ECONOMIC AND SOCIAL RESEARCH FOUNDATION

A RESEARCH REPORT ON

ASSESSMENT OF PUBLIC-PRIVATE PARTNERSHIP (PPP) IN TRANSPORTATION INFRASTRUCTURE IN TANZANIA

The way PPP is understood, challenges and the way forward

Researchers:

Dr. Kenneth M.K. Bengesi, Dr. Patricia Mwesiga, and Mr. Tumaini Mrema

Submitted to:

Economic and Social Research Foundation,
51 Uporoto Street (Off.Ali Hassan Mwinyi Rd.) Ursino Estate,
P.O.Box 31226, Dar es Salaam.
Tel +255 22 2760260, Fax +255 22 2760062
http://www.esrftz.org/

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TABLE OF CONTENT

LIST OF ACRONYMS AND ABBREVIATIONS

BRT	Bus Rapid Transit
CAADP	Comprehensive Africa Agriculture Development Programme
CBA	Commercial Bank of Africa
CRDB	Community Rural Development Bank
DART	Dar Rapid Transit Project
FGD	Focus Group Discussion
MDG	Millennium Development Goals
MoW	Ministry of Works
NBC	National Bank of Commerce
NEPAD	New Partnership for Africa's Development
PPP	Public Private Partnership
SADC	Southern African Development Cooperation
SWOT	Strength Weakness Opportunities and Threat
TAZARA	Tanzania Zambia Railways
TEU	Twenty Foot Equivalent Unit
TIB	Tanzania Investment Bank
TRL	Tanzania Railways Limited
TPSF	Tanzania Private Sector Foundation
TSIP	Transport Sector Investment Programme
UNDP	United Nation Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
WEF	World Economic Forum

1.0 INTRODUCTION

Transportation infrastructure is a significant catalyst for economic development in any nation. With this understanding, the Government of Tanzania has strived to develop the nation's transportation infrastructure to fast track development initiatives as well as to cope with the development targets set in the national development frameworks, such as the National Development Vision 2025, the Tanzania Assistance Strategy, and the National Strategy for Growth and Reduction of Poverty. According to the National Development Vision, Tanzania is anticipating to become a middle income country by 2025, which definitely needs support by robust transportation networks. The current profile of transport network in Tanzania includes roads, air, railways, pipelines, and water networks. The road network is 86,472km, of which 12,786 km are classified as trunk road– covering 5,130 km of paved and 7,656 km of unpaved roads; and the regional roads cover a total of 21,105 km, out of which 840 km are paved and 20,265 km are unpaved; and the remaining 52,581 km constitute of district, urban and feeder roads (UNESCO, n.d.; MoW, 2013). The railway network consists of 3,681km of which 2,706 km is managed by Tanzania Railway Limited (LTD), and 975 km by Tanzania-Zambia Railway (TAZARA) (URT, 2008, ADB Group, 2013). There are 28 airports, with the Julius Nyerere International being the largest and the busiest in the country, and 9 ports under the Tanzania Ports Authority, Dar es Salaam being the biggest port (MoW, 2013).

In the effort to develop the transport infrastructure, the government has enacted the National Transport Policy of 2003 that was reviewed in 2011, and the Transport Sector Investment Programme (TSIP) that was issued as a draft in August 2004 and finally launched in financial year 2007/08 (URT, 2008).The establishment of TSIP in Tanzania was partly a response to the regional agricultural development initiatives launched by the Comprehensive Africa Agriculture Development Programme (CAADP) in July 2003, which focused on improving and promoting agriculture across Africa by increasing budget allocation to reach 10% of the total national budget by 2008 to support agriculture development (NEPAD, 2015). The TSIP was also designed to support the achievements of both the global and local basic strategic goals that include the Millennium Development Goals (MDGs) by 2015,and ultimately the goal of Tanzania's Development Vision 2025 of becoming a middle-income country with per capita income growing from the current US$270 to US$2,700 by year 2025 (UNDP, 2010). To attain these goals the transportation infrastructure was identified as a key sector that was anticipated to grow by at least12% per annum between 2006 and 2015 (URT, 2006; UNDP, 2010) to be able to support the foreseen development pace.

Transportation infrastructure requires huge capital investments. Government's spending on developing the transport infrastructure increased over a span of five consecutive years between 2005/06 and 2010/2011. However, increasing budget allocation to the transportation infrastructure was not sustained beyond 2010/11, a situation that contributes to an inefficient transportation network development in the country. Inefficient transportation network does not only have an everlasting negative impact on agricultural growth and employment of over 75 percent of Tanzanians who derive their livelihood from agriculture, but also undermines Tanzania's geographical potential as a regional trade gateway and logistical hub in East Africa and several other land locked countries in Central and Southern Africa.

Recent declines in budget allocations since 2010/11 for infrastructure development compound the problem of inefficient transportation. According to the World Bank (2013), Tanzania's economic growth, efficiency and competitiveness are being hampered by inadequate transport infrastructure caused by, among other factors, budgetary constraints. The country's ports, roads, railways, aviation system and pipelines are not efficient enough to support economic growth at planned rate. Among other interventions geared towards fast tracking Tanzania's economic growth includes the Public Private Partnership (PPP) funding mechanism, which has been established to particularly complement government resources to invest in the transportation infrastructure.

Scholars differ on the uses of PPP in practice. Some researchers focus on PPP as an inter-organizational arrangement between different institutions in which PPP is used as a governance or management tool; some concentrate on PPP as a development strategy some think it is a discursive term or a *language game* (Teiseman and Klijin, 2002; Guri, 2006). Globally, PPPs have become widely adopted and used for different purposes and in different sectors both in developed countries and developing countries. Consequently, the emphases of PPPs' definitions have also varied with purposes and/or use of respective PPPs. For example Nifula (2009; 2011) identified four broad emphases in the definitions of PPPs. These are: tools of governance or management, tools of financial arrangements, tools of development process, and pro-poor PPPs. The conceptual description of identified PPP attributes is presented in the subsequent sections.

