

# **GOVERNMENT HOUSING: Rents, Allowances, Purposes, Grandfather Clauses and All That**

**(An aide memoire)**

## **I.**

### **INTRODUCTION: COLONIAL, TOWARD COMPREHENSIVE, TO CHAOTIC**

1. The **present** system (or at any rate situation) of providing housing for some public servants at varying rates for a variety of purposes is **unsatisfactory**. It is neither equitable, conducive to public service salary rehabilitation with transparency nor fiscally efficient.
2. The present is the result of three historical tendencies one archaic, one abandoned as fiscally unsustainable and one very erratically implemented:
  - a. provision of housing for **expatriate officers** (initially colonial) who were by definition transient as to Tanganyika (as it then was) and mobile from place to place within it and its initial continuation on the (unexamined) premise that senior Tanzanian civil servants would both move often and want to retire to rural (Tanganyika under 5% estimated urbanisation at end of 1950's) home not to urban area.
  - b. a brief attempt to provide **housing for all public servants** at 5% (low pay), 10% (medium) or 15% (high) of salary in the early to mid 1970's was never by any means fully implemented and was abandoned as fiscally impracticable. (This was part of a broader strategic objective of having all large employers provide fair price/affordable housing to all employees. This arose in part because the Acquisition of Buildings Act had a seriously negative effect on availability of private rental housing above the Swahili compound house level and because neither fiscal considerations nor their quality of management made the National Housing Corporation nor the Registrar of

Buildings plausible central instruments for expanding the national middle and upper income housing stock.)

- c. provision of housing where it was clearly in the **employer's interest** (i.e. the Government's as employer) to do so, e.g. for:
  - a. uniformed services
  - b. isolated posts
  - c. (sporadically or spasmodically) rural and small town units with little access to rental housing
  - d. officers on transfer while seeking new accommodation.

The first was - at one time - achieved as, in general, was the second but not the third. The last has usually been dealt with by paying accommodation costs (or a fixed sum toward them) rather than by literal provision of housing.

3. For a limited number of positions - especially Ministers, High Court Judges, Resident Magistrates, top Uniformed Service Officers, Permanent Secretaries, Regional Commissioners and District Commissioners **the prestige of the office requiring a house of some substance** has been a substantial factor. It has become combined with providing an incentive to seek promotion in a salary scale structure which provided real, but rather small, increments at the top. Because all such officers were already housed under the colonial regime, this case of protecting the prestige of the **office** by providing a substantial house to the **officer** has rarely been addressed explicitly.
4. The **present situation** - except for the last (prestige of office) category - is **chaotic**. Not all officers whom the "good of the service" (i.e. effective conduct of public business) would suggest should be housed are housed. Indeed which categories should be housed for this reason has not been coherently articulated. Universality has been dropped. Housing eligibility (as opposed to entitlement) as an incentive has been retained, but with a restricted housing pool (and limited, if any, resources to expand it) has become something of a lottery and has increasingly created both unsatisfactory high incentives to

'winners' and irrationalities in effective pay among housed and unhoused of similar seniority.

5. **Payment for housing has also become chaotic** - at least in terms of rationale and of burden on general resources. If housing is provided to support the prestige of the office, a case can be made for a sub-market rent (though not necessarily no rent as is currently the case of most of the categories listed at Para 3). For non-uniformed personnel, general good of the service housing should be subject to some charge because its provision is to ensure that rental housing which is adequate and affordable is to hand where otherwise it would not be and therefore is providing a house comparable to what an officer might rent in a larger town. **To the mid 1970's the charging provisions were intended to cover operating and maintenance costs and - at senior and middle levels - to provide some relatively vaguely defined contribution toward capital cost.** In the early 1970's the **5%-10%-15%** (low, middle, high pay) of salary charge did do this. Indeed many upper middle and senior officers preferred **not** to occupy government housing, but rather to take out mortgage loans and build their own houses to provide either a retirement home and/or an appreciating asset which could be rented during transfers to other posts and sold (to finance *inter alia* building or purchase of a retirement residence in the officer's home area) on retirement. It should perhaps be noted that housing provisions for a proportion of salary were (because of the high proportion of expatriates) general for large employers both in the colonial period and - at least for expatriates - remain common to date. With the erosion of real salaries and the more rapid rise of construction and of at least middle and high quality housing rents (excluding the low rent, lower maintenance NHC, Registrar of Buildings stocks) the real public servant housing charge has fallen dramatically relative to market rents, to the cost of building officer owned houses and to the cost of maintenance resulting in **a very large (and very uneven) subsidy element.** (The **reduction** of the charge for top officers from 15% to 10% was a **straight subsidy** element to offset static nominal/falling real wages in mid 1980s.)
6. In general terms the **reduction in real rental incomes has increased the problem of funding maintenance and management of government housing.** However, **the link is relatively vague because there never was a direct allocation of charges to costs and maintenance more broadly has been cut disproportionately** because in the short term

it appears to be (and **if** catch-up higher allocations restore the situation within 2 to 3 years actually is) an ‘easy’ way to improve cash flow or ‘balance’ a precarious ministerial budget. (The Treasury has historically not been keen on disproportionate maintenance cuts believing they stored up higher future costs. In 1974/75 it agreed to them as a short term device and in 1975/76 and 1976/77 sought to provide catch-up funding, but from 1980/81 sustained fiscal pressures have ‘forced’ serious undermaintenance).

7. An **historic - and presumably no longer relevant - special consideration** arose out of the **Leadership Code** and the **Acquisition of (Rented) Buildings Act**. These in effect barred officers from building their own homes and renting them while on transfer because they barred rental incomes for leaders and, indeed, in the case of the latter Act, sought to eradicate oppressive landlordism by eliminating the middle and upper quality private rental housing market. However, this effect was relatively brief:
  - a. provisions were made to allow officers owning urban homes to ‘rent’ them to the government while on transfer in return for free provision of comparable accommodation in the new posting (an increasingly dubious arrangement after 1980 as maintenance deteriorated); and
  - b. in practice rental of a single residence at least nominally intended primarily/ultimately for owner occupation came relatively rapidly to be accepted as within the meaning, if not the letter, of the Leadership Code.

In the event the Zanzibar Declaration (appropriately named in the sense that the Zanzibar leadership never agreed with, nor operated, the Arusha Leadership Code) ended the Leadership Code restraint and the private **rental housing market re-emerged rapidly from the mid-1980’s with no serious efforts to regulate it, much less to constrain its expansion.**

8. From the late 1980’s the **rapid growth of allowances to alleviate low pay, to disguise growing inequalities in pay levels while slowing erosion of real professional pay** and to **limit tax actually paid** (albeit only by **evading** the actual provisions of the Act) used the continued provision of housing at a decreasing fraction of its true value as a key element. (This was not unique to Tanzania nor to the government. Indeed - presumably primarily because of tax considerations - it was far more blatant in the enterprise and

autonomous public entity, e.g. university, sectors.) By the early 1990's a proliferation of allowances from housing through transport and public utilities to trip and 'responsibility' had become the dominant element in remuneration at the top of the pay structure (in the public servant sector, in large private and solvent public enterprises the allowances nets encompassed many or even all employees and in sum frequently were up to three times base pay.) By the mid 1990's the general allowance pattern was perceived as unsound:

- a. it **prevented transparency and created illogicalities and inequities** in remuneration;
- b. because public service allowances (being in large part devised by senior public servants to alleviate their loss of real income) were **concentrated at the top** they increased real ratios of top to middle to low level pay in the public service and did so in hidden ways and - arguably - irrational, inequitable and inconsistent ones.
- c. **some** allowances (albeit not in general subsidising of housing by sub-market charges related to pay) were **open to serious abuse**;
- d. the **supposed tax saving** on most allowances (excluding government housing which was under an approved scheme but including university, parastatal enterprise and private sector housing provision, and almost all other significant allowances) was **evasion** under the very clear provisions of the 1972 Income Tax Act which - after years of non enforcement and apparent non comprehension - the Revenue Authority suddenly began enforcing in the second half of 1997;
- e. **most employees would prefer a transparent basic after tax pay useable as they desire** to an equal package a high proportion of which was a grab-bag of special limited use (unless tacitly approved or unsupervised 'wider' use was permitted) allowances. (Evidently if the choice is an allowance or nothing they opt for the former.)
- f. with the beginning of the end of tax 'savings' via **allowances employers have (or soon will have) no evident economic reason to provide non transparent, specified allowance packages** instead of pay except perhaps for expatriates.

