<tr>
<td>2007-08</td>
<td>2,007</td>
<td>5,876</td>
<td>4,455</td>
<td>1,145</td>
<td>7,936</td>
</tr>
<tr>
<td>2008-09</td>
<td>2,700</td>
<td>7,773</td>
<td>5,828</td>
<td>1,571</td>
<td>10,590</td>
</tr>
<tr>
<td>2009-10</td>
<td>3,295</td>
<td>9,067</td>
<td>6,767</td>
<td>2,010</td>
<td>12,399</td>
</tr>
<tr>
<td>2010-11</td>
<td>4,398</td>
<td>12,499</td>
<td>10,042</td>
<td>2,594</td>
<td>16,060</td>
</tr>
</tbody>
</table>

Source: Boex and Tidemand 2012, computations of PMO-RALG data

\(^{21}\) http://lginf.pmoralg.go.tz, and for previous years www.logintanzania.net
## Appendix 3: Preliminary Data from 2013 RBA on Fiscal Inequities

### Table A5: Top and bottom 10 LGAs. Recurrent grant allocations for health and education FY 2013/14

<table>
<thead>
<tr>
<th>Education - Top ten per capita allocations</th>
<th>Health - Top ten per capita allocations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singida District Council</td>
<td>Makete District Council</td>
</tr>
<tr>
<td>79,204</td>
<td>20,300</td>
</tr>
<tr>
<td>Mufindi District Council</td>
<td>Njombe Town Council</td>
</tr>
<tr>
<td>79,855</td>
<td>20,935</td>
</tr>
<tr>
<td>Musoma Municipal Council</td>
<td>Nanyumbu District Council</td>
</tr>
<tr>
<td>80,260</td>
<td>21,063</td>
</tr>
<tr>
<td>Kondoa District Council</td>
<td>Masasi Town Council</td>
</tr>
<tr>
<td>82,048</td>
<td>22,724</td>
</tr>
<tr>
<td>Kigoma District Council</td>
<td>Mwanga District Council</td>
</tr>
<tr>
<td>84,449</td>
<td>23,964</td>
</tr>
<tr>
<td>Mwanga District Council</td>
<td>Mafia District Council</td>
</tr>
<tr>
<td>90,832</td>
<td>24,680</td>
</tr>
<tr>
<td>Kibaha District Council</td>
<td>Kibaha District Council</td>
</tr>
<tr>
<td>91,862</td>
<td>24,865</td>
</tr>
<tr>
<td>Korogwe Town Council</td>
<td>Kisarawe District Council</td>
</tr>
<tr>
<td>94,734</td>
<td>26,075</td>
</tr>
<tr>
<td>Musoma District Council</td>
<td>Pangani District Council</td>
</tr>
<tr>
<td>102,877</td>
<td>31,828</td>
</tr>
<tr>
<td>Njombe District Council</td>
<td>Njombe District Council</td>
</tr>
<tr>
<td>214,322</td>
<td>32,937</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Education - Bottom ten</th>
<th>Health - Bottom Ten</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mlele District Council</td>
<td>Handeni Town Council</td>
</tr>
<tr>
<td>1,432</td>
<td>585</td>
</tr>
<tr>
<td>Tunduma Town Council</td>
<td>Kasulu Town Council</td>
</tr>
<tr>
<td>1,993</td>
<td>662</td>
</tr>
<tr>
<td>Kalambo District Council</td>
<td>Kahama Town Council</td>
</tr>
<tr>
<td>4,235</td>
<td>743</td>
</tr>
<tr>
<td>Butiama District Council</td>
<td>Ukerewe District Council</td>
</tr>
<tr>
<td>4,947</td>
<td>1,213</td>
</tr>
<tr>
<td>Momba District Council</td>
<td>Tunduma Town Council</td>
</tr>
<tr>
<td>9,287</td>
<td>1,406</td>
</tr>
<tr>
<td>Biharamulo District Council</td>
<td>Masasi District Council</td>
</tr>
<tr>
<td>21,496</td>
<td>4,125</td>
</tr>
<tr>
<td>Ukerewe District Council</td>
<td>Muleba District Council</td>
</tr>
<tr>
<td>21,899</td>
<td>4,140</td>
</tr>
<tr>
<td>Ilemela Municipal Council</td>
<td>Kilindi District Council</td>
</tr>
<tr>
<td>22,185</td>
<td>4,162</td>
</tr>
<tr>
<td>Nanyumbu District Council</td>
<td>Ilemela Municipal Council</td>
</tr>
<tr>
<td>23,452</td>
<td>4,297</td>
</tr>
<tr>
<td>Kinondoni Municipal Council</td>
<td>Mpanda Town Council</td>
</tr>
<tr>
<td>27,873</td>
<td>4,577</td>
</tr>
</tbody>
</table>

Source: computations of 2013/14 Budget – RBA budget data files.
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