PPPs as a tool of governance or management

The emphasis of PPP as a tool of governance or management focuses on the organizational aspects of the PPP relationship. The dominant theme is that PPPs provide an unusual approach to delivering goods and services to citizens, the uniqueness being the mode of managing and governing that ensures risk sharing between the two parties i.e. the public and the private sector through which the private sector participate in the service delivery to the public, which otherwise could be delivered by the government on exchange with the monetary benefits (Nifula, 2011). In such arrangement it relieves the government concentrate on the core duties of creating enabling environment and maintains peace and order of the nation.

PPPs as Tools of Financial Arrangements

Although financial arrangements are at the heart of all PPPs, several definitions of PPPs have incorporated financial arrangements as a key distinguishing feature. For example, Nifula (2011) emphasizes the financial relationships in defining PPPs, arguing that PPP projects comprise of the design, construction, financing and maintenance and, in some cases, the operation of public infrastructure or a public facility by the private sector under a long-term contract. With the emphasis on the PPP as tools for financing arrangements the emphasis is on the public sector acquiring services at the most costs effective basis rather than directly owning and operating assets. In this view, PPP allows the public sector to get better value for money in delivery of the public services.

PPPs as Tools of Development Process

Certain features of PPPs such as the contribution of resources, expertise, experiences and knowledge to complement each other and working towards the common goal and objectives of poverty reduction are seen as particularly suitable for the development process (ADB, 2010). This means through PPP the private sector has a room to introduce innovation into the delivery of public sector services. Along the same line the Asian Development Bank (2000, p. 42) defined PPPs for development as "collaborative activities among interested groups and actors, based on a mutual recognition of respective strengths and weaknesses, working towards common agreed developed objectives through effective and timely communication".

Pro-poor PPPs

The pro-poor PPPs is the arrangement that constitutes a partnership between government and private-sector organizations and not-for-profit organizations, where risks and benefits are shared and outputs and outcomes directly benefit the poor in a sustainable way (Nifula, 2011; UNESCAP, 2004). This partnership is intended to provide public services that are better suited to the needs of poor people.

Without dwelling much on the debate, this study adopts the definition advanced in the national PPP Policy of Tanzania as stipulated below:

> *The concept of PPP entails an arrangement between public sector and private sector entities whereby the private entities renovate, construct, operate, maintain, and/or manage a facility in whole or in part in accordance with output specifications. The private entity assumes the associated risks for a significant period of time and in return, receives benefits/financial remunerations according to agreed terms; which can be in the form of tariffs or user charges. PPP is, therefore, a cooperative venture built on the expertise of each partner that best meets clearly defined public needs through the most appropriate allocation of resources, risks and rewards (URT, 2009: p. 1).*

Types of PPP Models

There are several types of PPP models, although the suitability of each one of them depends on the context in which the pertinent project will be executed. According to the PPP Policy of 2009, the most prominent PPP models in Tanzania for different sectors include service contracts; management contracts; leasing contracts; concession contracts; green fields contracts; build, operate and transfer contracts (BOT); and design, build and finance contracts. The *service contract* involves contract between the public agencies and private sector and is suited for simple and short term requirements, while the *management contract* is practiced when the responsibility for the operation and management is passed on to the private sector. In both PPP models, the responsibility for investment and management of the project lies on the public sector, which also bears the financial and residual value risks. These PPP models are much more preferred by the private sector in the service sector because the risk element is substantially still on the shoulders of the government. A good example to explain the management contract PPP models in Tanzania is the Electricity Utility Management Contract that was managed by TANESCO as a public entity and the NET Group Solution Company as a private partner from South Africa. This Management Contract generated a near doubling of utility revenues in only two years making it one of the most high profile management contracts in the continent. However, it also failed to catalyze meaningful improvements in technical performance despite optimism on the part of the consultants, government, and sponsors.

The *leasing contract* PPP model on the other hand occurs when the private sector competitively bids for the lease facility or infrastructure to provide services to the general public. This is one of the inflation friendly and efficient PPP models in public service delivery since the private sector is completely responsible for the maintenance and operation of the facility or infrastructure concerned. According to the Ministry of Works (2013), the lease contract is one of the best PPP models for infrastructure development, though it has not been fully exploited in the Tanzanian context.

The *concession contract* is a category of leasing contracts in which the ownership of assets remains with the government while the private sector party takes charge of maintenance tasks of the assets and provision of investment capital. At the end or completion of the project, the government takes over the project and pays a certain amount of money as fee to the private sector agency as per the contract. The best example of concession contract is the Ubungo Bus Terminal and Dar es Salaam City Car Packing System, which are normally contracted to the private sector for service delivery and payments are effected according to the contract. Contractual bidding enables the government to stir competition among the private sector entities hence leading to low operating costs. However, the private sector views the bidding process under PPRA as being overly bureaucratic and leading to corruption. This may as well explain why the private sector is reluctant to participate in PPP projects.

The *green field contract* is mostly used for the development of new projects, whereby the government only provides the land to the private sector investor. Examples of green field contract projects include new factories, sea ports, airports, and development of parks, all of which are typically built from scratch. One of the good examples of green field contract projects is the planned Bagamoyo Port, earmarked as one of the ambitious projects in East and Central

Africa. In green field contracts the government only provides the land and the private sector designs, builds, develops and manages the same. Similarly, in the *build, operate and transfer (BOT) contracts* the private sector party is responsible for designing, constructing and operating assets. The government gives these types of projects mostly to companies with proven experience and skills. A good example of the BOT PPP model was observed in the Ministry of Communication, Science and Technology whereby a Swiss Company developed a Telecommunication Transfer Monitoring System (TTMS) in 2015 to monitor international calls. As a result, the government now earns about Tshs1.8billion (approximate USD 837,290.3 at an average exchange rate of USD1 = Tshs 2150 of 2015) per month. TTMS is cited as being one of the successful PPP projects in the Ministry.

The African Development Bank Group (2013) considers the PPP model as a crucial tool for revitalizing the overstretched and dilapidated transport infrastructure, which has lowered Tanzania's economic efficiency and competitiveness. Indeed, the relevance of the PPP pathway to Tanzania stems from the fact that the government has inadequate resources to cater for the transportation infrastructure budget requirements.

