COMMERCIALISATION/PRIVATISATION OF THE TRANSPORT SECTOR IN TANZANIA

REVIEW OF PROGRESS AND PROSPECTS

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1.0. INTRODUCTION

1.1. Among the tangible measures undertaken by the Government of restoring growth following a decade of stagnation was the launching of the Economic Recovery Programmes (ERP) started in 1986. Subsequent measures were taken to broaden and accelerate the reform process, focusing on liberalisation and deregulation of a hitherto closely controlled economy, transfer of the leading role in economic development from the public to the private sector, and achieving macro-economic stability.

1.2. The main reforms embrace the following

- Greater private sector involvement in commercial activities including marketing and supply of agricultural crops and inputs.
- Decontrol of prices
- Liberalisation of foreign exchange
- Financial sector reforms that opened the doors for private banking and insurance and decontrol of interest rates.
- Control of inflation by reduction of public sector deficit and money supply growth.
- Removal of Government subsidies on parastatal to control budget deficits and withdrawal from all commercial and productive activities through a programme of commercialisation and privatisation.

1.3. Overall the results of the reforms have been encouraging particularly with regard to increasing growth. Between 1976 to 1986 when ERP started growth averaged 1.5% p.a. in real terms, less then population growth rate of 2.8% p.a. resulting in a significant fall in per capita incomes. In contrast between 1987 and 1993 real GDP growth has averaged 3.3% p.a. with significant gains in per capita. GDP figures for 1995, 1996 and for 1997 are 3.6%, 4.2% and 4.0%, respectively.

1.4. As a result of the ERP the transport sector has implemented reform programmes which aim to support the broad achievements in the agriculture and other sectors arising from need for an efficient integration of the markets. Major reforms of the transport sector took place through the implementation of the 10 year Integrated Road Programme starting in 1990. The strategic objectives of this Donor and Government funded Programme was initially setting a path for the recovery of the sector and laying a firm ground for sustained long term development. The Government strategy consisted of the following primary elements.

- Investment strategy that gives priority to maintenance, rehabilitation and upgrading of facilities rather than on new construction.

- Resource mobilisation strategy targeting on self-financing of the transport sector parastatals in ports, railways, civil aviation and road transport services and also ensuring full cost recovery of road maintenance expenditures from user charges for the road infrastructure.

- Institutional Improvement Strategy aiming to enhance efficiency of resource use through increasing managerial autonomy and accountability and personnel skills and incentive.

and

- Market liberalisation strategy aimed at increasing private sector participation in rehabilitation and maintenance of infrastructure and operation of transport services and at achieving complete deregulation of tariffs in the sector.

1.5. The success of the IRP can be seen from several perspectives namely, completion of rehabilitation of the main trunk roads thereby increasing traffic volumes, reduction of travel times and also transport costs and generally increased economic and social activities. On another perspective the share contribution of transport and communication to GDP has increased from 3.1% in 1989 to 6.3% in 1993 and has stabilized at around 6% between 1994 to 1997.

1.6. In the foregoing sections of this paper a review is made of the structure, problems and set backs, policies and a more elaborate coverage is given of the various reform measures being carried out for the respective transport modes. The primary motives of the reforms being undertaken by Government and the Parastatal Sector Reforms Commission (PSRC) are geared to improving operational efficiency and attaining commercial viability with a view to divesting the State Owned Enterprises (SOE).

2.0. STRUCTURE/COMPOSITION OF THE TRANSPORT SECTOR

2.1 Overall responsibility for the transport sector rests with the Ministry of Communications and Transport (MCT). However, responsibility over the road transport infrastructure rests with the Ministry of Works (MOW) and the Prime Minister's Office (PMO).

2.2. Total road network being looked after by MOW (Trunk, Regional and selected district roads) and PMO (Urban, District and rural roads) is about 80,000 kms. The railway mode consists of two system one under Tanzania Railways Corporation (TRC) and the other under Tanzania Zambia Railways Authority (TAZARA). Ocean Ports are operated by THA whereas the Lake Port are operated by TRC. The air mode consist of three (3) international airports, eleven (11) smaller airports and fifty (50) landing strips. The road transport mode which is the most widely used is mainly operated by the private sector.

2.3. In summary the state controlled transport sector institutions (operators) under the MCT which have been carrying out various forms of restructuring for commercialisation/privatisation's are as follows:

- Railways : TRC and TAZARA
- Air : Air Tanzania Corporation (ATC
  : Directorate of Civil Aviation (DCA)
- Shipping : Tanzania Coastal Shipping Line Ltd. (TACOSHILI)
  THA (Ocean Ports)
  TRC (Lake Operations),
  SINOTASHIP (Joint Tanzania/China Shipping Line) and
  Tanzania Central Freight Bureau (TCFB).

- Roads Transport : 10 Regional Transport Companies (RETCOs) in the following regions: (Mtwara, Ruvuma, Mbeya, Rukwa, Dodoma, Morogoro, Mwanza, Kagera, Tabora and Iringa)

  Shirika la Usafiri Dar es Salaam Ltd. (UDA)

  It is worth noting that these 11 road transport companies and TACOSHILI operate under the supervision of the National Transport Corporation (NTC) a state holding organisation which will also be divested.

2.4. On the part of the private sector operators they control more than 90% of the market for the road transport mode and have taken advantage of the ongoing liberal policy reforms to become increasingly involved in the marine and air modes of transport.