As a result most public service (including autonomous entity - e.g. university) allowances - except housing - have been bought out. The results - on paper albeit not, barring mistakes, at real post tax remuneration level - have often been very large. e.g. in some university cases under a third of total gross pay represented salary, even excluding housing 'allowance'. 'Transport' allowance alone was larger than basic salary and 'responsibility', teaching (sic!), utilities, watchmen's, entertainment and other allowances added up to almost as much. Buyout required an over two thirds increase in gross pay to offset additional tax (the university had - apparently in its case in genuine ignorance - been evading tax on allowances like virtually all other employers). Because housing allowance (whether literal or via free or subsidised provision) was - or was perceived to be - less costly to employers (in comparisons to a similar net cash payment), employers often had housing stocks and the problems of conversion were (or were perceived to be) massive. **Housing 'allowances' in the state sector have not to date been bought out** for that reason and because since housing provision is not uniform among or within comparable grades, any scale increase would create either gainers and losers or huge gainers and break eveners (previously unhoused compared with previously housed).

9. The picture of chaos and of lack of system presented by the above sketch represents a reality of chaos. The system - if it can be called a system - is generally viewed (except by some beneficiaries) as unsatisfactory on almost all counts. Change has been hard to achieve because:
  - a. **simply ending provision of housing would have reduced already dangerously low civil service real remuneration radically;** and
  - b. would have **left the government with a large number of - in general - ill maintained buildings unlettable at market rents thought to be not easily saleable at one go except at 'give away' prices and not manageable commercially by any existing public sector body;**
  - c. **charging either market rents or maintenance and management costs plus a contribution toward replacement cost rents** - apart from the problems of valuing buildings to ensure some equity among very different quality residences - would have had **similar real remuneration reducing impact to ceasing to provide housing;**

- d. the **Uganda experience** of raising pay - at least nominally to allow ending subsidised housing provision - parallel to selling housing at market prices with a preference to occupiers did not work well at least as perceived by public servants (in Tanzania as well as Uganda). Officers **could not afford to buy and reside** because mortgage interest and repayment often exceeded total pay on the new scales. In practice they could - and did - buy and resell making a profit but moving to far poorer accommodation (in some - presumably atypical - cases the garages or 'servants' quarters' of their old residences). Further the lump sum profits from the sales and from voluntary early retirement apparently were a **substantial contributing factor to very high levels of loss of competent professionals** needed by - not surplus to - a reformed public service;
- e. **straight buyouts** which put the public servant in the same real position after the end of housing provision (or its provision at market rents) would result in **wildly skewed pay structures**. (Even with less than full buyout, Uganda's scale variance from messenger to Permanent Secretary is 40:1 vs. 13:1 in Tanzania. There is a huge gap between the top 1 to 4 persons in Ministries and the next grades of professionals.) Further because **not all eligible officers were housed and not all categories logically eligible were in fact covered** grave inequities for individual public servants or sub-categories would have been inevitable. (The losers could have been compensated by scales assuming all eligible officers were housed and all comparable categories covered, but only at an unmanageable fiscal cost and large windfall gains to 500 to 1,000 officers.) As a result while other allowances (other than cost reimbursement and analogous cases) have been 'bought out', housing has - quite sensibly - been set to one side for further examination.
10. In brief from the mid 1990's the government servant housing provision and charging arrangements have been perceived as:
- a. **totally unsatisfactory** to most public servants, transparent remuneration structures, the conduct of public business and regaining/sustaining fiscal balance;
- b. **not readily alterable** in any structural way without radical (and hard to work through in detail) transitional costs;

c. **resulting in postponing action.**

That can hardly be a desirable permanent position.

## II.

### HOUSING PROVISION IN TRANSITION: DEFINING OBJECTIVES

11. There are three quite distinct problems embedded in the present housing provision and changing (or subsidising) situation:
- a. **defining and moving toward coherent, feasible, desirable targets in respect to public** (government and/or community) **provision of housing** for specified categories of public servants;
  - b. **articulating an appropriate charge structure for such housing;**
  - c. **avoiding massive negative side effects** to public service morale and productivity, to regaining fiscal balance and/or to public sector housing management and maintenance **during the transitional process.**
12. The **third objective cannot - at least logically - be attained without some prior definition of the first two.** That may appear self evident, but the present civil service reform process in Tanzania demonstrates that there is a real danger of initiating transition without an adequate identification and articulation of **transition to what.** It began with the purpose of **reducing the number** of public servants primarily on **fiscal** grounds, but with an underlying assumption that there were **too many** either because some categories were initially overstaffed or because reduced state economic ownership and intervention would reduce numbers needed. It added the goal **of restoring real public service emoluments** on the basis that an 'enabling state' needed a productive, professional public service, which was not possible without a living wage (somewhat vaguely conceptualised as more or less 1973 real wage and salary levels and ranges). **Substantial progress** has been made in reducing numbers (continuing an episodic but ongoing 1974 - 1990 process) and toward restoring 1973 real pay levels and ranges (a continuing - if by no means



cumulatively progressed toward - goal from 1980). However, three glaring gaps have emerged:

- a. **no adequate articulated estimates of numbers, categories, duties and career long** (preservice, inservice, and refresher/upgrading) **training** have been developed; nor
- b. have there been **politically, socially, fiscally acceptable phasing solutions diagnosed for moving from the levels of service now provided**. E.g. **universal** access services; primary health; primary and continuing education; pure, accessible water; rural extension services [agricultural, veterinary, forestry]; rural roads and postal services are all well below 100% access with no phased, input costed, training specified programmes for bringing term to or near to 100% at some finite time. Nor are there targets for building other services to at least medium (5 year) to relatively long (10 year) acceptable levels; and
- c. the **acceptance in principle that pay alone is not enough** without discipline, operational systems, personnel management (e.g. training/retraining) and parallel provision of operating inputs and mobility to do the job **has not been matched by coordinated action targeted to improved performance** in those fields.

13. This apparently curious approach to achieving transition through massive structural reforms without prior specification (except in the vaguest of terms) of transition to what is in fact a **result of managing - or trying to manage - continuous crises** and seeking both to **avert systemic collapse and to attain at least marginal clawback**. In that perspective it is not simply understandable but also potentially part of the answer. To have spent 1995 - 1997 **debating** optimal 2005 pay levels, standing orders and public personnel markets and job descriptions **instead of taking initial steps** to raise real pay, establish rational and transparent pay relativities, begin refresher training (e.g. in primary health and education), do a first revision of standing orders, posit that at least in health, education and police future personnel requirements will rise so no more attrition by non replacement should take place **would have been disastrous**. However, the progress made now needs to be bolstered by action on the gap areas if it is to be sustained and developed. The present purpose is to outline how this could be done in respect to housing.

14. **Public sector housing provision for public servants** is a necessity. However, the **normal means** should be for the public sector to **pay them adequately to rent or to buy** (e.g. via mortgages perhaps guaranteed by their employer) suitable housing **not** by physical provision of housing, still less by providing it free or below cost as a portion of emoluments.
15. However, in some cases **public interest may best be furthered** by physical provision of housing. Prestige of office (not officers), availability at all hours, actual lack of availability of alternative appropriate accommodation (especially in **isolated** and **rural** areas), facilitating the efficient use of short term personnel (e.g. expatriates but also citizen specialists on defined, term work) and avoiding transitional loss of productivity when public servants are transferred are such cases. **May** is the operative word as other approaches may be equally or more suitable e.g. community assistance in rural (especially village and ward level) official house construction and maintenance, encouragement of middle cost housing development by block rental and/or guaranteed mortgage schemes, facilitating prompt, simple expatriate house leasing by supplier agencies.
16. Even if government provision of housing is appropriate, there is **no automatic assumption a pool of state managed residences, quarters and estates is appropriate**. Because the state does now own a number of houses, quarters and estates (and because quarters are not realistically privatisable or autonomisable) substantial government ownership is likely. However, the possibility of **contract management and maintenance** of estates, perhaps some quarters and substantial clusters of houses (especially in cities and large towns) should be explored. The government has no evident comparative advantage in estate management and it is a specialised, time consuming operation. Further by avoiding hidden deferral (or ‘overlooking’) of maintenance, the contractual form might well facilitate better maintenance and, therefore greater user friendliness (and lower cloudburst budget bills for rehabilitation!).
17. A related issue - or alternative route to enabling public servants to house themselves out of salaries is **facilitating access to mortgages** - e.g. by guarantees and/or a scheme channelling Post Office Savings Bank or NIC funds at rates above their deposit rates and analogous to government security rates. Any such scheme is likely to be sustainable only if inflation remains below 15% (preferably below 10%).