The government has created PPP frameworks such as the10 year Transport Sector Investment Programme(TSIP) of 2008 for Tanzania Mainland, the National Public-Private Partnership (PPP) Policy of 2009, the Public-Private Partnership Act No. 18 of 2010, the Public Private Partnerships Regulations of 2011; the 2012/13-2017/18 National Public Private Partnership Implementation Strategy, the PPP Operational Guidelines for Tanzania Mainland of 2012;and the Public Private Partnership Act (Amendment) of 2014. These frameworks constitute an enabling environment to attract the private sector to support various economic infrastructures, including the transportation infrastructure. Despite the government efforts to create this enabling environment, private sector's participation in infrastructure development is still low. The World Economic Forum (WEF), through its Annual Global Competitive Report, ranked Tanzania 134th out of 148 countries on the quality of its infrastructure. This suggests that Tanzania has not done enough to invest in infrastructure development possibly due to the traditional approach of relying solely on public funding in infrastructure development and failing to tap the existing potential from the private sector.

The slow go of the private sector to invest in transportation infrastructure raises several concerns:

- Whether there is an adequate enabling environment to attract private sector to invest in the transportation sector.
- Whether there is a common understanding of the PPP concept between the government and private sector.
- What factors are hindering investment partnerships in the transportation infrastructure between the public and private sectors?

These concerns warrant empirical research to come up with strategic interventions taking advantage of the potential private sector resources.

This study postulates that the slow pace of the private sector to partake in transportation infrastructure investments could be attributed to the poor understanding of the PPP concept within the Tanzania's context and/or varying understandings of the concept by the government and private sector. Due to the fact that there is a long and unsettled debate on the definition of the concept of PPP; different individuals, institutions, academia and business community view the concept with different lenses (Guri, 2005). It is from this context that this study was carried out to perform a thorough analysis of awareness and understanding of the PPP concept among different stakeholders. It was envisaged that the general understanding of the PPP concept and its legal and policy frameworks would foster utilization of the available potentials for economic growth in the transportation infrastructure by the private sector. It is also anticipated that if all the stakeholders come to terms with a common understanding of the PPP concept and its related legal and policy frameworks, they would be influenced to utilize the available PPP opportunities more effectively.

1.1 General Objective

The overall objective of this study is to assess the general understanding of the PPP concept between the public and private sector entities and determine reasons for the slow uptake by private sector to actively participate in PPP projects, especially in the transportation infrastructure in Tanzania.

1.1.1 Specific objectives

Specifically the study intend to;

i. Assess the existing enabling environment to support PPP projects in the transportation infrastructure,
ii. Examine the understanding of different stakeholders on the concept of PPP in the transportation infrastructure,
iii. Identify challenges faced by the private sector in partnering with the public sector to invest in the transportation infrastructure,
iv. Identify challenges faced by the government to engage the private sector in developing the country's transportation infrastructure, and
v. Draw lessons from this study that will form a basis of recommendations to enhance participation of the private sector in developing the country's transportation infrastructure.

1.1.2 Research questions

This study was guided by the following research questions:

i. Are there adequate legal and regulatory frameworks for effective implementation of PPP in the transportation infrastructure in Tanzania?
ii. What does the concept of PPP mean to Tanzania? Do the public and private sectors have a common understanding of the concept? Is there any association of the understanding of

the concept with involvement of the private sector in PPP projects specifically in the transportation infrastructure? What are the experiences with implementing PPP in Tanzania?

iii. What are the challenges faced by the private sector in partnering with the public sector to develop the transportation sector?
iv. What are the challenges faced by the government in engaging the private sector to develop the transportation infrastructure?
v. What lessons from the study add value to the process of engaging the private sector in PPP projects?

1.2 Scope of Work

The scope of the research was guided by the ToRs that enabled the researchers to present a thorough analysis of the general understanding of the concept of PPP between the public and private sectors and to identify factors for the slow response of the private sector to participate in PPP projects especially in the transportation infrastructure in Tanzania.

1.3 Structure of the Report

The report is structured in four sections. Section one presents an introduction that gives a general overview of the research gap, the motivation behind the study and the objective. Section two presents an approach and methodology adopted to collect, analyze and present the data. Section three presents the results, discussion, implications of the findings, and lessons learned from the study. Section four narrates the conclusion and recommendations on the way forward to address the identified challenges for improving the transportation infrastructure in Tanzania.

2.0 RESEARCH METHODOLOGY

The research methodology section describes the procedures used to collect and analyze data for this study. Specifically, the methodology section describes the research design, sampling procedures, data collection, analysis techniques, and the study output and impact.

2.1 Research Design

This study adopted a cross sectional research design and documentary review to solicit data and relevant information for responding to advanced objectives. The focus was to identify the main reasons for the slow response of the private sector to participate in PPP projects, particularly in the transportation infrastructure. The study used primary and secondary data to undertake a comprehensive analysis.

The literature review involved government documents (i.e., the National PPP Policy of 2009, PPP Acts No. 18 of 2010, PPP Amendment Act 2014, and PPP Implementation Guidelines of 2013 for Tanzania mainland), various empirical publications on PPP with emphasis on transportation infrastructure, and documents from selected countries with best practices in PPP. This study also conducted a series of focus group discussions with officials from the public and private sectors, key informant interviews, and a survey. A variety of techniques were used to triangulate the information.

2.2 Sampling Procedure

The study used both probability and non-probability sampling techniques to draw a representative sample. The Prime Minister's Office (PMO) Department of Private Sector Development, Investment and Empowerment was consulted to assist with identifying the government Ministries and Agencies dealing with transportation and infrastructure development. Also, the Tanzania Private Sector Foundation (TPSF) was consulted to identify specific organizations in the private sector dealing with the transportation infrastructure development and/or having the potential to invest in the same. Thereafter, the research team developed two sample frames, one for the public sector and the other for the private sector.