2.5. The MOW has the following state owned companies under its portfolio: National Engineering Design Company (NEDCO), Mwananchi Engineering Construction Company (MECCO) and Plant and Equipment Hire Company Ltd. (PEHCOL). The process of privatising these Company by PSRC are in the final stages.

3.0. COMMON CHARACTERISTICS AND SETBACKS OF THE TRANSPORT SECTOR

The following are some common characteristics and setbacks that tend to constrain development and management efficiency of the sector and the SOE.

3.1. Asset Management

* Most transport projects require heavy financial capital investment in the form of the following and of which the return on investment are usually long term:

    - Infrastructure (railway tracks, roads, aerodrommes, berths, runways etc.)
    - Motive power and rolling stock
    - Terminals
    - Signaling system

* Rapid changes in technology taking place in the transport industry necessitates periodic reinvestments for replacement of some of the above mentioned assets means further need for recapitalisation and which has depended mostly on Government equity contribution, grants or loans from financial institutions and donors.

* Poor maintenance of the assets due to various causes ranging form weak cultural orientation, inadequate provision of funding, misuse of funds and also staff inexperience or incompetence. The lack of preventive maintenance of the asset base leads to its fast deterioration and thereby creating heavy burden on rehabilitation or upgrading infrastructure or equipment.

* Transport operating inputs such as spares, tyres, fuel have to be imported. The instability of the local currency vis a vis the foreign and the associated tax element tend to raise the costs of those vital inputs.

3.2. Market conditions

* The market may be affected by excessive competition due to oversupply of equipment compared to demand thus affecting performance or the reverse could be the case and may thereby frustrate clients.

* Transport prices (freight rates and passenger fares) are often lower in the public sector and where there is competition with the private sector.

* Service rendered often tend to be provided on credit terms mainly to Government, cooperatives and other agencies. Hence giving rise to huge trade debtors.

3.3. Finance

* Difficulties in controlling costs especially Direct Variable costs and overhead costs are major cause for unsatisfactory financial performance.

* Revenue Targets invariably difficult to achieve.

3.4. Human Resources

* A week composition of the Board of Directors in its supervisory role particularly at the level of its head (Chairman).

* Weak management team particular at the Chief Executive position nurturing more of private rather than public interests.

* State controlled companies generally tend to over-employ and hence their staff to asset ratios are usually on the high side.

* Pay and incentive packages are usually low and standardized to conform with those of the government civil service instead of being productivity oriented.

* Diverse specialised manpower skills are required to operate the productive asset for example, competent traffic managers, crew staff, workshop engineers etc. Hence an increased demand on investments on human training and retraining for existing and future manpower skills.

3.5. Effects of Commercialisation

* The restructuring/commercialisation of the sector has led to the evolution of a number of problems due to loss of jobs (retrenchment) raising fear, anxiety and uncertainty on the part of employees. These cause lost of morale, inability to adjust to the reform processes, revenue leakage asset stripping or embezzlement and misallocation of funds among others.

* Need to rationalise foreign and local investors so that the former does not take a disproportionate share of the wealth to be acquired.

4.0. TRANSPORT SECTOR POLICIES

4.1. In 1996 under ERP phase I, the MCT prepared a draft policy paper which in principal got Government blessing. The draft took into account the political situation pertaining at that time but did not foresee the changing roles of among others the private sector, NGOs and the current strategies for maintenance and rehabilitation expenditure and cost recovery.

4.2. However, as a result of the draft policy a donor conference was convened in late 1987 to gain the support for the Transport Sector Recovery Programme. It was out of this programme that IRP was conceived and designed including the Railways Restructuring Programme and also the Dar es Salaam Port Modernisation Project II..

4.3. More recently need has arose to review the 1987 draft transport policy due to the major reforms taking place. MCT is expected shortly to produce another draft transport policy to reflect prevailing national policies. The draft policy is expected to equally reflect the policy prerogatives stated in the SADC Protocol on Transport, Communications and Meteorology which was accepted and ratified by the 12 member states of SADC of which Tanzania is a member.

4.4. The policy directions of the SADC Protocol covers all transport modes giving full emphasis on liberalisation and commercialisation of the various subsectors. Some of the major highlights on policy for the respective subsectors in the signed SADC protocol are the following.

4.5. Road Infrastructure:

- Formation of autonomous, accountable national roads authorities.
- Identifying sources of road funding
- Ensuring road users contribute to the full costs of providing roads.
- Need for harmonised technical standards.

4.6. Road Transport Services:

- Market liberalisation and promotion of fair competition.
- Harmonised operating condition
- Promoting establishment of an integrated transport system.
- Harmonisation of relevant road traffic and safety legislations.

4.7. Railways:

- According autonomy to railways to achieve full commercialisation.
- Increasing private sector involvement in railway investment both for track, rolling stock and maintenance facilities.
- Enhancing operational synergy among the various railway service providers in the region.
- Strengthening Government's capacity to provide definitive policy.
- Develop supportive regulatory and investor - friendly legislation.

4.8. Maritime and Inland Transport:

- Common shipping and Port policy
- Promotion of ship owning, ship registration, ship operation and slot chartering.
- Role of regional and international private enterprise in providing shipping services.
- Efficiency in maritime transport, shipping services, inland waterways and ports.
- Promotion of the private sector in cargo handling services
- Maritime safety.