18. **Appropriate charges** for public servant housing are not self evident. **The answer of 'market rates' is unhelpful.** If it is correct for all or some cases (as it surely is for many) then the government should not be providing the housing but rather the salary levels allowing officers to rent (or build). If housing is provided - as suggested above - when a special public interest is involved there is a case for some element of 'discounting' from the market rate even assuming the latter is a meaningful term.
19. For housing other than quarters, the logical approach to avoid highly complex calculations for each case might be to **set rents at that per cent of salaries which a sample survey of urban employees** (government, enterprise, self employed) **indicates is 'typical'**. this is usually estimated at **20%** albeit that is often a share of household income with most households having more than one earning stream. As a first approximation, **20%** of salary might be an initial target for public servant housing directly provided by central government. (If it is seen as too high by some public servants they are free to house themselves.) It would certainly be a plausible rate **for new entrants into general urban government housing**. Three cases for exceptions/discounts exist:
- a. **quarters** since these are probably not desired by most employees, but are required to meet employer needs. A discount to **15%** (or even **10%?**) might be arguable;
  - b. housing in isolated or rural/small town areas in which there is **no realistic access to reasonable price/reasonable quality rental accommodation**. Here there is no open and shut case for a discount assuming satisfactory structural and maintenance levels. But isolated, rural and small town posts are ones many officers view as less attractive so a **15%** rate as an incentive to boost morale might be suitable;
  - c. housing provided to **demonstrate/protect the image and prestige of the office** (not the officer) - Head of State, Ministers, Higher Judiciary, Senior Uniformed Officers, Permanent Secretaries, Regional and District Commissioners. Here there is no self evident reason to provide a subsidy. The job description *de facto* involves a residence with some access and the purpose of providing the housing is (or ought to be) a guarantee that it will be adequate or above in size and quality. However, if the office's prestige is seen to require a larger/higher standard building than the officer would choose to pay for out of his own income that **is** a case for subsidisation. If this

category is narrowly drawn it probably can be held to 250 - 300 officers (half DC's) so can be treated as exceptional without major fiscal or pay scale transparency problems. Except for the Head of State, Chief Justice, Head of Armed Forces (and these only because of international practice) no very convincing reason exists for below 20% charges (especially for officers not required to live in government housing) but the costs - whether fiscal or managerial or morale - of a tightly limited exceptional category may also be rather low. (The 20% deals with the case of housing above the standard the officer would choose to obtain from his/her own resources.)

20. **Transitional provisions** are necessary for three reasons:

- a. the **implicit subsidy** from 10% of salary charges (or free housing) is substantial and would need to be bought out;
- b. **buyout would be messy** both because it would widen the range of headline salaries and because not all officers in comparable grades (or even the same grade) do in practice live in government houses;
- c. **botched transitions** could have serious morale and undesired professional attrition results (as in Uganda).

21. The simplest solution would appear to be use of the '**grandfather clause**' approach as was used for civil service salaries at the time of the immediate post colonial scale revisions (reductions):

- a. **persons now occupying free housing could continue to do so until retirement;**
- b. **persons occupying 10% housing could likewise do so until retirement but if promoted to a currently free housing entitled post would then be charged whatever proportion of salary is set for that post or 10% whichever is less;**
- c. **new entrants into government housing would pay on the new rates** (e.g. as proposed in the preceding paragraphs).

22. The benefits of this approach are:

- a. there are **no losers** of current acquired 'rights' i.e. no officer loses present rights;

- b. the **problem will solve itself** in a finite period as 'grandfather clause' beneficiaries retire, resign and/or die. Many 'free' holders are within five years of retirement and most others as well as most '10%' ones are within 10 years of retirement. The largest exception to this age pattern may be DCs;
- c. the emphasis can therefore be on **setting appropriate future rates while setting aside unravelling results of past decisions to erode with time.**

23. **No very serious fiscal or equity challenges can be made.** Buyouts would (if truly loss offsetting) cost at least as much as 'grandfathering'. What is provided is not a new gain but avoidance of loss. Even if the present holders nearing retirement can be seen as better remunerated than their successors now, it can also be argued that they have spent two decades (1977 - 1996) on low and deteriorating real emolument scales so that a certain case for favourable treatment arises. This solution looks messy but is not really as complicated or as messy as it looks. The categories 'grandfathered' and the officers in them are defined from the start (certainty and no new entries); will fall to negligible numbers in 10 years and to zero in little over 15; do not create barriers to predictable gains from promotion and/or scale enhancement to those not within the coverage of the 'grandfather clause'.

24. The **5% of salary rent charge (low income) category may** need treatment. However, the number of low income urban public servants (other, perhaps than those in the uniformed services required to reside at place of work) is believed to be negligible. The 5% cases are presumably concentrated up country in small town, rural and border post pockets and even these may not be significant numerically. If these assumptions are correct a 20% (new entry) urban charge poses no problems as no low pay scale urban public servant (except a constable or a private) expects to be housed and the grandfather clause (5% in this case) covers historic exceptions. In the up country cases the 15% or 10% rate would usually apply to new entrants - again probably not a serious problem if, as believed, relatively few are housed but possibly creating a case for a split 10%-15% change pattern

### III.

#### PUBLIC SERVICE HOUSING, MORALE, PERFORMANCE

25. **Public servants need adequate housing for themselves and their families** if they are to be at work on time and not worn out from travel and if their morale is to be high. Both factors effect **performance** so that the **government's duty as a good employer** (which in recent years it has not been) **is in its own interest**.
26. However, **that duty creates no presumption that the government should in general physically provide or subsidise public service housing**. The basic way to provide employee housing is by **paying salaries adequate for employers to rent, buy or build**. After all public servants and their families need to be properly fed and clothed but no one seriously suggests doing so by free food and clothing (other than required official uniforms) allowances!
27. Direct provision has at least three drawbacks:
- a. significant **capital requirements** to provide a housing pool;
  - b. major **financial and managerial burdens to administer and to maintain** houses and to collect rents (even when the latter is done by check-off deductions from salaries);
  - c. a **limitation on employee ability to choose** - household housing needs and preferences among housing and other goods do vary.
28. Housing subsidies if provided by actual premises at below market rents are a form of direct provision. If provided by meeting a portion of rents they are open to the same criticism as to choice and add to obscurity and unintended inequality in total emoluments.
29. **If adequate pay is provided public servants can and do rent, build or buy**. In Tanzania to the late 1970's most did so without insurmountable problems. A majority rented partly because they did not plan to retire at place of work or were moderately often transferred. However some (even including eligible officers) chose to build whether to reside after retirement or to have an appreciating asset to sell. Commutations used for

pension in large part went to buying/building houses. For supporting staff and clerks commutation to building or enlarging a Swahili compound house and renting rooms was a common retirement strategy. The provided houses were in large part an eroding heritage of the short stay (at least in one location) expatriate senior officer cadre of the colonial service plus prestige of post, convenience of employer and lack of rental housing in certain locations elements.

30. **At that point employee housing was not a central issue** for either public service employees or the government. Nor did most public servants perceive themselves as hopelessly ill housed. The **worsening of the situation** over the period from 1979 relates **primarily to erosion of real pay** and to housing costs (certainly for building and - perhaps less markedly for renting) rising faster than the general cost of living index. NHC and RoB housing had lower rent increases (until recently), but was exceedingly ill maintained while government provided/salary related rent housing covered a small (and apparently from the late 1970's declining) proportion of public servants.
31. The route to a new strategy for public service household housing can - and should - be based on:
- a. **adequate pay** to allow public servants to rent, buy or build;
  - b. **facilitating public servant access to mortgage finance;**
  - c. **continuing pension commutation provisions facilitating building or buying at time or retirement.**
32. Of these elements the first and third are relatively simple and self explanatory. The second require a more articulated sketch and an explanation of why it is needed in Tanzania as a result of finance market imperfections and uncertainties:
- a. only if financial institution gains and government losses are equal or the latter larger is there a clear case against **government guarantees of public servant mortgage loans**. In fact **lender gains** (including perceived and real risk reduction) **are likely to be large and government costs/risks low;**

- b. only in deep, articulated financial markets with specialised mortgage lenders who have a history of substantial, successful transactions is access - at least at interest rates not including a very high risk premium - likely to be available to the majority of public servants.

