

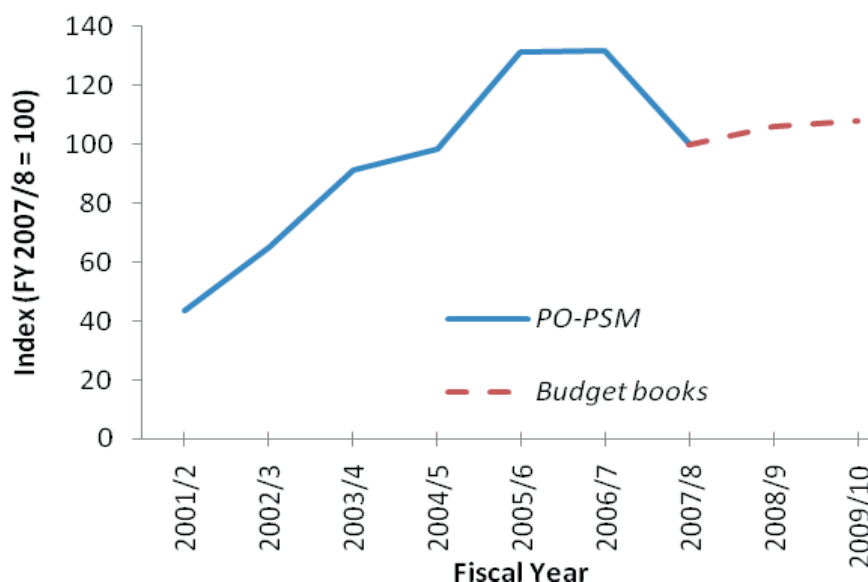
Reforming Allowances: A Win-Win Approach to Improved Service Delivery, Higher Salaries for Civil Servants and Saving Money

1. Introduction

Last fiscal year (2008/9) the Government of Tanzania budgeted an impressive Tshs 506 billion (\$390 million) for allowances. This amount is equivalent to the annual (maximum) basic salary for 109,000 teachers, or over two thirds of all teachers.

Despite consolidations in the wage bill in 2001/2 and in 2007/8, allowances have proved to be remarkably persistent. In 2009/10 the amount allocated to allowances was equal to 59% of the total wage bill (pensionable and non-pensionable basic salaries plus pensions). Between 2001/2 and 2006/7 the real amount spent on allowances increased more than 3-fold; relative to last fiscal year, and despite the economic crisis, allowances in this year's budget increased by 13%.

Figure 1: Evolution of allowances in Government Budget since 2001/2¹



Source: 2001/2-2007/8, PO-PSM 2009; 2007/8-2009/10, Budget Books.

Few would question the justification for paying allowances to public servants who stay in remote areas or to reimburse real expenses incurred because someone was transferred from one location to another. Yet when allowances are only loosely related to actual

¹Graph presents information from two different time series. For the year comprised in both series (2007/8), the total amounts differ. To present one series, allowances have been made real (using the January price index of the relevant fiscal year) and indexed where for both series the index was set to 100 for 2007/8.

cost incurred and when they are high relative to basic salaries, they become an incentive instead of a reimbursement. And when allowances become an incentive, the pursuit of allowances is likely to induce and reward behaviour that is counterproductive to the provision of quality services by public servants.

This leaflet argues that the practise of allowances is unaffordable, displaces other priority expenditures and undermines the Government's objective of quality service provision. By reducing allowances Government could save money, enhance the salaries of public servants *and* better align staff incentives with the provision of quality products and services.

2. Allowances by Type and Ministry

Table 1 shows the main allowances by type. It demonstrates how about two third of all allowances are spent on four items alone: per diems and daily allowances, national expenses (to pay for parades etc.), ration allowance (for the police and prison service) and training allowance. It also demonstrates some clear trends with per diem and daily allowances as well as ration allowances increasing rapidly (over 50% - 100% over a two year period).