4.9. Civil Aviation:

- Gradual liberalisation of intra-regional air transport markets for the SADC airlines
- Regionally owned airlines
- Commercialisation of SADC airlines and airports
- Strengthening Government's capacity to provide definitive policy framework.

- Development of ownership options including extent to which continental and international strategic investors can be introduced
- Civil aviation safety

As can be noted in the next section of this paper most of these SADC policies are presently applied in guiding the commercialisation/privatisation reform taking place by the Government, agencies and SOE in the various subsector modes. The PSRC policies are also shaped by the SADC model including in their recently produced model legislation "investment in Transport Act."

5.0 CURRENT STATUS ON THE COMMERCIALISATION/ PRIVATISATION OF THE TRANSPORT SECTOR MODES.

5.1 ROAD TRANSPORT

5.1.1 Road Infrastructure

As stated earlier the major reforms that are taking place have been out of implementation of the IRP. These are herein discussed under the following headings: Investment, Resource Mobilisation, Institutional Improvement and Market Liberalisation.

5.1.1.1. Investment:

Under the recovery programme funding allocation for roads was to be increased from around 3 - 6% to 20 - 25% of total public expenditure. Also road works were to focus on rehabilitation and upgrading of priority trunk and rural roads that are essential for transport of agricultural products including roads that support tourism, mining and other significant economic activities.

MOW's investment strategy would be based on economic criteria and determined by weighted priorities due to the limited financial resources compared to requirements. Major decisions taken to achieve this goal have been as follows:

- Completing rehabilitation of strategic corridor - Those providing access to land locked countries and to economically productive areas.
- Ensuring important levels of the network are connected. All road links are required to have an economic rate of return (ERR) of 12%.
- Carrying out spot improvements where these are more cost effective than complete rehabilitation.
- Provide rehabilitation to minimum requirements for road section with low economic rates of return.
- No new construction works except on emergencies basis
- Provide demonstrations of workable solutions to rural travel and transport through sustainable self-help scheme.

- MOW intends shortly to carry out a Road Development Master Plan being a 10 year investment plan for roads that will provide continuity for IRP when it winds up in year 2001. The investment criteria will be based on detail social economic analysis.

- Under Government cost-recovery policies maintenance costs would be funded from domestic resources whereas international loans and grants would fund investments.

5.1.1.2. Resource Mobilisation:

As a result of the commercialisation policy and in line with SADC protocol the Government introduced a Road Fund (RF) since 1991. The RF revenues originate from a levy charged on fuel purchases by road users and meant to meet requirements for road maintenance expenditure (routine, recurrent and periodic). The distribution of the RF is on the ratio of 70%, MOW and 30%, PMO. Other expected sources of revenue from licensing fee and transit charges have not as yet been routed into the fund as required.

Since the introduction of the RF there has been delays in releasing the funds by the Treasury and also the remittance are not made in full. Part of the reason for this had been the lack of a legal enforcement instrument. However since June, 1998 a bill has been passed in Parliament to legislate the Road Fund. This move should pave way for the full and quicker release of the funds and thereby also fulfill the commitments enshrined in the signed SADC protocol. The bill sets out the mechanism for administration of the fund which will resemble the SATCC model Roads Act.

5.1.1.3 Institutional Improvement:

Apart from inadequate funding another factor contributing to the poor state of the road network has been a weak and inefficient institutional structure for administration and management. Recognising this setback the Government commissioned an institutional study for the roads subsector. Recommendations of the study pointed to the need to establish a National Roads Agency to be known as TANROADS under the executive Agencies Act, 1997.

In addition to the Agency there would be a Road Fund Board whose members will be from Government and road users representatives. The Board will act as an advisory board of the Roads Agency. Again these measures are in compliance with the SADC protocols on transport advocating establishment of autonomous Roads Agency. The function of the MOW will focus on policy formulation, strategic, planning, human resources development and regulatory issues applying to construction, maintenance and operations of the road network. Hence under the reforms although MOW will continue to involve in negotiations of loan agreements responsibility for implementation will pass to TANROADS, Local and municipal Authorities and other implementing agencies.

5.1.1.4 Market Liberalisation:

Major areas of reforms that are taking place toward commercialisation include among others the following:

Promotion and encouraging greater participation of the local contractors in rehabilitation and maintenance of road infrastructure. The National Construction Council (NCC) in collaboration with professional associations have been widely involved in carrying out road construction and maintenance training/workshops for improving the skills of contracting firms in the regions particular the small ones.

Commercialisation/privatisation of the roads construction equipment by transferring them from Government ownership to a parastatal namely: Plant and Equipment Hire Company Limited (PEHCOL). This firm has tried its best to support equipment supply to the private sector contractors but has been facing problems due to the poor condition of some of the equipment inherited from the Government. Some of the Regional Engineers Offices also manage equipment available for hire to the private sector on commercial terms. Currently, PEHCOL as was the case with the National Engineering and Design Company (NEDCO) and Mwananchi Engineering Contracting and Construction Company (MECCO) will be privatised by the PSRC.

Opening the window for private sector participation in building and operating roads, bridges and ferries has been a concept that the MOW is embracing. This is in line with the SADC protocol.

Under the private sector partnership investors will be invited in building owning and operating road projects on cost recovery basis. The envisaged principle would be Build Operate Transfer (BOT) or Build, Own, Operate Transfer (BOOT). Already private investors have shown interest in this. However an appropriate regulatory investment code has to be in place as well as selecting suitable specified project proposals.