In other words, **government involvement in mortgage guarantee provisions and collection check-off systems can reduce net transaction costs to the benefit of lenders and borrowers without necessitating any substantial government subsidy.**

- 33. Given **low or moderate inflation, adequate pay and financial institutions which do undertake individual mortgage business**, there is no inherent problem to officers' borrowing to buy or to build and paying off their loan over time to own their homes clear of debt at retirement. They can then live in them in retirement or sell them to cover the cost of a home area retirement home/shamba. Under such conditions no very evident need for state involvement exists.
- 34. However, in Tanzania **none of the above conditions has existed since the mid 1970's**. The first two - inflation at under 15% and preferably single digit; adequate emoluments - are in the process of being regained even if the trend is still fragile. The third is more problematic.
- 35. Therefore a **government facilitated mortgage scheme** - e.g. by POSB and/or NIC but open to any interested financial institution - might be useful. There is no case for subsidising it, but there is a case for guarantees and 'check-off' of payment to the mortgage provider from salary. Given the regularity of monthly salaries and the security of accrued pension rights, such provisions should not involve much administrative difficulty nor cost to the state. They would lower the cost of collection and the risk of loss to the lender substantially and so constitute a 'win-win' measure.
- 36. The economic objection to loan guarantees is that they reduce lender attention to borrower assessment and loan management. Therefore, a **partial - say 80% - guarantee (risk sharing) might be preferable to 100%**.
- 37. The parameters of a mortgage scheme might include:
  - a. **eligibility after 2 years of service;**



- b. **25 years (or period to 55 if less)** mortgages;
  - c. **interest at 3% above government 10 year bond** (or, if no such paper is being issued the two year note or 180 day Treasury bill rate) perhaps subject to a floor of 10% and a ceiling of 20%;
  - d. a maximum (not automatic) level of **two times annual salary subject to a maximum initial annual payment obligation of 25% or 30% of gross basic salary.**
38. The interest rate assumes government securities (whether fixed or floating rate) pay **slightly** above the rate of inflation and that with check-off and guarantee the costs of loan management and collection plus risk of loss are under 2% a year over the life of the mortgage. Low risk lending giving a net rate of return above the rate of inflation (and of government paper) is usually attractive to institutions such as Post Office Saving Banks and insurance companies and - perhaps - to pension funds.
39. The (initial) **servicing limit** of 25% (or 30%) of salary is in the interests of **prudence**. It would not be automatic but subject to lender assessment. The two times annual pay (now say about Sh1 million to Sh12.5 million) needs to be checked against **actual** costs of houses constructed by small to medium contractors (or fundi teams) under owner supervision and the cost of used houses of varying sizes/qualities. These are not well known so a survey contracted to a local consultant would be needed.
40. Assuming:
- a. **real salaries are sustained and gradually restored to 1973 real levels** (and ultimately above);
  - b. **inflation rarely exceeds 15% a year;**
  - c. **increments and promotions result in individual** (as opposed to average) **real salary rising - on average - 5% a year (plus inflation);** then

The scheme is viable to all parties. If “a” is not met it is likely to be viable to nobody. If “b” is not it will be disastrous for borrowers. “c” is less essential but would facilitate supplementary borrowing for home improvement/extension as family size and public service rank grew.

For example an officer on Sh100,000 a month could:

- a. **borrow Sh2,000,000** (nominally Sh2,500,000 would be allowable but with the assumed inflation/interest rates that results in too high an initial servicing/salary rates i.e. about 40% of salary);
- b. with **interest at - say - 18%** (15% inflation)
- c. on an **equal monthly payment over the life of the mortgage**, subject to at least full interest paid each year, **interest and principal would be about Sh360,000 in the first year or 30% of pay;**
- d. **subsequently while the absolute payment will rise** (the level at c is interest only) **the ratio to gross salary will fall especially if inflation remains in the 10% to 15% range and real pay is sustained because of incremental scale and promotion effects.**

41. Evidently it is the lender’s business to set up procedures to assure the loan is used to build a house - e.g. instalment release and spot checks on progress - and to secure legal (e.g. land registration endorsement) documentation to ensure security of claim. That is, however, normal to all mortgage lending not special to the proposed scheme.

42. **Intent to live** in the house should be a condition - as, more important, should be adequate maintenance and prompt payment of land rents/improvement rates. But especially if the officer is transferred to another station, no absolute barrier should be established to renting part or all of the premises. (The mortgage ceiling prevents an officer using the scheme to set up as a full time landlord.)

43. It can quite correctly be said that housing is basically a household cost and that total household income (not that of one worker) is the appropriate magnitude to relate to mortgage service costs. That is true, but the government cannot establish checkoff

systems for, have pension accrued security relative to, nor even know with much accuracy (at acceptable cost) non-public service incomes of public servants' households. By the same token, however, if two or more spouses are public servants (more applying in cases - presumably very few - under civil, Islamic or customary law in which three or more members of a marriage are in the public service) each should be eligible to take out a mortgage related to their emoluments toward a residential house or compound. Two gender points arise:

- a. **female employees should be eligible for mortgage access on the same terms and conditions as male;**
- b. **provisions need to be taken in respect to results of divorce** to protect the lender (both parties must fulfil commitment) and to protect each spouse up to their mortgage service (interest and debt) contribution. The former can be in the mortgage terms; the latter may require amendment to the Marriage Act since divorce settlements under Customary and Islamic Law might not provide that safeguard. To enforce it is not to denigrate Islamic or Customary Law but to give uniform effect to the fact that mortgages (and their post divorce financial obligations) are creations of Civil Financial Contract Law not Community Family Law.

#### IV.

#### MARKET FAILURE, PUBLIC INTEREST AND GOVERNMENT PROVISION

44. The instances in which there may be a case for the government (central or local) or user (as communities or service user groups) to provide housing or physical/financial assistance toward its provision are three:
  - a. **employees whose housing is seen to reflect on the office** e.g. Minister, Judges, Uniformed Service Commanders, Regional and District Commissioners, Permanent Secretaries and Autonomous Agency (e.g. Central Bank, University) Heads;
  - b. employees whose **work entails their residence at or near workplace** with particular reference to the **uniformed services**;

- c. employees in **isolated, rural and other limited rental housing market** locations in which adequate pay is not a sufficient condition for employee procurement of adequate housing.
45. The **first category** has a certain reality - if only because of near universal global practice - at very senior levels. As Tanzania has usually allowed holders of such posts to opt out of state housing (as did President Nyerere, several senior ministers and nearly half of permanent secretaries in the late 1960s - early 1970s) the real importance of housing (as opposed to offices) in protecting the prestige of a post is open to question. The best arguments may be for uniformed service senior officers (really a special 'reside at place of work' case) and for District and Regional Commissioners (who do tend to be moved frequently, in the case of many DCs are in towns with limited middle or upper level rental housing availability and arguably verge on the reside at work category). By any reasonable definition this is a **small category** - perhaps **up to 300** of whom half would be DCs and RCs.
46. **Housing at place of work because of exigencies of service** applies primarily to army, police, border post and perhaps some meteorological stations. In the case of isolated medical and educational units the case for housing provision flows more from lack of access to private sector rental accommodation than from a need to reside at the site of the employment unit.
47. It is not clear that **all** uniformed service personnel do need to reside at place of work in government provided quarters. There is a case for review - especially as at present not all are or can be so accommodated. In the case of police (and to a degree commissioned military officers) off-post housing is common in many countries particularly in urban areas. Traffic police for example are not likely to need to be instantly available 24 hours a day. However, adjustments when an entire service has in the past been treated as entitled to/required to reside in state housing need to take into account the need to avoid perceived as well as actual discrimination against 'offbase' personnel.
48. Tanzania has substantial **private rental housing availability** in cities and large towns but much less (or none at all) in small towns and rural areas. Where such **market failure**

exists, specific attention to how public servants can have access to housing is needed. At least five options exist:

- a. **encourage private sector construction for rent** - unfortunately a long term and problematic solution in rural areas and a medium term one in towns;
- b. **encourage employees to take up mortgages and build**- probably attractive only to employees from and expecting to stay/retire in their present place of posting (who may constitute a surprisingly high level of primary level education, health and extension personnel);
- c. **public housing authority**, e.g. NHC, ROB, provision - an unattractive option in Tanzania given the extreme weakness of these bodies and their extremely poor maintenance record. While NPF and/or NIC provision might seem more attractive, the problems NPF has experienced with its initial property development projects suggest extreme caution as neither has real property development nor rental portfolio management experience.
- d. exploring possibilities of **provision of rental accommodation** (and/or assistance in building/maintaining employee homes) **by communities and/or organised service user groups** - an adaptation of the policy of most units in the Tanzania Christian Social Services Commission Network and of the practice of Woreda (District) authorities in Ethiopia.
- e. **employer (central or local government) provision** of housing presumably on a proportion of salary basis.

These are not exclusive - all may be useable in some situations and perhaps none is appropriate to all.

49. **Special considerations** apply to:

- a. **short contract specialists** (especially but not only expatriates);
- b. **officers on transfer**.