Table 1: Allocation of allowances by type (Billion Tshs)

	2007/08	2008/09	2009/10	Increase 2008/09- 2009/2010
Per diem and daily allowances	99.0	105.0	154.6	47%
National Expenses	89.8	102.0	109.0	7%
Ration allowance	26.2	26.8	60.5	126%
Training	34.7	31.5	43.4	38%
Sundry-Expenses	24.6	34.1	44.9	32%
Extra-Duty	16.8	21.1	26.9	27%
Honorarium and sitting allowances	23.8	35.7	20.1	-44%
Constituency	9.0	9.7	20.0	106%
Leave Travel	9.2	10.9	13.2	21%
Moving Expenses	10.2	7.3	9.3	27%
Housing	12.2	19.5	0.7	-96%
Other Compensations	16.5	40.1	0.0	-100%
Subtotal	372.0	443.7	502.6	13%
Total Allowances	423.2	506.4	571.1 (*)	13%

(*) For 2009/10 total allowances is estimated based on subtotal (88% of total allowances)

Source: Budget Books

A distinction that is oftentimes made in assessing allowances is between remunerative and duty enhancing allowances whereby duty enhancing allowances are thought to improve productivity and service delivery, while remunerative allowances have a less clear association with quality service delivery. In this interpretation, duty enhancing allowances comprise expenses for training, while remunerative are expenses for housing.

In practise the distinction is less clear cut as much depends on the purpose and ‘context’ of the allowance. A housing allowance provided to a civil servant who agrees to stay in a remote area is productive and enhances the quality of service delivery if without such an allowance public servants will not work in isolated areas. Yet the housing allowance as it was provided in 2008/9 (Tshs 19.5 billion in 2008/9 – enough to pay 4,400 teachers) only accrues to higher level officers in PGSS/PTSS/PHTS/PUTS scales 17-21 and is clearly remunerative.² Or to provide another illustration, training allowance can enhance productivity if the training provides new skills that are used in the job. Yet, when skills are not put to practise because training is given to someone who is bound to retire or switch jobs, or because there are no incentives to put the new skills to work, then training allowances become remunerative.

Indicative of many allowances being remunerative rather than duty enhancing is the observation that while the majority (approximately 70 percent) of civil servants work as teachers and nurses in front line service delivery activities, the bulk of allowances (70 percent) accrues to the 30 percent of civil servants working at Central Government. In other words, the average civil servant working in one of the Ministries of Central Government receives more than five times as much in allowances as the civil servant delivering services at community level.

Table 2 presents allowances by Ministry. The President’s Office and Cabinet Secretariat is by far the largest beneficiary of allowances largely because the National Allowance accrues to this ministry. The largest increases since last fiscal year are for National Service (mostly because it started from a very low base) and PMO-RALG. Expressed in absolute amounts the increases by the President’s Office and the National Assembly Fund (by Tshs 12 to 15 billion) are noteworthy.

² A housing allowance is provided to officers earning a basic salary of between Tshs 1.3 and 3.0 million per month. They are entitled to a house for which they do not pay rent, or in lieu if a house is not available an allowance equal to 30% of their basic salary.

Table 2: Top ten recipients of allowances (Billion Tshs)

		2007/ 2008	2008/ 2009	2009/ 2010	Increase 2008/09- 2009/10
1	President's Office and Cabinet Secretariat	114.1	133.1	148.7	12%
2	The National Assembly Fund	20.8	26.3	36.8	40%
3	Ministry of Home Affairs - Police Force	27.8	26.5	33.3	26%
4	Ministry of Education and Vocational Training	22.2	27.3	32.3	18%
5	National Service	2.0	2.4	29.4	1125%
6	Ministry of Home Affairs - Prison Services	11.9	10.5	16.5	57%
7	Accountant General's Department	11.3	12.8	16.5	29%
8	PMO RALG	6.3	5.8	13.5	133%
9	Ministry of Agriculture, Food Security and Cooperatives	13.8	9.4	12.3	31%
10	Ministry of Natural Resources and Tourism	2.5	5.2	11.0	112%

Source: Budget Books.

