

**WELCOMING ADDRESS BY THE MINISTER FOR
INFRASTRUCTURE DEVELOPMENT HON. ANDREW
JOHN CHENGE (MP), AT THE INTERNATIONAL
SEMINAR ON ROAD FINANCING AND INVESTMENT
AT NGURDOTO MOUNTAIN LODGE ARUSHA,
16th APRIL 2007**

**Honourable Chairperson of the Roads Fund Board Mr.
Philip Magani;
President of ARMFA and Chairperson of the Organising Committee
Mr. Joseph Haule;
Representative of PIARC Madame Sherri Alston;
Representatives of AGEPAR and ASANRA;
Distinguished Guests;
Ladies and Gentlemen.**

1. It gives me great pleasure to be here this morning, and I wish to first express my heartfelt gratitude to the Organizers of this seminar for extending an invitation to me to preside over the official opening ceremony of this very important workshop.
2. On behalf of the Government of Tanzania, and on behalf of all the citizens, this country feels greatly honoured to host this International Seminar on Road Financing and Investment.
3. Transport infrastructure is a pre-requisite for any viable economic development of a country. An efficient transport infrastructure is necessary for any country to compete effectively in today's economy. This is true of developed as well developing countries. While most sub-Saharan African countries have the basic building blocks of a transport

infrastructure, this infrastructure is far from efficient.

4. After independence, the common adage among African countries was “*we must run while others are walking.*” What sub-Saharan Africa really needs now is not to *run* but rather to *leapfrog* into the 21st century. In the transport sector this leapfrogging is achievable if proper sector reforms are put into place. There is a lot to be done if Africa is to *leapfrog*. To solve the transport sector problem in sub-Saharan Africa, major issues, potential solutions and their policy implications need to be addressed.
5. It is now established that the first key factor that contributed to the rapid economic transformation of emerging economies is infrastructure development. These countries invested heavily in basic infrastructure, including roads, schools, water, sanitation, irrigation, clinics, telecommunications, and energy.
6. Infrastructure services include the provision, operation, and maintenance of the physical facilities of the infrastructure. Poor infrastructure is a critical barrier to accelerating growth and welfare improvement in Africa. A study done in Uganda, for example, indicates that transport costs add the equivalent of an 80% tax on clothing exports. Infrastructure is also a key component of the investment climate, reducing the costs of doing business and enabling people's access to markets. Infrastructure is therefore regarded as a key lever for development. It cuts across all sectors of activity and contributes to improve public welfare through services provision to the population and therefore it largely contributes to the achievement of millennium goals, especially concerning water supply, but also in

the domains of education and health. This contribution to welfare has also an indirect impact: it gives credibility to the institutions in place and therefore reinforces political stability.

7. Beyond contributing to the public welfare, an appropriate level of infrastructure also attracts private investment in the other areas of the economy and thereby further supports the development of the country. The World Bank World Report on the Investment Climate identifies infrastructure lack as one of the main disincentives to investment. Studies also indicate that, differences in infrastructure would account for up to one third of the difference in output per worker in Asia; a similar story would hold true for Africa.
8. Ladies and Gentlemen, in developing countries the central role of the roads sector is the proper initiative towards poverty reduction. 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.
9. 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.

10. Ladies and Gentlemen; In Tanzania we have a big poverty problem. Our problem is that half the population are living below the poverty line of less than a dollar a day. Our economies and particularly that of Tanzania under the National Strategy for Growth and Reduction of Poverty are expected to grow rapidly in the medium term to about 8% annually. This requires due attention should be paid to institutional and fiscal arrangements required for our countries to be able to invest and perform road maintenance on a sustainable basis. Maintenance must be planned before major repair works become a necessity, thus minimising the overall necessary budget (preventive maintenance). We have been informed here by the Chairman of the Tanzania Roads Fund Board the current budget meet about only 40% of the requirements. I presume this is the state of affairs for most our countries in Africa. Clearly this budget spent on maintenance is not

sufficient. This demonstrates that current budgets should be doubled in order to meet road demands properly. In economic terms, this means that a substantial amount of money would be needed annually to ensure a safe and high quality road network

11. A study done by the World Bank in 1988 indicate that failure to maintain roads is tantamount to an act of disinvestment, for it implies the sacrifice of past investments in roads." The study identified that the losses in the value of infrastructure in Africa in the 1970s/1980s of the order of \$45 billion could have been averted by preventive maintenance expenditure of only \$12 billion.
12. Ladies and Gentlemen worldwide experience shows that maintenance comes first. It must take precedence over investment in upgrading or new infrastructure and equipment. The basic rule is to build infrastructure to appropriate standards that can be affordably maintained. This means using the minimum realistic standards to satisfy demand while giving priority to maintenance. Putting maintenance first helps identify an affordable network that satisfies the countries' economy and facilitates delivery of essential services to the rural and urban poor. It is a common misconception amongst members of the general public that roads, once built, will last forever. We know that this is not the case. All roads need a certain level of maintenance to be able to withstand the daily demands of modern traffic and to extend their lifetime as long as possible. Timely and appropriate maintenance is even more important today as construction costs rise and government agencies fiercely compete for funds. But, human nature being what it is, road maintenance has long been the least glamorous and most easily forgotten operation. Politicians

are notoriously unimpressed with maintenance, and few red ribbons are cut to celebrate the successful completion of maintenance projects. Yet road maintenance is crucial to the safety of a road network, to its profitability, and to the overall economy. Overused, poorly maintained, inadequately lit and badly sign-posted roads are, in the first place, a safety hazard. Many accidents could have been prevented, if roads would have been adequate to user demand. Poor maintenance has social costs. 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 or 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.

