No.

Dar es Salaam City Council

The United Republic of Tanzania

Dar es Salaam

Transport Policy and System Development

Master Plan

Technical Report 4

Public Financing

June 2008

JAPAN INTERNATIONAL COOPERATION AGENCY

PACIFIC CONSULTANTS INTERNATIONAL

CONSTRUCTION PROJECT CONSULTANTS

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Chapter 1 Introduction

This Technical Report on public financing discusses the possible funding sources for the Urban Transport Policy and System Development Master Plan. The report starts with the public budget, external sources and forecast of revenue and expenditure. Finally, the report covers the possible funding generation scheme such as development tax, Tax Incremental Financing (TIF), and some schemes available by the public and private partnership. It is important to emphasize that the report do not intends to present the blue sky of the new revenue generation scheme but to show the basic requirement for the implementation of the schemes.

Accordingly this Technical Report has following Chapters in addition to this introductory Chapter 1:

- Chapter 2: Revenue and Expenditure
- Chapter 3 : External Sources
- Chapter 4: Revenue and Expenditure Forecast
- Chapter 5: New Revenue Generation Scheme

Chapter 2 reviews the present revenue and expenditures of the central government, the municipality of Dar es Salaam and three districts that consist the municipality.

Chapter 3 discusses the external sources, which comprise large part of the government budget, mainly from international donor agencies.

Chapter 4 investigates the forecast of those funding sources discussed in *Chapter2* and *Chapter 3.*

Chapter 5 starts with the current property taxation system and market value of the property, development of which is the bases for the following schemes, Tax Increment Financing and Property Development Right.

Chapter 2 Revenue and Expenditure

This chapter presents the review and the prospect of the financial information in the relevant organizations to the transport sector. Information includes the budget of the government, Dar es Salaam City Council and the municipalities' councils of Ilala, Temeke and Kinondoni. For the estimation of the possible funding source, some additional sources are also considered.

2.1 Introduction

The principal stakeholders of the sector include public institutions, cooperating partners, financing institutions and private sectors are as follows;

Key Ministries in the transport sector are Ministry of Infrastructure Development (MOID), Prime Minister's Office – Regional Administration and Local Government (PMO-RALG), Ministry of Finance (MOF), Ministry of Planning, Economy and Empowerment (MPEE) and the Ministry of Public Safety and Security.

Tanzania has two transport regulatory authorities namely the Tanzania Civil Aviation Authority (TCAA) for air transport and the Surface and Marine Transport Regulatory Authority (SUMATRA) for marine and surface (i.e. road and railway) transport. Regulatory boards include Engineers Registration Board (ERB), Contractors Registration Board (CRB), National Construction Council (NCC) and Architects and Quantity Surveyors Registration Board (AQSRB).

Transport sector operation agencies and relevant organizations include Tanzania Ports Authority (TPA); Tanzania Airport Authority (TAA); Tanzania National Roads Agency (TANROADS); Tanzania Government Flight Agency (TGFA); Tanzania Meteorological Agency (TMA); Tanzania Buildings Agency (TBA); Tanzania Electrical, Mechanical and Electronic Services Agency (TEMESA); Tanzania Railways Corporation (TRC); Tanzania Zambia Railway Authority (TAZARA); and the Roads Fund Board (RFB).

Dar es Salaam City Council and the municipal councils of Ilala, Temeke and Kinondoni are, of course, key public sector stakeholders.

Development partners, both multilateral and bilateral, have been playing a key role in supporting the development of infrastructure, improvement in the provision of services and technical assistance.

International and local financial institutions have been playing a vital role in the financing of development of the transport sector in particular transport infrastructure. Their roles range from capital support to financing technical assistance, to the provision of resources for infrastructure as well as operational improvement.

Private sector is an engine of the sector for service provision. Among the private sector operators within the sector are Tanzania Bus Owners Association (TABOA), Tanzania Tank Operators Association (TATOA), Dar es Salaam Commuters Bus Association (DACUBOA), Tanzania Truck Operators Association (TAROTA), Dar-es-Salaam Taxi Drivers Association, and the Association of Private Air Operators and private investors that have interest for the PPP project in the sector.

In this report, organizations and budgets that relate to; 1) Traffic Control, Management and Safety, 2) Public Transport Sector, 3) Road Sector are described in the separate chapters. Therefore this chapter analyse the proposed budget framework and possible funding sources.

2.2 Revenue

The Tanzania Development Vision 2025 is an articulation of a desired future condition or situation that the country envisages to attain in 2025, and the necessary course of action to be taken for its realization. Medium Term Plan (MTP) on the other hand, is the means or vehicle for realization of the Vision 2025 aspirations. The desired course is to phase the Vision‘s long-term development aspirations into implementable short and medium term plans.