The former are analogous to the transient colonial service senior officers (even if they are citizens) in that self owned housing in brief stay posts is unlikely to be suitable and the problems of house hunting under unfamiliar conditions can seriously affect early period productivity. Officers on transfer need a period - preferably with their families - to locate satisfactory housing in their new location. Again loss of morale and productivity if forced to find somewhere to live under extreme time constraints can be serious.

50. **Expatriates** are now largely externally funded technical assistance personnel from or via foreign governments or international agencies with offices in Tanzania. The case for providing them, whether as part of salary or more usually by paying their rent, with housing is clear cut. But **it should be - both financially and logistically - the responsibility of the provider**, not of Tanzania.

51. **Officers on transfer** do need interim accommodation. The simplest approach is covering hotel costs, but that is hardly the least cost one. Provision of standard housing is unlikely to be practical and introduces "moral hazard" in that if acceptable family housing is provided the officer may not strive very hard to rent a house of his/her own. A possible approach would include:

- a. provision of guest house style (rooms and access to kitchen) accommodation for 60 - or in exceptional cases 90 - days;
- b. operating (in the Civil Service Department) an office collecting information on and providing advice in respect of for rent or sale houses/flats and on mortgage finance possibilities to facilitate officers' searches.

The difficulty with that approach is that it would require building or buying guest houses and estimating typical numbers of officers on transfer. In any case it would probably need on occasion to be supplemented with hotel use.

52. If a **housing policy** within the above parameters for house provision is agreed, a **pre implementation study** would be needed:

- a. to determine which posts needed official houses for the prestige of the post;

- b. and which portions of which services, in what locations required place of work accommodation (“quarters”) to perform their duties effectively;
- c. how many rural or small town officers in which departments where should be provided with access to government or community provided housing or community assistance in building and maintaining their own;
- d. how many present entitled/eligible urban houses are redundant under this approach and what should be done with them.

53. Clearly **more rural/small town houses** are likely to be found to be needed. Overall **quarters may be adequate** but probably not at all sites. (This assumes some police and army personnel do **not** need to live on post/in cantonment.) Probably the number of ‘**prestige of office**’ houses will prove to be adequate or to show a surplus. Clearly there will be an urban **surplus** - especially in Dar es Salaam - on **previously entitled/eligible housing**. The surplus cannot be used directly (as opposed to by sale and use of proceeds) to meet the deficit because it is in the wrong locations and, in general, of the wrong quality.

54. A case exists for **selling surplus houses**. However - unless the funds are desired to fund gap filling in respect to other housing categories - there is no immediate urgency as to disposal. An orderly approach might include:

- a. identification of surplus dwellings;
- b. valuation of the premises (taking account of the high average age and poor condition of a majority);
- c. providing first refusal on the mortgage terms set out above to present occupants;
- d. organising an orderly auction (subject to floor prices) of the balance of buildings.

As the total of surplus houses is unlikely to exceed 500 to 1,000 and their present (aged/poor condition) average value may well be Sh5m the potential sale value is unlikely to exceed Sh2,500 to Sh4,000 million of which probably a minimum of half would be in the form of mortgages (which however would presumably mean up front payment of lender cash to the government) - a **useful but not a major fiscal inflow**.

55. Any likely approach to housing public servants will leave a **substantial number of houses and quarters in government ownership and public servant occupancy**. Even with a phasing out of the present eligible/entitled system a substantial urban housing pool will remain for up to ten years. The question therefore **arises how and by whom these buildings should be managed and maintained**. To date it has been more or less unquestioningly assumed to be the government via the staff of the Public Works Department as to maintenance and individual employment units via personnel departments so far as allocation is concerned. Both the assumption and the modalities are colonial regime inheritances. Interestingly the maintenance pattern - payments by user units to Works on a formula basis intended to cover costs taking one year with another - accepts the desirability of specialisation and of separating the personnel policy and building operation/maintenance elements of housing provision.

56. This precept could be pushed further. **In urban areas there is no evident virtue in government agency operation of maintenance services** unless these provide major real (not camouflaging non-maintenance as low cost) savings. For works **to contract out clusters of residences to management-operation-maintenance contractors** would make good sense, **if** it reduced sustainable costs or held them constant but also allowed reduction of attention needed to a peripheral activity. Whether reliable, cost efficient contractors would appear can only be determined by inviting inquiries and then tenders. It also requires analysing 'target' cost because past skimping on maintenance means present allocations are unsustainably low.

57. However, it is unclear whether this contracting out approach **is fully practicable for rural and small town housing** built precisely because the local property market was narrow/underdeveloped. By and large absence of private landlords is likely to be paralleled by absence of private estate managers. The most realistic options may be:

- a. Regional or District Works maintenance (the *status quo*) but with costs recalculated to a sustainable/full maintenance basis;
- b. user committee or community maintenance either as local incentive to staff or as a negotiated "user fee"/cost sharing item.



58. **Quarters** - despite an instinctive reverse assumption - are much like other houses for maintenance purposes. In general security aspects of most police or army housing maintenance are low and not very different if Works (or Army Engineering) or private contractors carry them on. The obvious distinction is - as with houses - urban in which contractors are likely to exist and rural/small town where they often do not. However, a special consideration may arise for the Army. There is a case for **military engineering capacity** and for keeping it available as to expertise and as to sustainable fiscal burden during peace periods by taking part in general civilian type engineering . As with the US Army Corps of Engineers in water management engineering and roads. If the needed capacity includes buildings construction and maintenance, then it is sensible for the Army's own engineering units to maintain all its buildings - including quarters. Indeed if that work leaves spare capacity then Works should encourage the Army Engineers to bid for general maintenance - perhaps especially police quarters and rural/small town maintenance near military camps.
59. **Prestige of office** housing raises no real security issues - less so than quarters. In any case Works staff are not necessarily less corruptible than these of enterprise contractors. Doubtless received attitudes and international practice mean Presidential, Prime Ministerial, senior Uniformed Officer residences will be government maintained. Lack of suitable contractors will probably mean the same for most DC and some RC residences. As a result no great difference will result if this category (strictly defined) is left with Works.
60. **For employment units** the proposed change (partial contracting out) would **have few change requirements** (except probably higher charges to buy better maintenance and, thus less occupier complaints). For **Works** (which probably should collect and pay over the funds to contractors and certainly should engage and monitor contractors) there would be a **partial shift from operation to hiring/monitoring but the same job to be done**.
61. **Charging** is at present as devoid of any coherent rationale as provision. This is the result of an accumulation of historic events, of the divergent reasons for which housing is provided and of the lack of any coherent examination since the 5%-10%-15% formula at a time when 15% was an economic rent (and subsidised the 5%). The attempt to move to general public employer provision of housing on the same basis was - in retrospect -

probably always foredoomed and certainly became impracticable with the 1979 onward fiscal squeeze.

62. The simple and - at first glance - appealing approach is to charge “**market rent**”.

However, that is only self evidently plausible if:

- a. most employees can (not are required to take up government housing;
- b. housing availability in respect to size and quality is such as to allow choice to renters;
- c. determining what “market rent” would be is relatively simple and accurate.

**None of these conditions is met** in present or probable future Tanzania.

63. In respect to the entitled/eligible officer housing (which even if phased out will be substantial for some years and is at the heart of both criticisms and defences of the present situation) two rules of thumb can be applied:

- a. rents - for the sake of simplicity of administration set as a % of salary - should cover full **operating/maintenance costs** and some **contribution toward replacement**; and
- b. should be at about the **proportion of salary the ‘normal’ household outside government housing spends on rent**. That % **needs to be researched** (by a domestic consultant hired by Hazina-CSD-Works) but for purposes of preliminary analysis may be estimated at **20%**.

The consequential issue of **how to phase 10% and 0% to 20%** is addressed below.

64. In respect to the special - **rural/small town, quarters, prestige of office** - housing the **20%** rule should be a **maximum** and **out of pocket operating/maintenance cost a minimum** at least except for community/user provided housing. These types of housing are provided to suit employer needs, to fill gaps caused by market failure, to lend dignity to posts (not postholders). Therefore, pure market rents (even if determinable) are not appropriate. Being in quarters and living in small towns or rural areas are disincentives (or negative inducements) while prestige of post housing is dictated by ‘respect for office needs which are not directly related to the depth of the employee’s pockets. Arguably a ‘reduction’ of rent to **15% of salary in the first two cases and holding to a 20% ceiling**

**even if below operation/maintenance in the third** would address these factors. (For the avoidance of doubt security operating costs are a legitimate public expense not one to be clawed back in rent, just as if a President or Minister or Chief Justice chooses to live in his own home, capital costs of security installations should = and at present do - fall on the state not the individual.) In practice it is unknown to charge a head of state or government for his/her official residence so that President, Vice President, Prime Minister should perhaps be special surviving no rent cases on purely pragmatic grounds.