13. So Ladies and Gentlemen I urge you to come up with innovative approaches of funding for road maintenance including least cost solutions of maintenance activities and technologies so as to optimize the meagre resources available. The government drive towards restructuring, as you all know, has not spared the transport sector. Roads are no longer a social service to be funded exclusively by the Government but are an economic good to be paid for. We look forward to see private entrepreneurs build and operate roads and bridges that will be specified by the government under "Build operate and transfer" (BOT) or Public Private Partnership schemes. The government is currently working out the rules for such investments, but if I can jump the gun, as it were, and give you some of the relevant objectives of our transport policy:

- i. Promote private sector investment and where necessary compliment public investment,
- ii. Provide incentive and conducive legislation for investors,
- iii. Involve communities in construction and maintenance of rural transport infrastructure,
- iv. Expand infrastructure and services to areas not covered by the existing transport system,
- v. Enhance privatisation and commercialisation, and eliminate monopoly tendencies,
- vi. Improve standards of infrastructure,
- vii. Establish enabling environment for creativity and innovation.
- viii. Involve road-users in management of TanRoads ,
- ix. Strengthening community- based organisations in managing rural roads,
- x. Establish social action funds from government and donor sources for promotion of rural travel and transport,
- xi. Strengthen road users associations at national, regional and District levels, who should be proportionately represented on Road Fund Boards,
- xii. Ensure local capacity participation in designing, supervising and executing road works,
- xiii. Enhancing availability and utilisation of road construction equipment.
- xiv. Promote labour intensive technologies for construction and maintenance of lightly trafficked rural roads.

The list is by no means exhaustive, but what I am trying to say is that the government is committed to the promotion of a strong private-public partnership in the ownership of road transport infrastructure. Indeed if Vision 2025 is to be achieved we have no other option, but to harness all available resources. This meeting should come up with recommendations on how best to do it.

14. The challenge is to meet increased funding for investment to the sector when the traditional sources of funding - especially those from direct budget allocations - are under increasing pressure from competing end

uses. Ways have had to be found in nearly all regions to improve resource inflows, through various forms of off-budget financing, and to improve the effectiveness in the management of these funds. A number of countries such as Sweden, UK, Finland and New Zealand - started to lead the way towards commercializing road management, managing roads as the big business that they indeed are. Not all of these experiences may be directly transferable to developing countries. However, it is in the areas of revamping road sector institutional arrangements and of creating new sources of sector funding that tap directly into user demands for increased expenditure that the new approach to management has really started to take off in the last decade or so, particularly in Sub-Saharan Africa and I wish to thank SSATP for pioneering change in Africa where I am Told there are a number of such institutions which have been established.

15. This meeting has come about at the right moment. The progressive transfer of the management, operation and maintenance of transport networks to the private sector has a number of advantages, which may not be entirely obvious at first sight. For instance, it tends to result in higher productivity and improved service quality, leading to lower costs and reduced public deficits. The state remains the owner of the infrastructure having ceded the operation and management to the entrepreneurs. The example of the Maputo corridor and the Platinum Toll Road in South Africa are examples to be emulated. Our countries should embrace the corridor concept in order to attract more investments and manage resources effectively. I am glad to note that experiences on Walvis bay Oxridor will be presented in this -seminar. Tanzania will have to adopt this kind of initiative if we are to make great strides in this

area.

16. As countries around the world attract an ever- increasing amount of foreign private investment in infrastructure, Tanzania lags behind. At a time when resources devoted to foreign aid worldwide are stagnating, the significance of co- financing increases. The Government wishes to reaffirm its commitment to continue to pursue economic and structural reforms and to liberalise further the economy with the ultimate goal of attaining high rates of economic growth in the country for the betterment of the majority of our people. The Government is also committed to promote the private sector as the engine of economic growth. The achievement of sustained high rates of growth leading to economic prosperity is a medium and long-term objective that requires not only the determination and commitment, but a co-operative partnership between the Government and the private sector. In this partnership, the Government is committed to play a major role in providing support to the development, expansion and reforms of the roads sector. Evidence is mounting that government programs work better and are sustainable when they seek the participation of potential users, and when they tap the communities reservoir of social capital rather than working against it. It is therefore our expectation that the partners who have assembled us here will play a leading role in mobilising road users and investors to join in this crusade so that we can realise the "good road for this century".

17. Ladies and Gentlemen let me turn to the problem of corruption in the construction sector. I am glad to learn that good governance is one of the sub themes and there is a paper by Transparency International on

Systems for Combating Corruption in the Construction sector.