3. Allowances are high

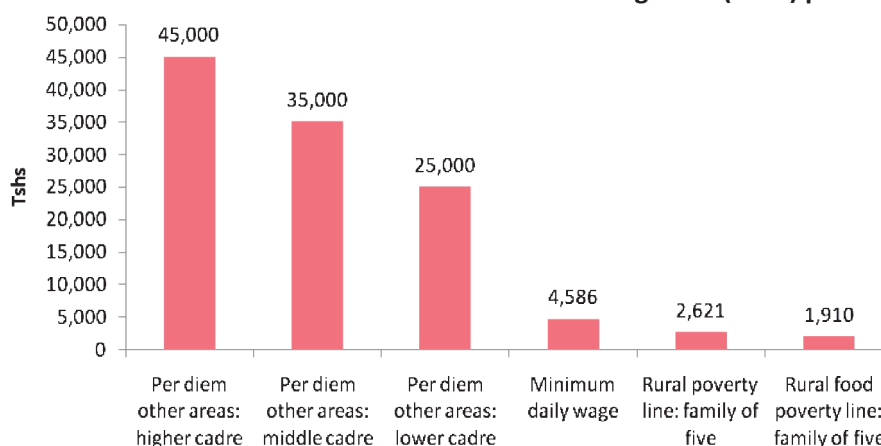
Allowances are more likely to negatively affect incentives for quality service delivery when they are high relative to basic wages and when they are only loosely connected to actual costs incurred. Table 3 presents the official allowance schedule for travel within and outside Tanzania. The schedule distinguishes by level of employment, as well as destination. Higher cadre civil servants, assistant directors and above, are entitled to an allowance of Tshs 80,000 when travelling to cities and municipal councils; lower cadre civil servants, executive secretaries and below are entitled to Tshs 45,000.

Table 3: Allowance schedule

	Cities and municipal councils	District and regional towns	Other areas
Travel within Tanzania	Tshs (USD amount in brackets)		
Assistant Directors, Principal Officers, Directors, Principal Secretaries and above	80,000 (\$62)	65,000 (\$50)	45,000 (\$35)
Senior Officer and Middle Officer	65,000 (\$50)	45,000 (\$35)	35,000 (\$27)
Executive Secretaries to below	45,000 (\$32)	30,000 (\$23)	25,000 (\$19)
Travel outside Tanzania	Tshs (USD amounts in brackets)		
Assistant Directors, Principal Officers, Directors, Principal Secretaries and above	546,000 (\$420)		
Senior Officer and Middle Officer	474,500 (\$365)		
Executive Secretaries to below	403,000 (\$310)		

Source: Government of Tanzania, PO-PSM, 20 June 2008.

Relative to basic wages and salaries of individual civil servants, allowances are very high. For instance a receptionist (scale TGS A) earns a maximum monthly salary of Tshs 129,300, a finance management officer (scale TGS D) Tshs 384,850 and a principal accountant (scale TGS G) Tshs 818,560. So a middle level officer attending a 3-day workshop outside Dar es Salaam, ‘earns’ about a third of his/her monthly salary, an amount that is provided tax free. Relative to other comparators such as the daily minimum wage for civil servants, or the (food) poverty line, per diems are particularly high. A civil servant spending a day in the rural areas easily pockets a per diem to cover expenses for food and beverages that is 10 to 20 times larger than the food poverty line for a family of five (Figure 2).

Figure 2: Allowance for other areas relative to minimum wage and (rural) poverty lines

Source: Per diem and minimum wage: PO-PSM; poverty line: National Bureau of Statistics 2009.

Allowances for foreign travel are particularly high³ and a civil servant going on a 5-day trip abroad easily doubles his or her salary, even if this is the highest paid civil servant around (those at the maximum of salary scale TGS Q receive Tshs 2,760,000 per month).

4. Allowances lead to perverse incentives

With such high allowances, it should only be expected that incentives for quality service delivery become skewed in favour of a proliferation of committee meetings, decision making by committees (rather than responsible individuals) leading to delayed decision making and increased bureaucratization. With incentives wrongly aligned, civil servants are likely to be more interested in attending the next capacity building activity, report writing workshop or field trip, and are more likely to spend the time on the job to claim allowances and to secure the next workshop than to provide quality products or services.