65. The foregoing analysis is of what is **practicable and desirable for 1998-2008** and probably longer **not an attack on the early 1970's strategy and articulation** in the then existing context and not unreasonable projections. Until the early 1980's a serious case could be made for it in terms of possibilities, constraints, equity:
- a. consequential on the Acquisition of Buildings Act and the Leadership Code there was **no dynamic private rental housing sector** above the Swahili compound house level nor was it politically acceptable to promote one;
  - b. the **NHC, RoB and Government had substantial housing stocks** as did some large companies;
  - c. **enterprise profitability and borrowing capacity and government revenue buoyancy and (then) available borrowing capacity** were such as to **permit expansion of employee housing so long as charges covered operating - maintenance - a contribution toward renewal**;
  - d. the 5%-10%-15% (of salary) formula at that time did meet the cash operating/maintenance cost plus condition and was deliberately devised to do so (on a basis analogous to general provision Singapore public housing which was also cross subsidised);
  - e. there was **no intent to require employees to rent**. On balance there was a positive view of their borrowing/building. The THB did offer **mortgage loans** and housing costs were at levels allowing middle and senior level employees to take them up and service them. A social security type **levy was introduced to fund a low income**

**housing loan scheme for those using fundi led informal sector construction teams** to build modest houses in rural as well as urban areas;

- f. so **long as many** (and a growing share) of **large enterprise and government employers** had access to employer owned housing and the 5%-10%-15% charging system was not a massive subsidy no very serious inequity, inconsistency or mismotivation consequences were likely.

66. Even in retrospect, the early 1970's strategy does not look mad nor its articulation either internally inconsistent nor marked by major gaps. But since 1980 it has not been practicable and the remnant bits produce inequalities and inequities:

- a. **neither enterprises nor government have operating revenue flows nor access to borrowing adequate to provide** general housing access to their employees;
- b. the 5%-10%-15% **formula** (compressed to 5%-10% in an overt subsidisation measure) **has a very heavy subsidy element** (because real pay has fallen);
- c. THB and other **mortgage finance** is not accessible to/serviceable by any low or middle or most upper income public servants;
- d. the **private rental housing market** is much more dynamic and politically acceptable;
- e. **generalised employer provision of housing is no longer a goal** - much less an operational targeted process;
- f. the **resultant housing pattern or non pattern** (combined with *de facto* subsidy) creates a host of anachronisms, inequalities, non-transparencies, inequities.

Thus the need for a full review and strategic reconceptualisation.

## V.

### TOWARD A REDEFINED STRATEGY: Interim and After

67. Parallel policy formulation and data collection exercises could result in **two steps** (new rental charges; “grandfather clause” transitional provisions) in the **1999/00** Budget and **others** (who is to be housed and why; mortgage access provisions; possible partial contracting out of management/maintenance; routes to disposing of surplus housing stock) **roughly sketched by mid 1999** and approved for **implementation from January or July 2000**.
68. The **rate proposals** are likely to be fairly straightforward:
- a. **limited number** of **free** houses e.g. President, Vice President, Prime Minister, Chief Justice;
  - b. larger but limited number of **prestige of post** housing entitlements at **15%** of salary in District towns and **20%** in Regional towns and Dar es Salaam - e.g. District Commissioners, Regional Commissioners, High Court Judges, Uniformed Service Commanders residing on base, Ministers;
  - c. **20%** for new occupiers present **eligible/entitled** housing not in a-b-d until/unless its provision is discontinued;
  - d. **15%** of salary for rural and small town housing provided by government in areas in which access to private sector rented housing is limited;
  - e. **15%** for “quarters” family housing provided at place of work to meet employer needs for 24 hour availability. (Special considerations may apply to uniformed service quarters for historic reasons, albeit there is no particular logic in a rate below 15% in their case unless the quarters are of very poor quality. But see Annex.)
69. While **comparative data** on typical per cent of household income spent by (and size/quality of housing of) medium and large enterprise and of small and ‘informal’ (i.e. unrecorded) urban enterprise employees would be useful; it is **unlikely it would lead to radically different initial rates**. If 20% is significantly below the average, then

adjustments over time parallel to real pay rehabilitation to - say - a 25% rate would probably be preferable to a 10% to 25% leap in 1999.

70. The appropriate time to alter rates would be in the Budget process parallel to annual pay scale adjustment. It is important - to ease negative impact of shifts on employees' perceived financial position and morale and to minimise opposition - that in the year in which increases are taken (say 1999) the **increase in salary scales be comparable to the past years COL inflation** or - at the least - a realistic estimate of the next years increase.
71. To **avoid significant loss to persons now enjoying premises at lower proportions of salary**, a '**grandfather**' clause should be provided in the new Rates Order (taken either as a Standing Order or some other type of Subsidiary Legislation):
- a. **present free housing holders** to continue to pay no rent until retirement - or other departure from the public service - (but no **new** free entrants except for those covered by category 67a);
  - b. **present 10% entitled and eligible housing holders** should also keep the right to housing at that rate until retirement - or other departure from the public service - (but if promoted to presently free housing posts not covered by category 67a should pay 10%);
  - c. **present 5% occupiers** (probably near 0 outside quarters or isolated posts) should enjoy similar safeguards.
72. The **other areas** in which **new policies and mechanisms** are needed included:
- a. a **mortgage facility** for public servants on the lines set out in Paras. 36-42 above tied to a multiple of salary, 25 year repayment, interest rates linked to government debt, with government guarantees but with mortgages issued by POSB or NIC (with repayment from 20% of salary checkoff. For the avoidance of doubt it is assumed that the owner occupier deposit level would be low - say 5% - because of government's ability to secure repayment automatically from salary. However, special provisions would be needed to provide for alteration of terms in the case of employees leaving the service before normal retirement and perhaps a declining balance term life

assurance policy to finance retiring the mortgage in case of in service death to the amount present public servant benefits payable on death would not do so);

- b. determination of **which categories of public servants should be housed why and where** (if rural/small town and/or quarters categories are agreed) **through provision of/access to government housing;**
- c. the implications for **selling off existing surplus eligible/entitled urban housing** (probably with preference to present occupiers and with access to a mortgage scheme analogous to “a” but taking account of their fewer years to retirement and their commuted pension entitlement at retirement);
- d. the **potential for partial contracting out of management and maintenance** of government housing particularly in large towns and cities as discussed in Paras. 55-62 above.

73. For the avoidance of doubt it is assumed the new 15%-20% rates will be deemed for Income Tax purposes **not** to provide any taxable subsidy - a position analogous to the historic position of the 5%-10%-15% system.

74. Presumably government would wish to require **autonomous public agencies** (e.g. Tanzania Tax Authority, LART, Universities, Reference Hospitals, Bank of Tanzania to adopt analogous strategies rates, categories and transitional arrangements.

75. **Hazina** might wish to consider the (necessarily phased as existing tenants retired or otherwise left the service) **disposal of surplus entitled/eligible housing together with the disposal of most NHC/RoB premises**. Phased auctions (with reserve prices), first refusal at highest bid or reserve price (whichever is higher) to sitting tenants, access to mortgages (perhaps on a basis roughly analogous to that of public servants but taking account of the greater risk of default) for persons buying homes in which they are to reside. Phasing is proposed to avoid a market glut and/or inadequate mortgage finance availability. The probability that such a **broad strategic approach to all public sector housing** provision would be of interest to Hazina turns on the clear impracticability, of NHC/RoB playing a leading role (quantitatively at least) in housing provision because of their limited managerial capacities and their present and foreseeable future lack of access

to finance to undertake the massive rehabilitation/deferred maintenance programme needed for their present building stocks. (In many cases - primarily but by no means all commercial - the main present value is not the deteriorated building but the low, fixed rental term lease for the plot on which it stands).

