

**ECONOMIC AND SOCIAL RESEARCH FOUNDATION
(ESRF)**



Policy Dialogue Seminar on

“POST BUDGET (2007/08) DISCUSSION FORUM”

**A QUICK REVIEW OF THE IMPLICATIONS OF THE 2007/08
GOVERNMENT BUDGET ON TRANSPORT INFRASTRUCTURE
FINANCING IN TANZANIA**

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1. BASIS

1.1 Historical Development of the Transport System in Tanzania

The pre independence transportation system concentrated mostly on the railway network with less attention on development of road network. This approach was due to the fact there seemed to be more interested in transporting goods rather than reaching the scattered population. After independence the Government considered the need to develop a good road transport system in the broad context of efficient over-all transport infrastructure geared towards improving the welfare of the people. During the Second Five-Year Plan (1969-74) road construction was allocated lion's share of the government budget during the Second Five-Year Plan. It received 29.56% of the annual budgets compared to agriculture which received 8.55%. However, during the Third Five-Year Plan (1976-81) roads received 11.18% while agriculture got 22.8%.

It can be concluded here that during the first two decades of independence, major investments were made in developing the road network. The main paved roads that were built during this period included the TanZam Highway (920km); Chalinze – Kisangiro (327 km), Dar es Salaam – Kibiti (127 km) and Mtwara – Masasi (200 km). About 1500 km of gravel roads were also constructed to good engineering standards. At the same time roads of lower standard were constructed to open up new areas for agriculture and human settlement (Ujamaa Villages). The thrust was to build new roads; and during this period the classified road network quickly expanded from 32,000 km at independence to 45,000 km in 1976, and reaching 50,000 km in 1990. In addition there were an estimated 30,000 km of unclassified roads. . Typically, road transport is dominant with over 80 per of passenger and more than 75 per cent of freight traffic carried by roads.

1.2 Deterioration of the Quality of the Road Asset

By 1990, the road asset was about 80,000 km up from 32,000 km in 1961 meaning a growth rate of about 9% per annum compared to a GNP growth rate of an average rate of less 1.9% p.a. unable to support the huge investment in social infrastructure could not be supported by the country's economy. This led excessive deterioration of the road asset caused by lack of maintenance due to dwindling of road maintenance funding from an average of US\$ 800 per km of the primary road network in 1968 to less than US\$ 400 per km in 1990. The allocation for the secondary network was about half that of the primary network during this period. The net result was that by 1990 hardly 10% of the network was in good condition. Some roads had deteriorated to an extent of requiring reconstruction for more than 1 billion USD– eg Tanzam Highway, Chalinze – Segera Arusha, Segera-Tanga, built in the 70s had to be reconstructed in early 90s. This was a painful reminder of the adage that "A Stitch in Time Saves Nine".

Studies have also shown that investing \$ 1 on road maintenance saves about \$ 3.5 on vehicle operating costs (shock absorbers, bushes, springs, fuel consumption etc.) – road users are currently spending more than 3 times what they would be paying if the roads were in good condition. Their burden should therefore reduce if the money they pay is directed to ensuring a good road network.

1.3 Impact of Reduced Maintenance Funding

Road maintenance is intended to preserve the structure of the facility in as good a condition as it was originally designed. It is estimated that to effectively maintain the road network, an amount of between 2.5% and 3.5% of the network's replacement value should be spent annually on maintenance. A recent study has estimated that the annual maintenance needs is USD 166 million without considering VAT and 10% of that amount required to support development works. This however presumes that the roads are in maintainable condition, a presupposition that is currently not true since there is a backlog in maintenance amounting to USD 600 million. Not allocating sufficient funds for road maintenance is likely to revert to the situation of the 1990s.

2. ROADS AND THE ECONOMY

Roads, like any piece of real estate, are an asset. Assets must be maintained to avoid greater costs to the economy brought about by the need for eventual reconstruction. Road maintenance is an essential part of any country's transport infrastructure programme and vital to the economy. Poor road maintenance has a negative impact on the economy.

While it is estimated that the road transport sub-sector contribute 5% to the national economy, the same contribute about 9% loss to the economy thus leading to a resultant loss of 4% to GDP due to poor condition and accidents.

Tanzania's vision 2025 in respect of road sector envisages a plan to undertake an economic transformation of Tanzania that will enable it to move from the category of least developed countries to a medium income country. In the process the transport sector is expected to have an extensive road network that is well maintained, serving all parts of the country as well as neighbouring countries.