MTP thus, provides the framework for policy options, sector objectives and strategies and targets for vision 2025 realization. It provides linkages between sector policies, programmes and strategies and articulates roles and responsibilities of different sectors in achieving the Vision. It also identifies priority areas to be focused on by all players including those that are mainly the responsibility of the Government[1].

The budgeting framework of the Dar es Salaam City Council and its municipalities, namely Ilala, Temeke and Kinondoni also follow this Medium Term Plan and Budget Framework and those are also studied in this chapter. Budget and financial performance of public agencies such as mentioned earlier are described in the chapter for Institutional and Capacity Development.

(1) Central Government

The Central Government has two primary budget resources, which are domestic revenue and external assistance. Domestic revenue accounted for half of the central government total revenue in 2005/06, and tax revenue is the major source. Tax revenues are collected by the Tanzania Revenue Authority (TRA), an executive agency under the Ministry of Finance that was established in 1996. The TRA is mandated to collect major taxes including Income Tax, VAT, Import Duty and Excise Duty. Non-Tax Revenue, which accounted for 8% of the total central government revenues in 2003/04, comprised of

[1] GUIDELINES FOR THE PREPARATION OF MEDIUM TERM PLAN AND BUDGET FRAMEWORK FOR 2006/07 –2008/09 (PART1), March 2006, Ministry of Finance and Ministry of Planning Economy and Empowerment

fees, levies and dividends etc. and is collected by the Ministry of Finance and other Central Government Ministries.

External Assistance is the second major avenue of resources for the Central Government's budget, which accounted for approximately 41% of the Government's resource envelop. The overall strategy guiding effective management of external assistance is outlined in the Tanzania Assistance Strategy (TAS). **Table 2.2.1** shows the budget allocations in the Mid Term Plan and Budget Framework.

The structure and budget of the organizations relevant to the transportation, such as TANROADS, SUMATRA and DART Agency are explained in the Chapter 4, 5 and 6.

Table 2.2.1 Proposed Budget Allocations in Medium Term Plan and Budget Framework

Tshs. million

	2005/06		2006/7		2007/08		2008/09	
A. Resource Envelope	**4,176,051**	100%	**4,650,120**	100%	**4,766,253**	100%	**5,231,713**	100%
Domestic revenue	2,066,752	49.5%	2,356,097	50.7%	2,673,861	56.1%	3,074,941	58.8%
Programme loan and grants	616,165	14.8%	693,012	14.9%	758,049	15.9%	804,549	15.4%
Project loans and grants	682,557	16.3%	749,998	16.1%	800,578	16.8%	859,726	16.4%
Basket Support Loans	101,291	2.4%	105,651	2.3%	59,283	1.2%	60,131	1.1%
Basket Support Grants	231,297	5.5%	175,025	3.8%	126,609	2.7%	109,126	2.1%
HIPC Debt relief－Multi lateral	93,600	2.2%	73,000	1.6%	95,000	2.0%	95,000	1.8%
MDRI （IMF）	0	0.0%	328,860	7.1%	19,780	0.4%	0	0.0%
Non Bank Borrowing	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Bank Borrowing	259,225	6.2%	163,478	3.5%	231,093	4.8%	228,239	4.4%
Adjustment to cash	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Privatisation Funds	10,420	0.2%	5,000	0.1%	2,000	0.0%	0	0.0%
Infrastructure Bond	114744	2.7%	0	0.0%	0	0.0%	0	0.0%
B. Expenditure Allocations								
1. Recurrent Expenditure								
1) Other Charges								
CFS	526,092	12.6%	268,895	5.8%	375,282	7.9%	447,772	8.6%
Ministries /*	1,389,143	33.3%	1,353,939	29.1%	1,382,009	29.0%	1,455,826	27.8%
Subtotal	**1,915,235**	**45.9%**	**1622834**	**34.9%**	**1,757,291**	**36.9%**	**1,903,598**	**36.4%**
Regions	17,447	0.4%	18,874	0.4%	19,948	0.4%	21,472	0.4%
LGAs	154,337	3.7%	154,405	3.3%	166,248	3.5%	178,727	3.4%
Special Exp.	0	0.0%	55,076	1.2%	62,510	1.3%	66,416	1.3%
Total OC	**2,087,019**	**50.0%**	**1,851,189**	**39.8%**	**2,005,997**	**42.1%**	**2,170,213**	**41.5%**
2) PE								
CFS	2,052	0.0%	2,363	0.1%	2,855	0.1%	3,364	0.1%
Parastatals	100,630	2.4%	157,845	3.4%	174,981	3.7%	194,934	3.7%
Ministries	251,010	6.0%	401,069	8.6%	467,653	9.8%	544,400	10.4%
Regions	20,343	0.5%	33,839	0.7%	39,204	0.8%	45,398	0.9%
LGAs	329,813	7.9%	565,094	12.2%	651,682	13.7%	742,843	14.2%
Subtotal	**601,166**	**14.4%**	**1,000,002**	**21.5%**	**1,158,539**	**24.3%**	**1,332,642**	**25.5%**
Total PE	**703,848**	**16.9%**	**1,160,209**	**25.0%**	**1,336,374**	**28.0%**	**1,530,939**	**29.3%**
Total Recurrent	**2,790,867**	**66.8%**	**3,011,398**	**64.8%**	**3,342,372**	**70.1%**	**3,701,152**	**70.7%**
2. Development Expenditure								
1) Local								
Ministries	358,036	8.6%	592,759	12.7%	420,291	8.8%	482,310	9.2%
Regional/LGAs	12,002	0.3%	15,289	0.3%	17,120	0.4%	19,267	0.4%
Total Local	**370,038**	**8.9%**	**608,048**	**13.1%**	**437,411**	**9.2%**	**501,577**	**9.6%**
2) Foreign								
Ministries	975,558	23.4%	1,002,657	21.6%	967,148	20.3%	1,013,711	19.4%
Regional/LGAs	39,587	0.9%	28,016	0.6%	19,322	0.4%	15,273	0.3%
Total Foreign	**1,015,145**	**24.3%**	**1,030,673**	**22.2%**	**986,470**	**20.7%**	**1,028,984**	**19.7%**
Total Development	**1,385,183**	**33.2%**	**1,638,721**	**35.2%**	**1,423,881**	**29.9%**	**1,530,561**	**29.3%**
Total Budget	**4,176,051**	**100%**	**4,650,120**	**100%**	**4,766,253**	**100%**	**5,231,713**	**100%**