In Tanzania the third phase government commissioned a study which was popularly known as the 'Warioba report' which you have probably heard about. According to this report the construction sector is one of the most corrupt sectors of the economy. Because of corruption and negligence, variations in contract sums in the Integrated Roads Project; project for 24 projects rose from Tsh. 61 billion to Tsh. 97.5 billion (an average of 58.7%). Twelve contracts recorded an increase of 150% on top of original contract sums. This amount of money spent was enough to construct more than one and a half times the number of kilometres that were constructed. Corrupt tendencies in the construction industry start at the tendering stage right through up to actual construction stage. At the tendering stage corruption starts by providing advance information to some consultants or contractors on work opportunities going to be advertised, leaking information on cost estimates, and criteria to be used in the evaluation of tenders. In the evaluation stage the actual process of evaluating tenders is not transparent and sometimes is skewed to favour somebody. During the construction stage, corruption appears in approving variation orders and certifying poor quality of work. Another area that is also prone to corruption is in the area of compensation of property to allow for construction of roads. Evaluators collude with property owners to exaggerate the value of the properties to be compensated for their own benefits. I will be happy to receive recommendations from your deliberations on the systems that are going to be proposed by Transparency International.

- 18 This gathering here of distinguished personalities and experts will certainly give us the direction of what our future should be as far as the

road sector is concerned. In this meeting, the discussions will be focused on promotion and dissemination of knowledge on road financing and investment in the context of poverty reduction, application of existing knowledge and mainstreaming of good practices thereby promoting appropriate solutions to fill the gaps and meet those needs.

We at the Ministry will continue to support this kind of a partnership demonstrated here today by the partners who organized this seminar and because we know that it is through such kind of partnership the work of the government becomes easier and the management and financing of roads becomes sustainable.

19 Before I conclude Ladies and Gentlemen, let me leave you with food for thought. In your deliberations, you may wish to ask yourselves the following questions:

- i. Has a comparison been made of the distribution of public spending per capita on basic services- health, education, extension, and transport across regions, including rural/urban with the level of poverty?
- ii. Has the effectiveness and efficiency of public spending on transport been assessed?
- iii. Has the participation of the private sector and the priorities for its development been assessed?
- iv. Are sectoral and structural policies and programs aimed at poverty reduction coordinated? Are donor poverty programs coordinated?
- v. Has a priority list of policies and expenditure programs that need to be coordinated been identified and how can these be effectively implemented?
- vi. Do transport sector regulations and policies minimize opportunities for corruption?
- vii. Are duties and taxes applied to the transport sector highly regressive?

- viii. Are non-motorized forms of transport (for example, bicycles) taxed excessively? Do government regulations support the means of transport used by the poor?
- ix. Are standards applied in the transport sector (for example, rural road design standards) appropriate to the country's circumstances? What would be the consequences of adopting lower road standards for rural roads with low traffic volumes?

You may wish also to consider the following strategies targeting alleviation of poverty:

On Growth-oriented strategies you may consider:

- Removing critical infrastructure bottlenecks (port expansion, highway upgrading, opening up of the rural roads etc.).
- Encouraging production and trade by logistics improvements, facilitation, corridor improvement etc.
- Improving sector efficiency through commercialization, private sector development and regulatory reform.

Regarding Poverty-targeted strategies you may wish to consider:

- Providing all-season motorized passability in rural areas.
- Enabling entry of affordable services for the urban poor (for example, through well designed liberalization).
- Protecting NMT (for example, through physical investment and microcredit).
- Promoting road safety.

On provision or improvement of rural access roads to a standard that provides for basic, all-season passability by motorized vehicles you may wish to consider:

- Provision for the use of intermediate means of transport, through technical assistance and microcredit programs and, where appropriate, accommodation in the design of new/upgraded transport infrastructure.
- Integration (or coordination) of improvements in physical access with other rural interventions such as those involving schools, health clinics, and agricultural extension programs.
- Incorporation of community consultation and participation in decision making for local transport investments and maintenance, and the establishment of extension services to provide the

necessary technical advice and training, with support for the development of rural community funds.

And lastly on developing financial discipline by implementation of feasible, sector- based, financial and cost recovery policies:

- Establishing road maintenance funding mechanisms that are insulated from political influence (for example, a road fund or agency managed by an independent road board);
- Strengthening of institutional, technical, and management capacity of the road agencies particularly of Local Governments and
- Developing small and medium-size enterprises to manage and execute maintenance and minor upgrading of rural roads. Which is synonymous with the length men systems which was very popular in the past.

20 Lastly but not least, Ladies and Gentlemen, I would like to remind you that you are in one of the most beautiful countries in Africa. We are one of the leading tourist destinations and there is a National Park just outside this hotel. When the weather is good you can easily view Mount Kilimanjaro from this hotel. I hope that some of you will find time to visit one of our National Parks and view the game.

21 Let me again thank you all for inviting me to open this seminar. and with those few remarks, I now have the honour to declare the meeting on Road Financing and Investment formally opened, and to wish you every success in your deliberations.

Thank you for your kind attention.