Evidence of this happening abounds but is largely anecdotal. For example, in June 2009, the Financial Times reported the case of an investor who claims that Tanzania has a

“culture of institutionalised, legal time-wasting caused by per diems for officials who prefer to attend meetings and conferences rather than to attend their job”.⁴

It is not only foreign investors who decry the problem of allowances. Prime Minister Pinda has lamented wasteful spending on unnecessary workshops, luxury cars and the like. Most recently, for example, he stated that the Tshs 2 billion allocated to the Open University of Tanzania was:

“equal to the budget on allowances for only two senior government officials, given to them just to attend some useless meetings.”⁵

³ The amounts received outcompete per diems provided by this other generous provider of per diems: The United Nations which provides per diems to the tune of \$378 for those visiting New York or \$356 for those visiting Paris.

⁴ Andrew Jack, 29 July 2009: Expenses culture has high cost for world's poorest nations. <http://www.ft.com/cms/s/0/832f89ea-7c4f-11de-a7bf-00144feabdc0.html>.

⁵ Mwananchi 31 October 2009. Bajeti ya OUT kama posho ya vigogo wawili-Pinda <http://www.mwananchi.co.tz/newsrids.asp?id=15660>

Box 1: Donor sponsored capacity building activities meet their targets and have zero impact

[..] capacity building activities are highly attractive to both recipients and deliverers. For the recipients, training workshops constitute days out of the field in often luxurious surroundings, and are a very lucrative way of topping up low public sector salaries given the current convention, at least in East Africa that attendants receive a daily per-diem of sometimes as much as five days salary for one days attendance, on top of other generous expenses. For the training provider and funders, 'workshop culture' is alluring for different reasons, providing a 'captive' audience and with 'numbers of participants' trained often used as a proxy indicator of project impact in the world of difficult to measure 'capacity development'; the per diems system ensures high attendance and that capacity building targets are met [..].

During a two year period of working alongside East African practitioners it became apparent that there were numerous discrete training and workshop based capacity building initiatives run by donors and external support agencies covering the same or similar material. An example is provided by an agency of an East African government who over a period of two years were engaged in three separate residential training courses which covered the same topics, were attended largely by the same people, each workshop being organised and funded, with per diems and expenses, by a different source from within the donor community. Organisational tracking revealed that negligible tangible outputs were generated by the workshops despite the development of operational policies and manuals being cited as the rationale for the events.

Source: Nick Hepworth: *Capacity building or capacity demolition? Rethinking donor support to unlock self-determined and sustainable water resource management in East Africa*, (mimeo), 2009

Since allowances are high, one expects to find evidence of excessive travel and unnecessary trips away from duty stations. Again, it is hard to find systemic evidence, but Tanzania's delegation to the annual meeting of the IMF and World Bank illustrates how high travel allowances lead to excessive travel. Whereas other East African countries sent delegations of 5 to 7 people, Tanzania apparently sent a delegation of 25, thus almost exceeding the combined delegations of Burundi, Rwanda, Uganda and Kenya (Table 4). Assuming a mid-level allowance and travel on discounted business class, this one trip alone is likely to have cost the country more than Tshs 173 million.

Table 4: Delegates from Tanzania (TZ), Kenya (KE), Uganda (UG), Rwanda (RW) and Burundi (BU) to IMF and World Bank annual meeting in Istanbul, Turkey: 2nd - 8th October, 2009