76. Studies needed for keeping policy up to date and - in some cases - for articulating initial policy decisions include:

- a. **typical household rent** (absolute and as % of income) for urban large and medium enterprise and - to extent feasible - small and 'informal' (unrecorded) enterprise employees. The purpose would be to identify whether a 20% of salary housing charge (15% in cases in which a distinct government purpose element and/or a case for an incentive to live in a non-urban area was present) was reasonable. If a higher rate were to be deemed appropriate, it would need to be phased in so the study is not needed prior to deciding on increases to 20%/15%;
- b. a survey/study of low and middle (as well as upper middle) **home construction costs** not only by large and small 'formal' (recorded) sector contractors but also by fundi led construction teams supervised by the resident to be which are standard Swahili housebuilders and common up to middle (and perhaps upper middle) income level. There are virtually no recent data beyond the larger contractors (who are upper income, expatriate, large enterprise and government oriented) and there never has been a systematic study of 'informal' (unrecorded) contracting costs of building even though it is known to build the majority of urban residential housing and to charge buyers less (presumably in large part because buyers act as their own quantity surveyors and construction supervisors thus cutting out a massive chunk of larger 'formal' contractor overhead costs);
- c. government **housing stock numbers, categories, condition and locations**. The categories could be prestige of office, quarters, access to rental housing and general eligible/entitled without prejudice as to future decisions on coverage of these categories. This data is needed as a baseline to determine deficits/surpluses once categories and numbers covered are agreed upon and to have a rough estimate as to repairs backlog;



- d. once categories to be housed are agreed (see Paras. 43-51) then a follow-up study is appropriate to **identify numbers to be covered, present coverage, deficit** (or in some urban areas surplus in entitled/eligible category) and - if readily accessible - replacement unit cost of types of residence/quarters to allow strategies for moving toward desired provision levels (and disposal of surpluses);
- e. exploration of **access to housing mortgages** from financial institutions both as to cost and as to availability. If - as seems likely - there are market access problems then a government guarantee/checkoff scheme linked to POSB or NIC provision of funds (see Paras. 36-42, 71) would need to be explored and quantified;
- f. **Hazina might wish study “e” to be part of a broader study on housing** (and other property) **financing** (mortgage, joint venture, etc.) **by financial institutions especially Pension Funds, POSB and Insurance Companies**. These institutions are no longer required to invest in government stock, need to invest in low risk/real return (i.e. above inflation) instruments and have next to no experience in doing so under present conditions. Globally pension funds do invest in property both via mortgages and joint ventures, but to do so requires expertise not now in the possession of their Tanzanian counterparts. This aspect would be of interest to the Civil Service Department if and when (or when) conversion of public service pensions to a contributory basis came on the agenda again as, at least in the recent past funded investment in government paper schemes have fared even worse than pay as you go ones linked to last year (years of employment) pay;
- g. an inquiry into **actual management and maintenance costs** and what there would be **with full maintenance** under government operation and what the **options and costs of whole or partial spin-off of management/maintenance** to an autonomous public entity or to one or more private enterprise contractors might be, with proposals on how to proceed if either of the options appears attractive;
- h. exploring ways and means of **selling surplus eligible/entitled housing** taking into account probable proceeds, mechanism for phased auctions with reserve prices, access to mortgages for residential and small business sitting tenants. **Hazina might wish this to be part of a more general study involving the bulk of present NHC and**

**RoB holdings.** If these are to be sold - as would appear desirable given the impossibility of NHC/RoB raising either the funds or the management resources for repair, renovation and redevelopment - the total public sector building sales strategy (especially size and implications for phasing related to avoiding overloading the limited property finance market) should be considered not separate Works and RoB/NHC components.

77. The **foregoing studies are not in themselves policy explorations.** They are data and managerial/operational alternative presentation and analysis **exercises assuming that a new public service housing strategy is desired** and will be based on providing housing (except via adequate pay perhaps complemented by facilitation of mortgages) only to categories of public servant for whom particular state interests or market constraints create special cases for doing so and that such housing provision and **should reduce radically the present subsidy element as well as improving housing stock maintenance and management.** They can be carried out after, or in parallel with, detailed policy decisions.

78. Except in the case of analysing mortgage schemes property investment/finance (see Para. 75e) and property sales, **qualified Tanzanian consultants** should be locatable. On those **specialised areas so little Tanzanian experience exists that expatriates - if practicable from e.g. South Africa, Zimbabwe, Botswana via CFTC - would be desirable.** Each study appears to be handleable in no more than three months but some do require that another study be done first. Therefore - counting terms of reference, identification, commissioning - the entire study process might take 9 to 12 months.

79. Policy issues include:

- a. **Move to a 20% (15%) of salary charge for housing for new entrants - beginning 1 July '99 parallel to a salary award;**
- b. **Protection of present occupiers** by a 'grandfather clause' - by definition linked to "a" in timing;
- c. Definition of **categories and numbers to be housed directly** by government and of desirability of complementary local government and/or user committee/community

provision of or actions supporter employee acquisition of housing leading to identification and **sequential prioritisation of phased reduction of gaps** in availability and backlog of overdue maintenance;

- d. **Provision** (if determined to be prudent and practicable) of **improved access to mortgage finance** for public servants - principle for announcement in 1999 Budget Speeches with arrangements with POSB/NIC and inauguration to be completed on 1 January or 1 July 2000;
- e. **Possibility of autonomous** (public entity or private contractor) **management and maintenance** of all or some (probably basically urban) housing - possible to decide in 1999 and seek contracts in 2000 but less urgent than a-b-c-d;
- f. Ways and means to **dispose of surplus housing** either alone or as part of a RoB-NHC-Government disposal programme. Decision possible by 1999 Budget but implementation (first sales) unlikely to be feasible before 2000;

80. The **main parties to the decision taking and strategy/policy design and articulation processes** should be:

- a. Civil Service Department;
- b. Hazina;
- c. Planning - the overall strategy does have general policy implications which it needs to incorporate into its analysis and on which its advice is needed;
- d. Prime Minister/President - to approve initial a-b-c-g discussions and broad scope of preliminary strategy and steps toward articulation;
- e. Bank of Tanzania - financial institution control and research departments;
- f. Labour (because of ramifications for employees more generally);
- g. Public Service Trade Unions (to maximise understanding, avoid unintended side effects, ensure “worker friendly” design);

- h. AG's - Parliamentary Draftsman (both to advise where primary legislation may be needed and to draft any such as well as the clearly needed subsidiary legislation);
- i. Legislative Committee of Cabinet;
- j. National Assembly.

81. Because government provision of public servant housing is the **last main strategic gap** in the programme for rationalisation and restoration of public servant emoluments decisions and initial implementation in this areas are **urgent**. However, in some sub areas studies and programme design could well take 6 to 15 months before operationality. Therefore a case exists for:

- a. **key strategic decision taking by 1 June 1999**; with
- b. **20% (15%) deductions, "grandfather clause"** and announcement of other decisions (not least mortgage access could be introduced in the **1999/00 Budget Speech** (or alternatively in 1999/00 as they need to be parallel to salary adjustment);
- c. the **mortgage access scheme while announceable in the 1999/00 Budget Speech probably could not be brought into operation before 1 January 2000**;
- d. while the **strategic priorities for types and locations** of direct government housing provision could be decided by mid 1999 details statements and programmes on gaps, priorities and phased implementation of **new construction and maintenance backlog elimination could not begin before 2000/01** nor could the construction/maintenance catch-up be completed before - say 2004/05.
- e. **partial contracting out of housing management and maintenance** and disposal of surplus government housing do not need to be tied to a Budget Session and there is no evident significant advantage in announcing a decision in principle long before implementation will be possible. The middle of fiscal 1999/00 might be a prudent date for detailed decision - announcement - initiation of implementation.

82. It is not evident that any of the proposals of this paper would require **primary** legislation (Acts) although some might require amendments. Several would - or should - require

**subsidiary legislation** by Schedules or Orders, preferably Gazetted and laid before the National Assembly/subject to its disapproval. While the net financial implications (except perhaps closing gaps in stocks and their maintenance) are relatively limited most of the proposals will require Budget lines (both Revenue and Expenditure) so that the appropriate forum for debate would appear to be in the Assembly during the departmental policy portion of the Budget Debate.

83. The **importance of prior discussion and of a meeting of minds with the Public Service Trade Union** is very high:

- a. the chief body of persons affected are its members;
- b. the Union's officers are **highly responsible and well aware of the constraints on public spending**, even though their duty to defend their members' interests means that they and Hazina inevitably diverge on actual numbers (albeit not since 1995 on orders of magnitude nor direction);
- c. if properly comprehended, the **"Grandfather Clause" guarantees against loss of present (real) housing benefits** while the **new 20% (15%) deductions will be parallel to annual adjustments and part of overall emoluments strategy not a clawback of "vested" benefits nor a cut in overall prospects**. Similarly the mortgage access while designed to be self financing and - by facilitating public servant home ownership - designed to reduce, demand for government houses is a genuine response to a frequently and broadly voiced public servant priority for means to finance acquisition of own homes;
- d. **assuming proper presentation, discussion and understanding, the Trade Union Officers are the best channel for (correctly) convincing public servants the proposals are in their interest** and thereby ensuring that they are a support base for not an obstacle to, implementation;
- e. and - potentially equally important - the **details of several of the proposals should take into account worker needs and perceptions which the Trade Union can collect and channel to the senior civil servants and political decision takers much more effectively than consultants or even many senior public servants**.