5.1.2. FREIGHT ROAD TRANSPORT SERVICES

5.1.2.1. Freight transport service countrywide has been provided mainly by the private sector. Government involvement has been largely through the Regional Transport Companies (RETCOS).

RETCOS were established during the early years of 1980 out of need to ameliorate road transport problems in Dodoma, Mtwara, Ruvuma, Mwanza, Tabora, Kagera, Rukwa, Morogoro, Mbeya and Iringa regions.

This need arose from lack of adequate private sector participation in these regions during that time. The basic mission has been to be self sufficient in providing inter and intra regional freight transport. The position to date is however different from what it was in the 80s with private sector fleet having a bigger market in these regions.

5.1.2.2. The RETCOS all started operations with new fleet of trucks and their performance was satisfactory. A donor supported fleet replacement programme mainly by the Government of Japan helped sustain profitable operations. However, by 1993/94 the RETCOs have been unable to operate profitably

5.1.2.3. In view of the above and as a result of Government reforms a study was commissioned in 1994 to look into ways of restructuring and commercialising the companies with a view to privatising them at a later stage.

The study which was completed in September, 1995 recommended restructuring the companies to prepare them for divestiture. Effectively the restructuring of RETCOs started in January, 1996 through down-sizing of fleet by selling excess trucks, reduction of staff to desirable levels and adapting of a new organisation structure to accommodate the changes. Also several efficiency measures related to the fleet operations and control of costs as proposed by the study were introduced.

5.1.2.4. In spite of the above measures and judging from the results of 1997/98 performance it can be concluded that the restructuring exercise could not yield the expected results. Most of the RETCOs have continued to operate at an unsatisfactory level and only a few have managed to achieve marginal profits.

5.1.2.5. Given the fact that the private sector is able to operate commercially whilst most RETCOs do not is due to the relatively greater efficiency with which the private sector runs freight operations. The two significant differences are greater operational efficiency to generate higher contribution margins and much lower administrative overheads. Typically, the private sector aim for a 40 - 45% contribution margin, direct fixed costs of 20 - 25% and administrative overheads of between 10 - 15% resulting in profit margins of between 15 - 30% with an average of around 20%.

5.1.2.6. The way forward for the RETCOS has already been decided namely to have the private sector take over the companies. Already regional authorities in the regions have taken steps to sensitize the take over of the companies on a shareholding basis by the private sector including the company workers. Where a company is unable to attract private investors interest the option left would be liquidation of the Company thorough the sale of assets to the private sector.

5.1.3. PASSENGER ROAD TRANSPORT SERVICES

5.1.3.1. The private sector has and continues to play a major role in passenger road transport services provision in the country. After deregulation of tariffs, removal of restrictions in importation of vehicles and the absence of entry market barriers the private sector has a full control of the market.

Presently public sector involvement in passenger transport services has been small and confined to the City of Dar es Salaam through the bus company UDA.

5.1.3.2. UDA was established in 1970 following nationalisation of a private foreign owned company providing inter-urban passenger services throughout Tanzania and urban bus services in DSM city. Under state ownership the company was divided into two divisions: KAMATA which took over inter-urban services, and UDA retained to serve DSM City. KAMATA ceased operation in 1991 after failing to perform. Inter-city bus service are now fully offered by the private sector. Share holding of UDA has now been reverted to the Treasury Registrar. Previously, before the public Corporation Act of 1993 NTC held (49%) and DSM City Council (51%).

5.1.3.3. UDA's performance has been declining since 1989/90 todate. Major causes for the losses have been a sharp drop of the market share (less than 5%), increases in direct fixed costs as a proportion of turnover and the fare box in which Government sets concessionery fares for school children which disadvantages UDA being a public owned company.

5.1.3.4. Like with the RETCOS the 1995 restructuring study recommended a set of measure that could turn around the operations of the company. These included strengthening management, extend vehicle economic lives, raise their availability and reliability, lower consumption of fuel and tyres and a programme to reduce fixed costs and overheads entailing staff retrenchment as well as computerisation of management information systems.

5.1.3.5. Inspite measures taken to restructure UDA it has not been possible to turn it into a commercial viable entity. The influx of thousands of buses operating in an unregulated manner makes it impossible for UDA to continue to exist as an efficient state owned company.

5.1.3.6. On the other hand, UDA has plans to acquire new buses to replace aging fleet from funds earned from disposal of non-performing assets, namely Ubungo Depot. This move can revitalize the company and enable UDA to attract strategic investors.

5.1.3.7. On the other hand in order to have serious private investors to provide city bus services of an acceptable quality including joint venture participation in UDA, Government should introduce appropriate rules and regulations for the bus operators. These should cover strict compliance to type of buses, route allocations, time tables, safety standards and commuter comfort.

5.2. THE RAILWAY SYSTEMS

5.2.1 Tanzania Railways Corporation (TRC)

5.2.1.1. TRC was established by an Parliament Act of 1977 given the broad mandate of conducting business according to commercial principles. Under the Act significant decisions concerning TRC organisational status, capital expenditure, staff and tariffs were subject to approval and directives of the Minister.