TZ	1	Minister of Finance and Economic Affairs	RW	1	Minister - Finance and Economic Planning
	2	Permanent Secretary-MOFEA		2	Governor of the Rwanda Central Bank
	3	Commissioner for External Finance-MOFEA		3	Representative-Ministry of Finance and Economic Planning
	4	Ag. commissioner for policy analysis-MOFEA		4	Director of Macroeconomics Department, Ministry of Finance
	5	Assistant commissioner, Multilateral aid-MOFEA		5	Director of Research and Policy Analysis, Rwanda Central Bank
	6	Director Poverty Eradication	KE	6	Deputy Prime Minister/Minister for Finance
	7	PA to the minister -MOFEA		7	PS /Treasury
	8	Rep. Embassy of Tanzania in USA		8	Economic Secretary
	9	WB/IMF Desk Officer-MOFEA		9	Director, External Resources
	10	WB/IMF Desk Officer-MOFEA		10	Head of WB Division/ERD Advisor
	11	Principal Information Officer-MOFEA		11	PA to DPM/Minister of Finance advisor
	12	Information officer-MOFEA		12	Press Officer
	13	BADEA Desk officer-MOFEA		13	Governor of Central Bank
	14	Protocol officer-MOFEA		14	Director of Research (CBK): Advisor
	15	PS -President's Office(Planning)	BU	15	Minister for Finance
	16	Assistant Director- President's office(Planning)		16	Governor of the Central Bank
	17	Governor-BoT		17	Deputy/Vice Governor of the Central Bank
	18	Director, Economic Research and Policy-BoT		18	Permanent Secretary REFES
	19	Deputy Director, Communication-BoT		19	Chief of Service
	20	Assistant Director- BoT	UG	20	Minister for Finance
	21	Assistant Director- BoT		21	PS, Ministry of Finance
	22	Commissioner General-TRA		22	Director Economic Affairs, Finance
	23	Minister – MOFEA-Zanzibar		23	Economic Advisor to Minister for Finance
	24	Deputy Principal Secretary- MOFEA-Zanzibar		24	Senior Secretary to PS Finance
	25	Commissioner for External Finance-MOFEA-Zanzibar		25	Governor, Bank of Uganda
				26	Assistant to Governor, Bank of Uganda

Source: IMF conference office

A further consequence of allowances being so lucrative is that these accrue to higher level officers who capture them or use the lure of allowances for purposes patronage. Evidence of this happening is anecdotal, but illustrative. For example:

"If you say 'fyoko' (a bad word, EGJ), then he won't select you to attend any of the many seminars, workshops and training sessions that have become the main source of income for government employees in recent years. So keep your trap shut if you want your bread to be buttered. A conspiracy of silence is probably becoming deeply entrenched (Zakaria 2007, cited by Eirik G. Jansen 2009: p.17).

And finally the pursuit of allowances provides incentives not to improve ill-functioning systems. The inability of monitoring and evaluation systems, financial management systems and administrative data systems to produce reliable information brings (donor financed) capacity building events, field trips to collect information and strategic workshops to study and address the problems. All these activities come with allowances, thus providing a powerful incentive **not** to address the underlying problems.

Box 2: How to inflate training and workshop costs while keeping the auditors satisfied

Training and workshops are a lucrative business for many: participants, hotel owners, the cashier at the hotel and, especially, the person organizing the workshop. This is how it works. Officer X is asked to organize a training event and calls three hotels for a quotation. The hotel with the lowest quote is selected and the hotel is asked to prepare a pro-forma invoice of the quote +25%, 'just to be sure'.

With the hotel selected according to the proper procurement process, a purchase order is prepared for the (inflated) amount of the pro-forma invoice. After completing the event the hotel prepares the actual invoice based on consumption, which is less than the pro-forma invoice. The officer prepares a cheque for the amount of the pro-forma invoice and pays. In return the hotel hands over a receipt for the cheque (at the value of the pro-forma invoice) and as the amount paid is too much also issues a credit note to the officer.

The credit note can now be used by the officer to pay for a personal function, or can be cashed at the hotel. In the latter case, some 10% of the credit note would have to be given to the 'cashier' of the hotel, as the 'cashier' is typically not expected to pay such large amounts of money out of petty cash.

When the auditors come, all books are found to be in order. The organizers obtained three quotes, the cheapest hotel was selected and the quoted amount as per pro-forma invoice was paid. At the hotel, the amount received equals the amount of the actual invoice plus the amount of the credit note.