The study used a simple random sampling technique to draw representative samples from the two sample frames (i.e., public sector and private sector representative samples). The sample from the public sector included the Ministry of Communication, Science and Technology; the Ministry of Works; the Ministry of Transportation; the Ministry of Finance; the President's Office Planning Commission; and the Prime Minister's Office (Department of Private Sector Development and Investment). On the other hand, the private sector sample involved the Tanzania Private Sector Foundation, Tanzania Investment Bank (TIB), Dar Rapid Transit (DART) Project, Bus Rapid Transit (BRT) Infrastructure, Barclays Bank (T) Ltd, Commercial Bank of Africa (CBA) (T) Ltd, Stanbic Bank (T) Ltd, Citi Bank (T) Ltd, CRDB Bank (T) Ltd, and the National Bank of Commerce (NBC) (T) Ltd.

2.3 Data Collection Method

Primary data was collected using personal interviews (structured questionnaires), key informant interviews, and focus group discussions (see the interview schedules in Appendix 1). The structured questionnaires were administered on respondents who were randomly selected from the public and private sectors, and the key informant interviews targeted public and private sector officials who possessed PPP knowledge and information. Six focus group discussions (FGDs) were held comprising of 4 to 5 participants each. Among the six groups, three were formed by participants from public institutions and three FGDs consisted of private sector participants. The purpose of the focus group discussions was to complement information from personal interviews and key informant interviews that had been conducted using structured questionnaires.

2.4 Data Analysis

To respond to advanced research objectives, the study analyzed qualitative data through content analysis method to provide the basis for drawing appropriate recommendations for intervention to facilitate understanding of the PPP concept between the public and private sector stakeholders, and strengthen participation of the private sector in PPP projects in Tanzania. The analysis formed the basis for recommendations on the way forward.

2.5 Study Output and Impact

This study gives a series of recommendations guided by the impact pathways presented in Table 1. The recommendations that are guided by the impact pathways are intended to clear ambiguities of the PPP concept and improve participation of the private sector to invest and collaborate with the government in the transportation infrastructure through the PPP model.

Table1. Project Impact Pathways

OUTPUT	→	OUTCOME	→	IMPACT
Identifying the way in which the government has prepared the ground for effective implementation of PPP in the transport infrastructure.	◄ ⇨	*Review of the PPP Policy and Act.*		*Understanding of the enabling environment for the Public and Private sectors to jointly operate PPP projects.*
Identifying different perceptions of the stakeholders on the PPP concept in the transport infrastructure.		*Designed strategies for motivating relevant stakeholders to have positive perceptions towards the PPP concept.*		*Relevant stakeholders becoming motivators of PPP as financing model in transportation infrastructure cluster.*

OUTPUT	→	**OUTCOME**	→	**IMPACT**
Identifying challenges the private sector faces in partnering with the public sector to develop the transport infrastructure.		*Designed strategies for dealing with the identified challenges.*		*Private sector engages comfortably in PPP projects.*
Identifying challenges the government faces to engage the private sector in transport infrastructure development.		*Designed strategies for dealing with the identified challenges.*		*The government engages comfortably in PPP projects.*
Draw lessons for effective PPP implementation in the transportation infrastructure in Tanzania.		*Advanced set of recommendations on the best way to execute PPP projects in the transportation infrastructure in Tanzania.*		*The government adopts PPP best practices in transportation infrastructure development.*

3.0 RESEARCH FINDINGS AND DISCUSSION

The research findings are presented in six sections based on the key objectives addressed by this study. The first section gives a general overview of the transportation infrastructure in Tanzania. The second section analyses the prevailing enabling environment to support PPP in transportation infrastructure, followed by section three that examines the concept of PPP relative to the perceptions of different stakeholders in the transportation infrastructure. Section four identifies the challenges that the private sector faces in partnering with the public sector to invest in transportation infrastructure development, and section five identifies the challenges faced by the government in engaging the private sector in developing the transportation infrastructure. Section six covers lessons drawn from this study that form the basis for recommendations to enhance participation of the private sector in developing the country's transportation infrastructure.

3.1 General Overview of the Transportation Infrastructure in Tanzania

In the course of the study it was necessary to examine the status of transportation infrastructure in Tanzania before doing further analysis to address the objectives of this study. The study revealed that the transportation network in Tanzania falls into five categories: namely roads, railways, ports, air, and pipelines. According to the African Development Bank Group (2013), the road network currently comprises of 86,472 km in the formal inventory, of which 12,786 km are categorized as trunk roads, 21,105km as regional roads, and the remaining 52,581 km as district, urban and feeder roads (Table 2). The trunk and regional roads are under the responsibility of the Tanzania National Roads Agency (TANROADS), which is a semi-autonomous agency under the Ministry of Works. The district, urban and feeder roads are mandated by the Local Government Authorities (LGAs) at the Prime Minister's Office - Regional Administration and Local Government (PMO-RALG).

Table 2.Categories of Transportation Infrastructure and Management Authorities

	Distance and Management Authorities	
Categories	Distance (km)	Management authorities
Trunk roads	12,986	TANROADS
Regional roads	21,105	TANROADS
District, Urban and feeder roads	52,581	LGA
Railway line	3,682	TRL and TAZARA
Pipeline	1,750	TAZAMA
	232	SONGAS
	28	Mnazi Bay

Source: African Development Bank Group (2013).

The railway network consists of 3,682 km of track with two railway systems (i.e., TRL and TAZARA) of different gauges that were constructed at different times to serve different purposes (MoW, 2013). The TRL mainline serves the central and western parts of Tanzania, also providing services to the adjacent neighboring countries like the Democratic Republic of Congo (DRC), Burundi, and Rwanda through the Kigoma hub. Also the East - West railway line run from the port of Tanga extends to link Kenya and Uganda. On the other hand, the TAZARA line links Tanzania and Zambia, and subsequently connects to the South Africa railway line. TAZARA has a huge potential to substantially serve the Eastern, Central and Southern African regions. There are 28 airports resting along the same line, with International Airport being the largest and busiest in the country (MoW, 2013). There are also 9 ports under the Tanzania Ports Authority, Dar es Salaam being the biggest port (MoW, 2013). These two transportation nodes are essential for the importation and exportation of goods and services, thereby constituting a significant value for unlocking and stirring economic growth.