5.2.1.2. Following a decline in operational performance during the 1980's TRC conceived and implemented a number of major restructuring programmes. These are briefly as follows:

* Emergency Recovery Programme (ERP): This programme was launched in Feb. 1987 by the World Bank led group of donors including the European Commission. The aim was to arrest the decline of TRC performance and set it on a recovery path. By 1990 it became apparent that the ERP could at most stabilize TRC but more needed to be done to realise a satisfactory growth trend.

* Railways Restructuring Project (RRP): This programme started in 1991 and is expected to last until year 2002. The principle aims of RRP have been to strengthen the organisation of TRC, eliminate regulatory bottlenecks in order to strengthen operations for commercial viability, rehabilitate infrastructure assets, replace obsolete and uneconomic operational assets and provide limited new investment in line with domestic traffic growth. Total cost of the project was estimated to be US$ 112 million as of January, 1996. Some 40% of the funding requirement was to be from TRC's own source.

  Since TRC launched RRP in 1991 tonnage carried has steadily increased reaching the level of 1.36 million tons in 1995 and 1.23 million in 1996. It declined in 1997 due to the washout of track between Morogoro and Dodoma due to the unexpected heavy rains.

* Institutional Change (IC): As a result of RRP, TRC's relationship with Government has and is gradually changing for greater commercial autonomy as evident by the following:

- divestiture of the divisions of road transport services and the catering and hotel operations.

- freedom to set tariffs

- agreement in principle for compensation on running non-viable services, including branch line operation, and

- A memorandum of understanding (MOU) of 1991 between Government and TRC has effectively enable TRC to act with a great deal of autonomy. This has enabled tariffs to be set equivalent to full cost recovery and size of workforce have been reduced to the level of the work load. The MOU fixed term ended in may 1996 and has been replaced by a three years performance contract between MCT and TRC signed in May, 1997.

5.2.1.3. The above measures have yielded a positive impact in the performance of TRC. However more needs to be done to offset growing competition with road transport mode in the North - Eastern route. There is evidence that TRC could significantly perform even better than it has particularly if it could rationalise its activities and concentrate on core business activities, namely long distance bulk freight.

Further moves to commercialize TRC operations are required mainly in the area of providing legal and regulatory framework to promote and facilitate private sector investment and also down sizing staff to match with the work load.

The Government has in principle approved the concessioning of TRC operations and has set a target date of year 2000. TRC is expected to remain with the functions of a land lord body in line with the SATCC Railway Act Model. A study for the concessioning of TRC operations will shortly be undertaken.

5.2.1.5. Meanwhile TRC has recently entered into a five year concession agreement with Trans-Africa Railway Corporation (T) Ltd. a local subsidiary of a South African firm to operate locomotives and wagons between Tanga and DSM, Moshi/Arusha, Mwanza and Kigoma towns. The operation would involve cement distribution from the Tanga Cement factory. This is part of TRC initiatives in commercialising its activities. The firm is also involved in construction of transshipment terminal at Kidatu that will allow interaction between TRC and TAZARA.

5.2.2. TAZARA

5.2.2.1. TAZARA's, 1860 km single track line was constructed between 1970 and 1975 and started operation in 1976. The Railway is jointly owned by the United Republic of Tanzania and the Republic of Zambia. It has been moving 60% of Zambia's import and 70% of her export. The objectives of TAZARA as spelled out in the recently revised TAZARA Act are to provide on sound commercial principles a secure, efficient and safe transport of freight and passengers between and within Tanzania and Zambia.

The performance of the Railway has been generally declining since 1993. Freight tonnage fell from 935,000 tons in 1993 to 638,000 tons in 1995 and 599,176 in 1997. Passengers carried has also dropped from 1,938,000 in 1993 to 1,733,000 in 1997. The major reasons for the decline are said to be:

- Increased competition from the road mode
- A decline in the Zambia and Tanzania national economies thus reducing capacity to export and import.
- A change in regional trade patterns following removal of the apartheid regions in South Africa.
- Increased use of other alternative ports in the Southern Africa region.

5.2.2.2. In a bid to reverse the decline and while continuing to implement a Ten Year Development Plan (TAZARA - TYDP) in 1995/96 TAZARA has initiated a restructuring and commercialisation strategy through the TAZARA commercialisation Project (TCP) involving the following institutional reforms:

- TAZARA Act revised to conform with railways commercialisation principles.

- Organisation restructuring including transforming the Tanzania and Zambia regions into semi-autonomous cost and profit centres responsible for marketing and train operations, while the railways assets are maintained and repaired by separate business units.

- Definition of policy with regard to appropriate type of traffic.

- Institutional reform emphasizing on commercial operations - non core business have been earmarked for divestiture e.g. stone queries and construction units.

- provision of a "level playing field" in areas where there is competition with the road sector.

- Financial restructuring including the revaluation of assets using replacement cost, reduction of the asset base and change in the capital structure from debt: equity of 2:3 to 100% equity shared equally by the two Governments.

- rationalisation of the labour force - reduction by 600 since 1994 to 5400 employees - plan to reduce to 3000 within the next five years.

5.2.2.3. Inspite of TAZARA's reform initiative through the TAZARA -TYDP and the TCP, the performance of TAZARA is not encouraging and is experiencing difficulties in implementing its restructuring due to liquidity problems. For a long time and this equally applies to TRC, TAZARA had to depend on grants from various bilateral and multilateral sources and loans from the Peoples Republic of China to fund various vital development programme.

In view of the above the Government of Zambia and Tanzania are in consultation to look into the whole question of privatisation of TAZARA which to start with would involve a study to determine how best to approach the process.