In order to achieve a higher rate of economic growth and reduce current poverty levels, Tanzania needs to develop reliable, effective, efficient, safe and fully integrated roads infrastructure which best meets the needs of travel and transport.

The central role of the roads sector in rural areas is the proper initiative towards poverty reduction, the process of which is embedded in a broad range of socio-economic activities to which roads and services there from provide intermediate inputs. Rural roads form an important part of public infrastructure, providing access to both markets and agricultural output, availability of modern inputs, farm technology and to open up to other to socio-economic opportunities. It has been shown in the case of Tanzania, that there is a marked decline in income for households far away (more than 5 km) from a good road. The potential for higher welfare is with households that are closer to a good road than for those who are far away. It is important to note that the distance from a household to the nearest good road provides also a measure of physical integration in the national market for crops, a key source of income for the rural economy. Thus the further the household lies from a good road, the less likely it is to get access to

markets, including the labour market. Remoteness is expected to affect economic activity, and thus income, exacerbating the incidence of poverty.

Poor roads and the resultant inadequate rural transport would, therefore, limit the facilitating role of transport in both production and consumption activities. The link and impact lies in the fact that improved transportation leads to improved accessibility to economic opportunities by reducing transport costs. It also ensures increased agricultural productivity, opens up room for participation in non-agricultural activities through time saving effect, eases accessibility to education and health services, and it links the rural sector to the rest of the economy. Maintenance works in the rural areas have proven to be a source of income and distribution of wealth. In the case of urban areas, the quality of transportation and other types of infrastructure appear to play a significant role in the reduction of inflation because transportation costs have been found to be a significant component in total costs of foodstuff affecting the survival of the urban dwellers.

3. ROAD MAINTENANCE FUNDING

A recent update of fairly detailed study carried out in year 2001¹ showed that the required funding is about USD 166 million or (Tshs 210 billion) assuming the whole road network of 78,892 km is in maintainable condition, 65% of which is for trunk and regional roads while 35% is for district, feeder and urban roads. Budgetary allocation for road maintenance funding has been consistently below 40% of the requirements up 2006/07. It will be observed that most of the funds are allocated to the “economic road network” in comparison to the “social road network”.

4. ORGANISATION OF THE ROAD MAINTNANCE FUNDING

4.1 Roads Fund Board and its Functions

The functions of the Board as provided in the Road Tolls (Amendment) No.2 Act. 1998 with respect to the Fund, the key of which are to advise the Minister on new sources of roads tolls, adjustment of rates of existing tolls and on regulations for the collection of road tolls for the purpose of ensuring an adequate and stable flow of funds to road operations and to apply the money deposited into the Fund for the purposes approved by the Parliament most of which goes to road maintenance.

4.2 The Sources of the Road Fund

The Roads Tolls (Amendment) No. 2 of 1998 gives the Road Fund the following sources:

- all monies collected as roads tolls imposed on diesel and petrol,
- transit fees
- heavy vehicle licences

¹ The figures may have been updated since then as a result of a significant increase of additional new paved roads since then, which must be given priority on maintenances funding.

- vehicle overloading fees
- any other source at the rate or rates to be determined by Parliament from time to time.

Fuel levy accounts for over 95% of the fund.

4.3 Road Fund Disbursements

The road fund disbursements criteria since financial year 2000/2001 are as follows:

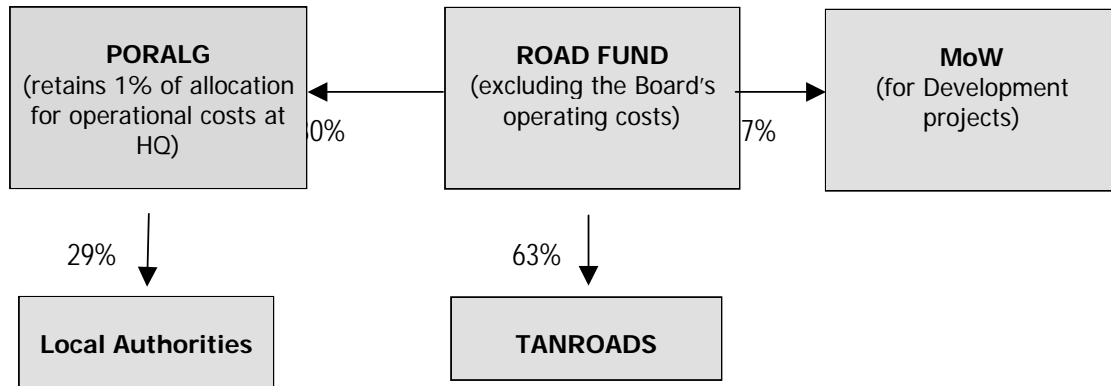


Figure 1: Road Fund Disbursement Structure

5.0 IMPLICATIONS OF THE 2007/08 BUDGET

5.1 Salient Features of the 2007/08 Budget

- (i) **The Transport Sector Investment Programme requirements of USD 640 million per annum for the next ten years.** It is assumed that this is not only for new investments, but also for maintenance of existing and additional new investment.
- (ii) **Roads take up about 777.2 billion Tshs or about 12.8 percent of the budget.** This is about 95% of the requirements. It is assumed that this inclusive of the maintenance needs.
- (iii) **Excise duty on petrol and diesel increased by Tshs. 22 and 20 respectively.**
- (iv) **Fuel levy from 100 – 200 Tshs per litre.** This increases the fuel levy component of the Road Fund by about 100%.
- (v) **Motor vehicle registration and transfer tax increased from 20,000 Tshs. to 80,000, 230,000 and 100,000 for vehicles of engine capacities of not exceeding 1500cc, exceeding 1500cc but not exceeding 5000cc and above 5000cc respectively.** *(Abolished in Kenya in 2006/07 budget).*

- (vi) Measures iv) and v) are expected to generate about Tshs. 169.737 Billion Tshs. earmarked for road maintenance funding.

5.2 Implications based on the 2007/08 budget framework

- (a) It is to be appreciated that at long last there is seriousness in the budgetary allocation to this very important economic sector, which for a long time was neglected.
- (b) Implications on Road Asset Value – less than half of the required maintenance funds have been availed up to the year 2006/07. The additional increase is most welcome and is likely to contribute significantly towards preserving if not increasing the road asset value.
- (c) It should be noted that the levy (about 15 US cents/litre) is slightly higher than in other sub-Saharan countries where it ranges from 3 – 12 US cents. In Kenya, with effect from July 2006 abolished vehicles license fees in favour of a fuel levy and raised their fuel levy from about 6 US cents to 11 US cents/litre. Tanzanian transport sector is therefore likely to be less competitive (in comparison to that of Kenya for example). Its effect to the economy is probably an issue to consider.
- (d) Backlog maintenance requires about 600m USD to rehabilitate roads to bring the network to maintainable level. This does not seem to be addressed as yet as road fund is only availed to roads that are maintainable. It is hoped that the overall cake of budgetary allocation of Tshs. 777.2 Billion. A recent analysis indicated that the best option for increasing the asset value is to concentrate on removing the backlog.
- (e) Absorption capacity is low. Though more funding is required in order to improve road maintenance, this must be accompanied by improvements in the capacity of the implementing agencies and the construction industry to absorb the funds. There are also administrative constraints that need to be addressed.
- (f) There have been delays in receipt of funds from sources because the process of revenue collection is complicated with too many entities are involved and long transit time for the funds – up to 60 days. Unless this is addressed, it will form a major capacity constraint.
- (g) Revenue leakage audit has indicated that there is substantial loss in revenue of fuel levy in the name of temperature changes and handling. It is clear that there is substantial fuel tax evasion. The high fuel levy will also fuel the urge for tax evasion.
- g) The Road network under the LGAs totals about 50,000km (mainly rural district, feeder and urban roads) but receives 30% of the share of the road fund, in comparison to TANROADS which has about 28,000 km (mainly trunk and regional roads) receives about 70% of the share. There is a need to review this distribution.

- g) Fuel levy is a user charge. It is meant to enable the user to contribute to making the road better for the user. The current distribution formula does not put this into account. Kinondoni Municipal Council which has probably, say about 10-15% of all vehicles in the country contributing say 10% to the levy, receives the same share as any other local government authority. There is a need to review this and come up with a more equitable formula as indeed users must be benefit from the levy they are charged.

- h) The increase in the fuel prices has implication on fares. This, especially in large cities, dare s Salaam inclusive, is likely to increase the number of people traveling either on bicycles or on foot for which there is little or no allowance at all in urban transport infrastructure planning.

These have been presented to stimulate further discussion and contribution in this seminar.

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