With regards to the energy sector, there are three pipelines in Tanzania: (1) TAZAMA pipeline, which transfers crude oil over a distance of 1,750 km from DSM port to an oil refinery plant at Ndola in Zambia , (2) the Songosongo gas pipeline, which transfers natural gas over a distance of 232 km from Songosongo Island in Lindi region to Dar es Salaam , and (3) the Mnazi Bay gas pipeline that transfers natural gas over a distance of 28 km from the Mnazi Bay field to a power plant in Mtwara .

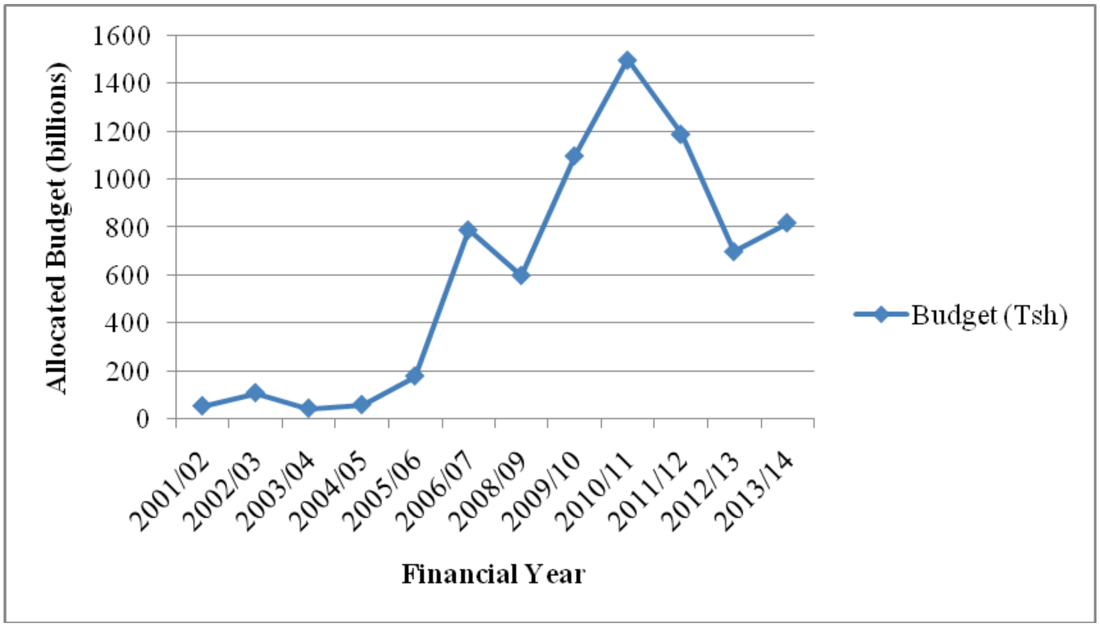
3.1.1 Economic potential of transportation infrastructure in Tanzania

With regard to the distribution of the current transportation infrastructure in Tanzania, it is evident that Tanzania is an international gateway for several landlocked neighboring countries in East Africa (i.e., Burundi, Rwanda, and Uganda), Central Africa (i.e., DRC) and part of the SADC region (i.e., Zambia and Malawi). The proximity of these countries to Tanzania provides a lucrative opportunity for the country's economic development through effective transportation networks. These countries depend to a larger extent on the Tanzania's transportation networks for their access to global markets. However, Tanzania has failed to fully exploit this potential due to the poor state of its transportation networks. For example, the railway sub-sector, with a competitive advantage over roads, has been performing poorly during the last decade. The railway infrastructure is dilapidated and services rendered are below competitive standards due to many reasons, including inadequate budget allocations to finance maintenance costs (UNESCO, n.d).

3.1.2 Financing of transportation infrastructure in Tanzania

The government has taken several measures in response to budget deficits, including sourcing finance from development partners and establishment of the Roads Fund to provide a stable base for funding roads maintenance. According to the Ministry of Works (2013), the Roads Fund is raised or collected from a levy tied to fuel, which normally contributes about 96% of the total funding. Fees are also raised from transit charges and overloading of cargo and passenger vehicles. Despite the increase in funds, the overall road maintenance situation has not been impressive since the total amount of funds collected remains below budget. For example, between 2005/06 and 2010/11 the government increased budget allocations to infrastructure with the purpose of advancing development of the transportation infrastructure to match with the economic growth. However, the increase in budget was not sustained beyond 2010/2011 due to funding shortages (Figure 1).

Figure 1. Budget allocated for transportation infrastructure development



Source: Ministry of Works (2013).

In view of the above, it is logical to argue that the government should consider coming up with innovative ways to attract financial resources from the private sector for development of the transportation infrastructure. According to African Development Bank (2013), PPP is one of the best financing models in provision of public infrastructure through the private sector with substantial risks transfer to meet government needs and rewarding the private sector based on the agreed output. However, the PPP model is only appropriate if there is an adequate enabling environment for the private sector to engage in partnership with the government. In this view, it was important to review the PPP enabling environment in Tanzania to ascertain its suitability to attract private sector investments in the transportation infrastructure. Engaging the private sector to invest in the transportation infrastructure will enable the government to concentrate on its other core functions.

3.2 Assessment of the Enabling Environment to Support PPP in Transportation Infrastructure

This study examined the PPP frameworks to ascertain if there is an adequate enabling environment to support participation of the private sector in PPP projects in Tanzania. In the course of the study, it was revealed that the government recognizes the role of the private sector in bringing about socio-economic development through various kinds of investments. The Tanzania National Development Vision 2025 requires the government to support and stimulate various actors participating in economic growth, including encouraging the private sector to undertake investments in infrastructure and services development. Such investments can be achieved through PPP frameworks. The PPP frameworks provide important instruments for attracting private sector investments in various avenues, including infrastructure. Thus, the government has identified PPP as a viable means to effectively address constraints of financing, management and maintenance of public goods and services. Additionally, PPP enables the government to fulfill its responsibilities in delivering socio-economic goods and services by ensuring efficiency, effectiveness, accountability, and quality of the services.