5.3. MARITIME TRANSPORT

5.3.1. Port Authority: Tanzania Harbours Authority (THA)

5.3.1.1. THA was established in 1977 after the collapse of the East African Community and the subsequent demise of the East African Harbours Authority. Its main function are developing, improving, maintaining, operating and regulating the harbours and to construct new ports when required. Dar es Salaam is the largest sea port in Tanzania and acts as the coastal terminal for TRC and TAZARA. It has 11 berths, namely;

- Berths 1 - 8 serving the break bulk general cargo trades

  and

- Berths 9 - 11 forming the port container terminal

Berth - 1 is operated by AMI under a Belbase agreement and Berths 1 - 3 handles transit traffic for Zaire, Burundi and Rwanda. Berth 4 - 7 handles transit cargoes for Zambia and Malawi. The port also has a specialized grain terminal and facilities for handling crude oil imports and petroleum products. It also has rail connected inland container depot at Kurasini and Ubungo. Apart from DSM port THA is responsible for the operations of other big ports of Tanga and Mtwara including the small ones in Kilwa, Lindi and Mafia.

5.3.1.2. The DSM Port Development Programme coordinated by the World Bank started in 1985. Phase I of the programme was undertaken between 1985 - 1990 and costed upwards of US$ 250 million. Phase II of the project included expansion of the container terminal, the Ubungo and Kurasini depot and further upgrading of the oil jelly. This phase II has also been completed. The commercialisation strategy adapted in 1994 ties THA to a performance contract which is due for review.

The development plan for DSM port upto year 2004 form the basis of phase III of the World Bank ongoing DSM Port Project. The plan earmarks several physical investment projects as identified in the 1994 DSM Port Development Study (DPDS), which among others include widening the entrance channel a project which has recently been completed and expansion of Kurasini oil pipe line.

The main thrust of THA development plan is improving commercial and operational efficiency of the Ports Recently a Study was completed by

German and local Consultants on THA commercialisation which identify measures to improve THA operations through the introduction of a new organisation structure, restructuring of the workforce and a cost/profit centre base accounting system to include the possibility of:

- Running the container terminal and general cargo terminals under management contracts.

- Fully privatising the port's stevedoring operation

  and

- Running the bulk grain and liquid facilities on joint venture with willing partners.

Major priorities which have started to be implemented for improving operational performance entails the following:-

- Introducing computerised Management Information System (MIS)
- Inducing an effective Port Equipment maintenance system.
- Reducing the number of Clearing Agents
- Rationalising procedures that will expedite fast cargo clearance at the port.

In 1996 the Government through PSRC had decided that THA should be transformed into a land lord Port Authority to be responsible for monitoring and licensing 13 business units identified in the THA commercialisation study. This would mean THA concluding concession contracts to run the units or privatise by way of a tendering process. Already a start has been made by appointment of a Canadian Consulting firm to assist PSRC in the privatisation of the container terminal. The movie should provide an impetus to quicken the privarisation of the other 12 units.

5.3.2. Tanzania Coastal Shipping Services.

5.3.2.1. Responsibility for providing Coastal Shipping Services was vested on the Tanzania Coastal Shipping Lines Ltd. (TACOSHILI) due to the lack of private sector investors in the early 70s. Established in 1971 TACOSHILI was given the responsibility to provide services as a state-owned subsidiary company of NTC mainly concentrating on the route to Lindi, Mtwara and Mafia Island but also some service was being provided to Tanga, Comoro Island and Mombasa.

5.3.2.2. The performance of TACOSHILI since its inception has been unsatisfactory inspite of substantial financial and technical support from NORAD and the Government. The Company started off with two vessels and over time increased to three cargo and passenger cum cargo vessels. As of 1996 TACOSHILI remained with only one vessel, the 600 ton capacity MV Dar which is grounded for want of major repairs and lack of class. Major factors behind the unsatisfactory performance had been largely due to Government control of freight rates and passenger fares and at the same time failure to subsidise operations.

5.3.2.3. Under the Government policy reforms private capital is being encouraged after the liberalisation of freight rates and passenger fares and the removal of monopoly in coastal maritime transport business. And for some time now demand for coastal shipping is fully being met by the private sector. Major steps to restructure the company through downsizing of staff, change of top management, closure of unproductive terminals and control of expenditure failed to improve TACOSHILI's performance.

5.3.2.4. At present TACOSHILI'S operations have almost come to a stand still with workers sent on leave without pay. Attempts to sell the company's non-performing assets such as residential houses to raise money to pay terminal benefits and repair MS Dar could not yield satisfactory results. Hence only substantial injection of capital can save the company from collapse.

5.3.2.5. The divestiture alternative being adopted by the Government is to call for private joint venture participation. Already there are enquiries from private investors to acquire TACOSHILI. This could be the best way to provide a dependable and reliable alternative mode of transport especially to the southern parts of the country. For some time now coastal transport services has been depending on privately owned vessels which lacked adequate reliability and dependability. However, if a joint venture partner cannot be identified than PSRC will have to take the next option which is liquidation of the company.

5.3.3. International Shipping Services.

5.3.3.1. Tanzania's direct participation in international shipping is quite minimal and is manifested in two ways, namely:

Firstly, the Tanzania/China Joint Shipping Line (SINOTASHIP) which presently operates two (2) multi-purpose (non-containerised) vessels. SINOTASHIP intends to acquire additional vessels when the shipping market improves. Occasionally SINOTASHIP will chatter vessels when required due to its diminished capacity.