5. Conclusion

A culture of allowances that fails to be duty enhancing appears to be firmly entrenched in Tanzania. Most allowances accrue to (higher cadre) staff working in the Central Ministries and are spent on travel, workshops and capacity building events. Some of these may be critical, but the increase in the amounts spent on these activities suggests otherwise: service delivery is not markedly different now that so much more is spent on capacity building.

Government bears prime responsibility for the persistence of the allowance culture, yet donors share a large part of the blame. Under the thinly veiled guise of capacity building or monitoring and evaluation, they frequently co-organize and (financially) support workshop, data gathering exercises and training events, which oftentimes are not even neutral in their impact, but are likely to have negative consequences for service delivery. Or, in the words of one officer:

“There is a big problem with donors. They are always calling workshops every day and the people go for the per diems. It’s a huge problem - the donors must change. They don’t give us time to think - its workshops, workshops, workshops - you don’t see that in Europe - people are busy regulating and doing the work. They pay 3 days wages for one day’s attendance. It pays people not to do their work. The solutions they come up with are never implemented - that was a solution to the workshop, not real life.” (cited in Hepworth).

And, as long as donors remain ‘results’ oriented and equate workshop participation with impact, a continued demand for more capacity building events or ad hoc evidence gathering exercises may be expected.

With Government, donors and NGOs having limited incentives to address the allowance culture, citizens may need to become more pro-active in demanding change. Doing so is worth the effort as the amounts involved are substantial. If allowances are reduced to a (still respectable) 30% of the wage bill, it would free Tshs 285 billion in the Government’s budget. In addition, another Tshs 100 billion could be saved from reducing use of business class tickets, transport costs and accommodation (see box 3), bringing total potential savings to Tshs 385 billion or almost \$300 million.⁶ This is an enormous amount that could be used to reduce taxes and borrowing, to hire additional teachers and nurses, to buy vaccines and bed nets or to invest in roads, bridges, water, and electricity generation.

The saved resources could also be channelled into higher salaries for civil servants, who because of the cost savings would become better off than they are now with allowances. And as lower allowances are likely to improve incentives for service delivery, reducing

⁶ This comes from savings as the cost of organizing events at which allowances can be paid is now foregone. The amount that could be saved this way is possibly as much as is saved in per diems and honoraria (see box 3).

allowances can be expected to lead to better public services, in particular when salary enhancements are used to align staff incentives with service delivery. In other words there is scope for a broad coalition of citizens and civil servants to change the allowance culture. The rationale is there: now it is time to act.

Box 3: How to raise civil servants salaries (inclusive of allowances) while saving costs

To justify paying allowances, civil servants have to attend activities at locations outside their office. Typically activities attended by officers of the main Ministries are hosted at major hotels at the outskirts of Dar es Salaam or in another urban area (e.g. Morogoro, Kibaha or Bagamoyo) so as to earn 'out of station' allowances. When events are held there, participants have to spend the night and have to be provided with transport. Such expenses can easily match, if not exceed what is paid in allowances.

For instance a typical 5 day event lasting from Sunday evening to Friday afternoon, entitles a senior civil servant to Tshs 325,000 in allowances. If the event is hosted at the White Sands Hotel and Resort at the outskirts of Dar es Salaam, it costs Tshs 780,000 in accommodation (half board conference package for 5 days) plus an additional transport expenses if the officer arrives in his own car.

So a week long capacity building event or workshop roughly doubles the Tshs 380,000 salary that a typically senior civil servant earns. Yet at a cost of twice his salary. In other words, if the same event was held at the Ministry and no allowance was paid while the hotel expense was channelled into the officer's salary, then the Ministry would save money (the allowance) while the salary of the officer would triple!

This brief has been produced by Policy Forum, in association with Twaweza.



Policy Forum
P.O. Box 38486 – Dar es Salaam – Tanzania
Tel (255 22) 2772611 – Fax (255 22) 2772611
Mobile: +255 782 317434
info@policyforum.or.tz – www.policyforum-tz.org