3.2.1 Government initiatives to create enabling environment

The government has taken several efforts to create a conducive environment for the private sector to participate in the development of the transportation infrastructure. The government has developed the National PPP Policy of 2009, PPP Act No. 18 of 2010 and its amendment of 2014, the PPP Implementation Guidelines of 2013, and the Public Procurement Act of 2004 and its amendment of 2010. Of recent the government through its Ministry of Finance has been conducting trainings to government agencies, local governments and private sector on PPP and the training is progressive. Also, there are specific infrastructure sector initiatives to support private sector participation in infrastructure investments. Among the specific sector initiatives include the 10 year Transport Sector Investment Programme (TSIP) Phase I of 2007/08 – 2011/12, which is a tool to implement the National Transport Policy of 2003. These frameworks recognize the role of private sector participation through PPP in infrastructure development. Participation of the private sector is necessary to fill the resource gap in the development of transportation infrastructure to enable the government to meet its various socio-economic obligations.

Along the same line, the government has made a remarkable progress in the transport sector institutional reforms. For the purpose of bringing efficiency and sustain economic growth, government departments whose functions were operational and/or service delivery have been transformed into semi-autonomous agencies. Among others, some of these agencies include the Tanzania National Roads Agency (TANROADS), the Tanzania Airports Authority (TAA), and the Tanzania Buildings Agency (TBA). The reforms have also resulted into establishment of the Road Funds and Roads Fund Board (RFB), which have shown positive impact on roads maintenance.

It is worth noting that the existence and arrangements of PPP institutional and regulatory frameworks are adequate to create an enabling environment to support and attract private sector participation in the PPP projects. However, stakeholders in the private sector argue the frameworks do not ensure level ground to attract the private sector. There is a question on how the implementation of such framework is done. There are other issues to consider, such as ethics and good governance, particularly transparency and corruption. Ignoring these issues is poised to scaring off some private sector investors who might consider that projects are associated with high risks and huge capital investments. Corruption scandals - like the recent ESCROW, EPA, and RICHMOND - tarnish the image of the government and, consequently, weaken the trust of the private sector to work with the government.

3.2.2 Private sector participation in infrastructure development

The Government of Tanzania, like most governments of the developing world, is constrained with a narrow domestic tax base to raise finances required to implement its development plans. Moreover, the existing state of socio-economic infrastructure is another impediment for attracting investments to bridge the development financing gap. Even the official development assistance has not been able to fill the gap. In essence, these hurdles compel Tanzania to innovate its tools for financing development projects in order to expand its production frontier, improve its economic competitiveness and, eventually, sustain the advancement of its socio-economic development.

In principle, the government gives priority to private sector involvement in the development of transport infrastructure through the PPP approach in areas where the private sector can largely invest alone or in partnership with the public sector. PPP is being considered as a unique option for engaging private sector capital in the improvement of transport infrastructure and services, through a sense of sharing investment risks with the public sector. However, despite the efforts by the government to create an enabling environment to attract private sector participation in PPP projects, this study identified a slow response on the side of the private sector to actively partake in PPP projects, especially in the transport infrastructure. Most PPPs implemented in Tanzania are based on concession arrangements for running existing enterprises with limited provisions for rehabilitation and new investments. Among reasons for this is that the private sector in Tanzania is still at an infant stage and is not able to raise adequate capital required to construct and manage own transportation infrastructures that typically require huge capital injection. Good examples for concession projects in transportation infrastructure include the Kilimanjaro International Airport (KIA), Tanzania International Container Terminal Services (TICS), and Tanzania Railway Limited (TRL). Notably, PPPs have for many years been successfully implemented in the service sector, particularly in education, health, telecommunications, and water sectors. On the contrary, the performance of infrastructure development has been largely poor due to the complexity of related projects and lack of clear guidelines on the criteria for PPP engagements, which obstruct the private sector interest.

3.2.3 Reasons for low participation of private sector in PPP Projects

The study identified several reasons as listed below (not in the order of priority) in relation to the low participation of the private sector in PPP projects, especially in the transportation infrastructure. They included:

- Some PPP projects are formulated on the basis of political interests as opposed to their economic viability, the latter being the focal area of the private sector. This may scare the private sector in light of failure to meet their profit-making objective
- The private sector in Tanzania is still at an infant stage, lacking capacity in terms of capital and technical skills to execute PPP projects particularly in the transportation infrastructure that requires huge capital investments, specialized skills and involves high risks.
- The private sector will mainly be interested in projects having immediate returns. Unfortunately, most of the transport infrastructure projects are long-term investments that characteristically do not yield immediate returns.
- There is inadequate and unreliable data to assure returns on investments in PPP projects. This makes it difficult for the private sector to perform a project appraisal to identify viable projects.
- Transport infrastructure projects require huge capital investments that are typically associated with enormous risks. This scares off the private sector to venture into such projects, especially when not ensured with government guarantee to bear the calculated risks.

The model of building transport infrastructures and undertaking related maintenance using contractors is relatively new in Tanzania, having only commenced in the mid 1990s. The weak position of the domestic contracting industry has led to the import of many of the required skills. Since the inexperienced local contractors are less competitive than their foreign counterparts, the latter are awarded the majority share of the works. There is a need to scale up the assistance to the local construction industry in the form of technical and business skills training and development, as well as packaging works to attract more local contractors in the tendering process.