SINOTASHIP's participation as a joint venture is of symbolic significance for Tanzania involvement in international shipping. The company has been operaing and performing quite well . During the year 1995 it carried 200,000 tons and generated a profit of US $ 445,000. For the year 1997 the profit fell to US $ 87,770 arising from a fall in the freight rates and drop in demand.

5.3.3.2. Secondly, the Tanzania Central Freight Bureau (TCFB) which has the primary objective of protecting the Tanzania's shippers in getting favourable freight charges and in so doing save foreign exchange.

TCFB since its establishment in 1983 has been performing both regulatory and commercial function which among others include: negotiation with shipping lines for reduced shipping freight costs and also terminal handling charges and in promoting competition and fair play among carriers. The Bureau has been operating commercially well and generating profits. The company is expecting to make savings on shipping charges to the tune of US $ 7.42 million during the year 1997/98. Recently as a strategy to commercialising its operation TCFB services have been extended to Zanzibar on the request of the Isle's Government. With a view to accommodating the policy reforms towards liberalissation/privatisation TCFB expects to review its Act of establishment so that it can continue to operate as a stated own enterprises focusing on regulatory and quasi commercial functions.

5.3.4. Inland Water (Lakes) Transport:

5.3.4.1. Use of Inland Waters for transport is mainly on the three big lakes namely, Victoria, Tanganyika and Nyasa. Services are rendered by TRC vessels to cover most of the major towns around the lakes. TRC has been owning the ports, piers and after the loss of MV Bukoba in May, 1996, 13 vessels of which 3 operate on Lake Tanganyika, 2 on Lake Nyasa and 8 on Lake Victoria.

5.3.4.2. The performance of the Marine division of TRC has not been encouraging and for aa long time now has been making losses. The poor financial performance can be attributed to many factors including revenue leakage, poor staff morale, competition from road and air transport, loss of capacity and passenger arising from the sinking of MV Bukoba and ageing of vessels.

5.3.4.3. A major restructuring of the marine division took place some time back under Danida assistance. This involved decentralisation of the division's operations leaving only a few areas for reference to the headquarter relating to policy matters and capital budgeting. A privatisation study recently completed recommended a two stage approach towards privatisation of the marine services.

First and foremost, is to put in place a regulatory framework to address matters of pricing, licensing, insurance, maintenance, navigation and search and rescue. Secondly, is to constitute TRC marine as a limited liability company and Thirdly privatise the company through a competitive bidding process. The implementation of the study recommendation have started and are in progress. MCT has also open doors for private participation in transport on the lakes with a commitment to relax tariff controls, entry barriers and promote investor's interests.

5.3.5. Ferry Transport

5.3.5.1. Management and operations of ferries for river crossings or lake and sea channel rest with the MOW. The tariff charges have been low giving little consideration on economic and financial viability in the operations of the facilities. Hence services have been deteriorating due to frequent breakdown and the lack of preventive maintenance. A clear example is the Magogoni Creek Ferry. Recently MOW has raised ferry crossing tariffs to provide for a reasonable maintenance fund. On the long term MOW is looking into possibilities of privatising the services for improved efficiency. A study to this effect is underway.

5.4. AIR TRANSPORTATION

5.4.1. Civil Aviation

5.4.1.1. After the breakup of the EAC in 1977 the Government created the Directorate of Civil Aviation (DCA) to regulate the air transport industry and placed it under MCT as its specialised agency. Later in

1985 the heretheto separate department of Aerodrommes under MOW was fused into DCA as a separate division within the Agency.

5.4.1.2. In 1992 the Government liberalized the domestic air transport industry opening the door wider for the private sector to enter the scheduled air line market business heretheto a monopoly of Air Tanzania Corporation (ATC). Air fares and freight tariffs have equally been left to depend on market forces: These reforms have led to the growth of a number of domestic charter operators licensed by the Civil Aviation Board to increase from 15 in 1992 to 26 in 1996 and 4 air transport operator are operating scheduled services in competition with ATC.

5.4.1.3. Major restructuring measure taking place todate has been letting DCA operate as an autonomous agency on a self-financing basis instead of as a department of MCT. This is an initial step towards the creation of a "Civil Aviation Authority". Also the decision to give DCA retention of 50% revenue accruing from airport charges has given the Directorate flexibitely to operate autonomously and commercially and to have access to foreign exchange for procuring and maintaining its sensitive facilities.

5.4.1.4. Another fundamental restructuring measure that has taken place is shifting of the function of management and maintenance of Aerodrommes from the DCA to MCT as a fully fledged department. The decision however, is an interim step towards the quest of forming an autonomous commercially operating airports authority to manage the main international airports.

5.4.1.5. Divestiture programme being implemented for the airports has been to start first with the privatisation process of the Kilimanjaro International airport (KIA) on a pilot project basis.

The Government is expected shortly to sign a concession agreement with a newly formed company namely Kilimanjaro Airport Development Company (KADCO). In this firm the Government will hold 24% shares. The remaining shares will be owned by private shareholders. Other airports will be divested depending on the outcome of the KADCO venture.