## ANNEX

### UNIFORMED SERVICES - SUMMARY

1. This **paper does not explore in details certain special considerations applying to the Uniformed Services.**
2. It does apply the principle of direct provision of housing only when a special government interest case arises to both Uniformed and 'Non Uniformed' Services. In that respect the nature of Uniformed Services duties requires that a higher proportion (not self evidently 100%, that is an empirical issue) of their members need "Quarters" housing than of the other ('Non Uniformed') Services. In that respect the mortgage access scheme could only apply to those persons **not** required by the nature of their duties to reside in "quarters".
3. In principle 15% of salary rental charges (the reduced rate for housing provided to serve a governmental purpose and especially for "quarters") should apply to the Uniformed Services. However, to the extent the 10% deduction does **not** now apply, implementation of the new 15% provision should be deferred - as it would in any case automatically be for present occupants under "grandfather clause".
4. That issue is part of the more **general one of systematic differences in Uniformed Service emoluments from Non-uniformed Service ones.** Initially these differences were relatively modest and justified by the 50 year retirement barrier in the Uniformed vs. 60 year (then) in the Non-Uniformed Services. The differential has risen since the mid-1970's with slower Uniformed Service real pay erosion and different timing and modalities of partial restoration. The reasons presumably relate to specific politically perceived needs to preserve the loyalty and professionalism of the Uniformed (and armed) Services. These can hardly be addressed plausibly as a sub topic of Public Service Housing provision!
5. The lumping of Police with Army (Armed Forces) is an historic fact. The initial reasons were simplicity and avoidance of tensions between Army and Police. It is not self evident that duties of the two services are so similar as to require the continuation of the present approach. Civil Police forces (and Tanzania's police force is very much a civil police with quite low riot and organised crime - e.g. cattle theft - control components) are in fact

very different from Armies. Whether a review of this area is desirable is a political issue and there is no apparent present urgency for such a review. However, an earlier introduction of Housing Charges - say 10% for barracks and 15% other - may be practicable for police though probably only with a special 10% increment at entry post base to scales, because new entrants are now oused as a general policy which does not apply to the non-uniformed services.

6. The simplest approach - especially initially - is to include the Uniformed Services only in respect to "Quarters" (needs, availabilities) issues.
7. In the medium term a broader exploration of the issues at Paras. 4 and 5 may be seen as desirable. Realistically that would require a working party of Defence plus Service Commanders, Police, Hazina, Civil Service, Prime Minister's chaired by the last. Explorations could be at senior official level but all terms of reference and final decisions would necessarily be at political (Ministerial/Prime Ministerial).

#### **A MORE DETAILS INTRODUCTION TO ISSUES**

8. The preceding memo has been set out in general terms. As noted, in principle it applies to all public servants including the uniformed services - basically Civil Police plus Armed Forces. In practice it certainly applies to all non-uniformed services and - with minor modifications - should be applicable to Civil Police housing provision. How to apply it to Armed Forces housing may pose more questions. In both cases the other divergences of non uniformed/uniformed in kind free or heavily subsidised remuneration in kind - notably meals - probably should be looked at in parallel. The Armed Services and probably the Civil Police could have their housing policy reviews slightly later than the non-uniformed services with decisions (not necessarily identical) in 2000 or 2001.
9. In the case of the **Civil Police** there is no reason in principle to adopt a different charging system than for non-uniformed public servants. Provision of quarters - whether barracks (officer rooms/communal messing) or cantonments (single or family housing with cooking facilities) is the norm (with a fairly high present proportion of away from post

housing more the result of lack of police quarters and of funds to expand them than of a policy shift).

10. However, several questions different - at least in degree - those applying to non-uniformed services arise:

- a. should there be a norm of at post housing provision for the good of the service of would the latter be better served by - say - 50% at post and 50% 'normal' housing?
- b. If the latter is a 15% at post/20% off post split in charges acceptable in terms of morale since even with a (near total for serving personnel?) grandfather clause the proportion of new entrants effected will be much larger than for the on uniformed services? If not the 15% rate would have to be standard for both segments.
- c. Is a 15% charge rate (vs. 20% 'normal') but 15% 'at post' for non uniformed services) likely to create problems for the public service more broadly? The answer may be no in that police remuneration is in any event separate scales and these are in general more favourable than for the non-uniformed services (nominally on the grounds of an earlier retirement rate). This particular colonial legacy - it is by no means universal practice in other countries to pay uniformed service personnel more than comparable non uniformed - has not in the past appeared to arouse significant discontent either on the part of non-uniformed service members or on that of Hazina.
- d. To the extent that the new charges were well above existing ones (a question of fact to be determined) a special increase in scales, or at least their minimum entry grade base levels, might be needed to ensure recruitment was not adversely affected. If this was large - e.g. 10% - and resulted in 20% to 25% police base point increases 10% to 15% for non-uniformed services substantial Public Service Union (and member) discontent could arise unless skilful, frank prior discussions with the Union were held.
- e. There are other in kind benefits (at least as seen by outsiders) to Civil Police. Those relating to uniforms are readily explicable - they must be worn on duty and are not allowed/not suitable for non duty wear. Those in respect to food - meals on duty/mess meals - may pose more problems to any regularisation of emoluments. To a degree they are provided for the good of the service and charging (even in part given the



historic record and low present pay) would lead to resentment and damage to morale out of proportion to fiscal gains. To some degree, however, they are in practice a 'fringe benefit' and - at least for messing - should be offset by higher pay and a messing deduction (not all police mess). In practice the complications and resentments suggest now is not the best time to attempt any such reform.

11. On balance a 1999/2000 10% and 15% charge (perhaps 10% barracks 15% cantonments and off post housing) on new entrants plus a special 10% increase in the base level of entry point pay scales would appear optimal if practicable. However, if serious complexities are discovered on closer study or widespread officer opposition/morale problems are likely a longer consultation/review process aimed at 2000/2001 or 2001/2002 introduction would be preferable either to holding up the basic non-uniformed service police reforms or imposing a sharply opposed change.
12. For purposes of this aide memoire **fire** services are assumed to be non-uniformed. As they are very small, if their actual conditions are more analogous to Civil Police they could readily be deferred if police are. The **Armed Forces** pose problems/differences parallel to Civil Police but greater in degree and in magnitude (if only because the numbers involved are twice as large and the perceived degree of separation from civilian services much greater).
13. In principle charges for housing (especially cantonment and off base) are desirable. For practical and internal morale reasons 10% (barracks)/15% (other) would appear the least problematic rates. In practice this would require raises in entry point scale bases to offset the large immediate cost to new entrants (who would - presumably - all be housed and, therefore, affected at once - a situation totally different to that of the non-uniformed services). In practice both institutional and individual objections as well as objective complexities almost certainly mean a separate review with a 2001/2002 target date for decision would be prudent and the possibility of no short or medium term reform - while not a foregone conclusion - a real one.
14. Similarly in respect of meals the proportion of genuine needs of service provision, the historic tradition and the probable morale problems strongly suggest setting the issue to one side quite possibly even to the extent of not initiating any immediate review.

15. The problems of reform in this the uniformed services sector (and especially the Armed Forces) are compounded by the historic reality:

- a. the Civil Service Department (naturally) has no experience with nor working knowledge of their scales and other conditions which fall outside its remit;
- b. Home Affairs - which has both uniformed) Police) and non-uniformed employees does not appear to have devoted much consideration to scale and other condition divergences let alone considered to what extent they continued to be justified;
- c. Hazina has also devoted little attention to conditions other than pay of uniformed services. In the case of pay it has in general accepted higher scale for uniformed services (especially Armed Forces) and, at times, higher scale increases on somewhat vaguely parametered "security" grounds. Its chief constraining tool has been overall budgetary ceilings which - at least indirectly - do limit pay, provisioning, uniforming and housing;
- d. Defence has not pursued cost control or broader economic evaluation of pay scales and other benefits (or for that matter of other expenditures). In particular it has taken in kind housing and food provision as a given and never evaluated whether and to what extent more pay and less in kind payments might be more efficient in terms of personnel morale and efficient.

These attitudes and analytic gaps may need to be modified. But they have existed, do exist and so long as they remain do make it harder to compile a data base and - even more - to hold rationale discussion on the gains and costs of housing provision/charging (or, for that matter, any other reform). They are not unique to Tanzania nor to Africa but - to varying degrees - apply to uniformed service emoluments and conditions and their analysis in almost all countries. This is not a reason to rule out reforms *per se* but a warning to begin with data collection and analysis shifts and to adopt a different time scale than for the non-uniformed services.