3.3 Public and Private Sectors Perception of the Concept of PPP

It was clear during the study that there is a mixed understanding between the stakeholders from the public and private sectors in conceptualizing the PPP concept, which may somehow explain the slow participation of the private sector in PPP projects in Tanzania. The mixed understanding of the concept among private and public stakeholders is a reflection of a confusion observed in the literature as indicated earlier under section 1.0. However, both public and private sector stakeholders are in agreement that the PPP model in Tanzania is underutilized. They argue that if the government effectively utilizes the PPP model it will lessen its current burden of providing almost all the socio-economic services to the people. One of the respondents from the private sector gave the following feedback:

> *"I heard the government is currently planning to invest in a multibillion project to construct a railway line from Dar es Salaam to Rwanda, which will cost almost USD9 billion. My opinion is that the government should engage the private sector in the project using the PPP model so as to share the costs and risks, and concentrate more on its other core functions."*

Private sector participants in the FGDs expressed their confusion as to why the government continues to package projects through project financing model instead of the PPP model. Among the reasons could be insufficient uptake of PPP projects by the private sector due to inadequate capacity in terms of capital and technical skills, or the private sector is afraid to take the implied risks of the investment. This argument was confirmed by the commercial banks on grounds that transportation infrastructures attract huge capital investments that no single commercial bank in Tanzania can afford to fund alone due to the limitation imposed by the Finance Act of2004. The Act stipulates that a commercial bank is not allowed to lend money to a single borrower more than 25% of the bank's core capital. Some transportation infrastructures require capital investments beyond this threshold, thereby limiting commercial banks' involvement in the process. The possibility of commercial banks forming a consortium to fund such projects is disrupted by the varying views of each potential partner. Typically, banks examine the feasibility of projects based on the available information. A positive evaluation of one bank may not necessarily match with that of another bank due to variation on priorities.

3.3.1 Experience with PPP in Tanzania

Examining the PPP experience in Tanzania, the study observed several attempts by the government to create infrastructure development through PPP models. Among others, the Kilimanjaro International Airport (KIA) and the Container Terminal of the Dar es Salaam Port have been concessioned to private sector operators. However, it was highlighted during the project validation workshop in October 2015 that KIA has been handed back to the government. The Tanzania Railway Corporation (TRC), which was established in 1977, played an important role in the economic development of Tanzania and her neighboring countries until early 1980s. However, since 2004 there has been a marked decline in the volume of freight traffic and passengers on the network due to TRC's operational inefficiency portrayed by infrastructural problems, caused largely by inadequate investments. In September 2007, An India-based company called RITES () was awarded a concession to take over the operations of TRC. RITES and the Tanzanian government formed the Tanzania Railways Limited (TRL) to take over the activities of TRC, with RITES owning 51% of the shares and the government owning 49%. TRL began operations in October 2007, but due to budgetary constraints and managerial issues, little improvement was made in running the network. The venture was eventually terminated in July 2011 and full ownership and control of TRL was handed back to the government. This suggests that PPP model is not in itself the sole success driver, but it rather depends on many issues that need to be thought through beforehand. Clearly, poor preparations in contract agreements may lead to undesirable consequences.

Another government attempt to initiate a PPP model in the transportation infrastructure was observed through Build Own Operate and Transfer model in which the government engaged a project of building the biggest port in East Africa in the coastal tourist town of Bagamoyo. It is hoped the new facility will handle 20 million TEU a year. That is far beyond the current capacity of the Dar es Salaam port that handles 500,000 TEU a year, and the neighboring Mombasa port in Kenya that handles 600,000 TEU a year. The project will cost about USD11billion, with much of the funding for construction coming from the China Merchants Holdings International Company and State Reserve General Fund of Oman. The new port will not only transform the economy of Tanzania, but also put the country in a relatively superlative position to compete for the Eastern, Central and Southern African regional businesses.

3.3.2 Perception of the PPP concept among the stakeholders

In the course of the study, the concept of PPP was examined through review of literature and interviewing different partners in the public and private sectors to establish their related perceptions. The intention was to establish whether the disparity of their perceptions of the concept accounts for the slow participation of the private sector in PPP projects, specifically in the transportation sector. The Ministry of Finance (personal communication, 2015) reveals the various views on PPP. Some view PPP as being applicable only when there is private investment, while others contend that PPP includes all forms of interactions between the public sector and private sector; from consultations or policy dialogues and collaborations to private provision of assets and services.

Awareness of the PPP concept among representatives of the private sector was rated low due to the belief that PPP is a situation where the private sector joins hands with the public sector to perform businesses initiated by the government. However, the government through the PPP Policy gives a room for unsolicited project proposals. Under this provision, companies can submit a project concept to the contracting authority (the government) and receive verdict on whether to proceed or not. However, under the amended Public Procurement Act of 2014, unsolicited projects are subject to competitive tendering processes through which a project is appraised and made public for private investors to bid for. It was evident during the FGDs that the private sector was blaming the government for relying on project financing instead of packaging development project through the PPP model. This suggests that the private sector is not aware of other avenues provided by the policy to initiate unsolicited projects. This lack of awareness among private sector entities may deny them the right to take advantage of the opportunities unlocked through the policy.

3.4 Challenges the Private Sector Faces in Partnering with the Public Sector

The study also examined the main challenges limiting the private sector to partner with the public sector in executing transportation infrastructure projects. Below are some of the identified challenges (not listed in the order of importance):

- Awareness of PPP is still low among the government officials and the private sector stakeholders. The latter are largely unaware of how the concept of PPP operates.
- Inadequate negotiation skills among the public officers who are engaged in negotiation of PPP contracts.
- Instability of the Tanzania shilling against the major currencies is a problem, as in most cases PPP involves foreign currency credit from the major international market players while the payments are mostly based in shillings.
- Lack of a PPP coordination center perpetuates duplication of works. Although this is resolved in the amended Procurement Act of 2014, it has not been effected.
- Lack of a robust financial capital market to meet growing demands of the private sector to invest in transportation infrastructure has pushed the private sector to acquire loans from commercial banks at high interest rates.
- Lack of transparency on PPP contracts, creating an avenue for corrupt transactions by some dishonest public officials.
- Limited understanding of the PPP concept in relation to the financing market domain among the private sector players hampers exploitation of PPP opportunities.
- Nepotism in the tendering process sometimes has led to award tenders to incapable companies.
- One of the primary concerns that investors have is inaccuracy of the data that leads to wrong projections as well as cost and benefit analyses, thereby causing demand risk on the part of the investor and compromising project sustainability.
- The capacity of the private sector in Tanzania is still low to handle large projects requiring highly specialized skills and capital injections, like those on transportation infrastructure.
- The government has also been slow in decision making towards potential PPP projects. This is possibly attributed by lack of proper mechanism to transfer calculated risk to the private sector.
- Lack of a comprehensive and transparent procedure to procure PPP projects.
- The public procurement process is too bureaucratic and opens up an avenue for corrupt transactions by some dishonest public officials, who normally inflate costs.