5.4.2. Air Tanzania Corporation (ATC)

5.4.2.1. ATC was established by the Government in 1977 after the break up of EAC. From inception and until recently the operational and financial performance of ATC has not been satisfactory. One of the main cause for this has been under-capitalisation. Although the Government has been injecting capital, this has been in small doses and only when there was a crisis. The other reason was inability to decide on tariff increases or the withdrawal of services on unprofitable routes for social and political reason prior to Government approval. Also ATC could not apply sufficiently attractive remuneration and incentive package for staff outside the parastatal directives.

5.4.2.2. Arising from the above the Government decided in 1992 to restructure and commercialise ATC including allowing participation of the private sector. At the same time the Government decided to take over ATC's long-term debts. Also as part of commercialisation, the Government has given ATC mandate to set and implement its own economic tariff system and withdraw from unprofitable routes. A corporate restructuring took place to match staff with volume of business and work.

5.4.2.3. As a result of the above measures ATC has and is presently operating commercially and generating profit. Sustaining the improvement is imperative for the successful privatisation of ATC.

5.4.2.4. On another front the liberalisation of air transportation has placed ATC on competitive arena with private operators. Under such market condition the survival strategy is to combine forces either through acquisition, mergers, and or code sharing as joint designation. Such was the case when ATC operated between DSM and Johannesburg route involving ATC and Air Malawi. Meanwhile, ATC has been preparing itself for privatisation which should take off shortly.

Initially, ATC's subsidiary DAHACO has been privatised by the sale of 51% of the shares of the company to the South Africa Airlines (SAA). It is hoped that the remaining 49% shares of the Government can be sold in the stock exchange market,

5.4.2.5. During 1994/95 an African Joint Air Service (AJAS) venture between Uganda, South Africa and Tanzania was formed to cater for international air transport link to Johannesburg, London, Rome, Dubai and Bombay utilizing a single aircraft Boeing 747 SP. Whereas the establishment of the airline is a worthy course towards cementing regional cooperation the venture is said to be jeopardizing the interest of ATC due to displacement of its international route rights. Hence the need for Government and PSRC to seek ways of rationalising these regional interest with those of ATC in order to pave way for ATCs successful privatisation.

5.4.2.6. As a joint venture airline and in its infancy the performance of AJAS has been experiencing teething problems thus performing poorly. Performance turn around is expected according to the airline projected operational plans. This is necessary in order to convince the existing and other would be shareholders on the viability of AJAS as a potential regional airline.

6.0. CONCLUSION

6.1. The policy, institutional and market reforms taken by the Government to commercialise the transport sector are yielding positive results. Since the start of this decade substantial investments have been made in rehabilitation and upgrading the road transport infrastructure network thereby attracting private sector investment in the road transport operations and therefore also improving the supply of trucks and buses in the country at large.

6.2. As observed in the relevant section of this paper further improvement are envisaged from the ongoing reforms towards achieving sustainable programmes of upgrading and expanding the network. This applies particularly after the legislation of the Road Fund and the expected creation of the Roads Authority under the Executive Agencies Act. The involvement of the private sector in road engineering design, civil works, operations of the road plant pool and direct private sector participation in road investment projects are further testimony of the Government resolve in broadly ensuring improved road network infrastructure in the coming years.

6.3. On the part of road transport operations the private sector is in control of almost the entire passenger transport market and with the privatisation of the RETCOS shortly to be implemented will also capture almost the entire freight transport market. The full privatisation of the road transport subsector is a welcome development for improved delivery of services but will call for an effective regulatory system to ensure fair distribution of services that meet acceptable standards under competitive market conditions.

6.4. The railways (TRC and TAZARA) have performance contract or agreements that allow them to operate commercially. TRC has been able to operate profitably until recently when operations were interrupted by portions of damaged track along its main central line. The repair of the defective track have recently been completed and operations normalized. The privatisation study will shortly be undertaken to pave way for private sector participation in the operation of TRC by the year 2000. On the other hand TAZARA's operations is curtailed by loss of market but could turn around under a dedicated management. The owners of TAZARA namely the Government of Tanzania and Zambia, are consulting on the best way to improving the performance of the railway including the option of privatisation through a concessioning agreement.

6.5. Marine transport services are being fully provided by the private sector after TACOSHILI's inability to sustain operations. The Company's future will be determined after identifying suitable joint venture partner.

6.6. Following implementation of recommendations from the commercialisation study port services provided by THA have been more responsive to the market than before and port efficiency and profitability has improved. Consultants have been appointed and are at advanced stage to advise and support PSRC and THA on the privatisation of the container terminal including the other 12 business units. Commercialisation of the transport services being provided as a division of TRC is presently underway after finalising formation of a limited liability company pending privatisation by PSRC.

6.7. On ferry crossing, fares do not as yet reflect the principle of cost recovery. There is need for MOW to attract private investments on better and safer equipment for improvement of services.

6.8. With regard to the Aviation industry the Government has liberalised international and domestic air transport emphasizing on safety and not market access regulations. The process of privatising KIA on a pilot project basis is being finalised and DCA has been granted freedom in commercialising its operations. Government has also committed itself to the privatisation of ATC and PSRC is taking the necessary steps in carrying out the exercise.

6.9. Finally, it is worthwhile to state that these transport sector reforms are well in line with the SADC protocol on transport which has recently been ratified by the Government of the 12 member states in the region. The protocol itself is an elaborate blue print which provides for common focused policy and regulatory reforms to achieve effective, efficient sound cordinated and integrated transport system both for the individual member states and the regional grouping as a whole.