- There is no convincing political will to promote PPP initiatives; this can be explained by inadequate dissemination mechanisms put forward by the government to inform the private sector.

3.5 Challenges the Government Faces in Engaging the Private Sector in PPP Projects

It was also crucial for the study to identify the challenges faced by the government in partnering with the private sector to implement PPP projects. They included:

- Corrupt tendencies among some public officials who instigate weak contracts.
- Cost inflation in the procurement process.
- Lack of negotiation skills among government officials to close meaningful business deals with the private sector.
- The institutional framework does not give guidelines on what to observe when preparing PPP contracts.
- The lack of political will to execute PPP projects impedes creation of meaningful projects that may attract the private sector.

3.6 Lessons Learned

In the course of the study, it was considered crucial to draw lessons that form basis for recommendations to enhance participation of the private sector in developing the transportation infrastructure. The lessons learned from study findings included:

3.6.1 Lessons Learned on PPP Best Practices

- Inadequate awareness of the PPP concept within the private sector may account for its failure to effectively utilize various PPP opportunities advanced by the government.
- Participation of the private sector in long-term investments, like PPP projects in infrastructure, goes beyond understanding of the concept of PPP. Political stability and viability of the projects in question are highly valued by the private sector in assessing whether or not to participate in PPP projects.
- Private sector is motivated by quick profits, which suggests that the sector is more attracted to invest in short-term projects that generate quick returns rather than investing in transportation infrastructure whose returns are long-term and associated with high risks.
- Tanzania’s capital market is underdeveloped and does not give much support to the private sector to invest in transportation infrastructure.
- The existence of PPP institutional frameworks is not a sufficient factor for attracting private sector participation in PPP projects, especially in the transportation infrastructure development. It is crucially important for the public officials to adhere to the country’s code of ethics and principles of good governance.

- The Finance Act of 2004 imposes a limit on banks in Tanzania not to lend to a single borrower more than 25% of the bank's core capital. Given the fact that financial capital in Tanzania is not well developed and expansive, the private sector is clearly deprived of reliable sources of capital.
- The private sector doubts the loyalty of the government in keeping its commitments and obligations as stipulated in PPP contracts.
- The private sector is concerned with lack of transparency of the procurement process related to PPP projects.

4.0 CONCLUSION AND RECOMMENDATIONS

This section presents conclusions and recommendations of the study. The conclusion gives a summary of the major findings, recommendations and possible solutions on improving the participation and collaboration of the public and private sectors in PPP projects.

4.1 Conclusion

This study examined an enabling environment of PPP in Tanzania and the general understanding of the PPP concept among the public and private sector stakeholders. It also identified the challenges confronting the private sector in partnering with the public sector in PPP projects, and determined reasons for the slow response of the private sector to participate in PPP projects – specifically in the transportation infrastructure. A key observation from this study indicates that PPP is a viable avenue through which the government can solicit funding for development of projects, especially in the transportation sector. Although the government has taken deliberate measures to create an enabling environment to attract private sector investments in the transportation infrastructure through the PPP model, the response of the private sector has been poor. It was evident that the government has not done enough to create awareness of the concept of PPP to a wider community of the private sector. Under these circumstances, the latter remains largely unaware of existing PPP opportunities in the transportation infrastructure.

The poor participation of the private sector in partnering with the public sector to implement PPP projects in the transportation infrastructure is not only attributed to the mixed understanding of the PPP concept. Other contributing factors include issues of economic viability of projects in question, good governance and adherence to the code of conduct by the government, and an unsupportive environment especially cited in weak local capital markets. The private sector in Tanzania is still infant, lacking capital and technical skills to handle complex projects such as those in transportation infrastructure development. The low participation of the private sector in the transportation infrastructure poses challenging ramifications to the government's budgetary shortages.

4.2 Recommendations

This study brings forward the following recommendations (not listed in order of priority) based on the experienced challenges and potential opportunities of the private sector's participation in the PPP projects, specifically in the transportation infrastructure:

1. Efforts should be geared towards widening the capital market to accommodate capital flows across boundaries to support big projects whenever needed. This should go along with creating an enabling environment for the establishment and growth of the local capital market, which will provide financial services to investors in the private sector at competitive and even subsidized interest rates.

2. The government should create more awareness among the public and private sector officials so that all parties are adequately informed about the PPP concept and its modalities.
3. The government should improve the reliability of statistics to ensure proper identification of potential and viable PPP projects through projects appraisals.
4. The private sector complains about the time it takes for decisions to be made regarding potential PPP projects, which necessitates a government consideration of reviewing its decision making processes and mechanisms. The PPP amendment Act 2014 and Regulations 2015 have set a time frame for decision making to be made from the inception of the proposal (whether solicited or unsolicited) to the contracting authority, i.e., PPP Centre, PPP technical committee, and National Investment Steering Committee - which is at least 15 days and at most 30 days. Though the timing seems proper, it is still early to comment on the likelihood of its implementation since it has not been effected.
5. There should be a competent team of experts to monitor the project proposals development and feasibility studies so as to set comprehensive public comparator tests on different projects. This will reflect the actual projects costs (i.e., value for money) and set standards for private companies to abide by.
6. There should be a mechanism of supporting local contractors in PPP transportation infrastructure projects, supported by a strong government will. Concerted efforts are imperative for realization of this objective through tax waivers on importation of capital goods that are solely aimed at operationalizing such project.
7. There should be a thorough, inclusive, comprehensive and transparent procedure for procurement of PPP projects in transportation infrastructure. The public should well be informed of the potential projects that the government would need the private sector to participate in. It is also important for the government to detail the scope and timings of such projects so that they are implemented efficiently and effectively.
8. Transparent efforts are needed on fast tracking decision making processes in all PPP procurement arrangements.
9. There should be a central information bureau for all the potential PPP projects on government website and/or a communication strategy on PPP plus the timeframe for its implementation to ease up the process. Many private parties would like to engage in the PPP process but find it difficult to earmark the potential projects.

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