/* OC for Ministries in 2005/06 includes PE (Salary Adjudtment) amounting to Tshs. 80,731.2 million

Source: Guidelines for the Preparation of Meduum Term Plan and Budget Framework for 2006/07 –2008/09, MPEE & MoF

Allocation of the development funds among governmental organizations are summarized in **Table 2.2.2**

Table 2.2.2 Summary of Development Funds for Ministries/Departments

Description	2006/2007 Approved Estimates	2007/2008 Estimate
Accountant General's Department	6,153,861,200	6,162,000,000
Ministry of Public Security and Safety	7,353,256,300	5,517,000,000
Ministry of Home Affairs-Prisons Services	5,260,001,000	4,669,000,000
President's Office and Cabinet Secretariat	34,785,998,000	69,590,206,000
Vice President's Office	8,556,794,000	13,611,700,000
President's Office-Public Service Management	49,307,558,500	27,624,847,300
Prime Minister's Office	15,092,885,400	23,832,861,500
Defence	200,000,000	203,000,000
The National Service	200,000,000	203,000,000
Judiciary	4,360,001,000	3,683,000,000
Ministry of Justice and Constitutional Affairs	11,969,140,000	12,815,409,800
Office of the Speaker	300,000,000	312,000,000
Ministry of Agriculture, Food Security and Cooperatives	45,812,449,600	60,061,912,600
Ministry of Industry and Trade	3,002,000,000	7,395,376,000
National Audit Office	2,541,000,000	2,300,000,000
Ministry of Education and Vocational Training	105,686,632,100	110,232,746,700
Ministry of Lands and Human Settlements Development	2,065,994,000	1,976,000,000
Ministry of Water	147,340,127,900	224,990,752,600
Ministry of Finance	33,764,839,000	33,708,000,000
Ministry of Home Affairs	2,266,000,000	884,000,000
Ministry of Health and Social Welfare	90,858,574,700	181,936,000,400
Ministry of Community Development, Gender and	2,121,001,000	3,860,853,000
Commission for Human Rights and Good Governance	260,000,000	119,115,000
Prime Minister's Office-Regional Administration and Local Government	144,980,264,400	27,903,339,000
Ministry of Defence and National Service	45,844,989,000	54,028,000,000
Ministry of Energy and Minerals	432,544,995,000	312,409,584,900
Industrial Court of Tanzania	706,600,000	552,370,000
Commercial Courts	233,000,000	388,000,000
Ministry of Labour, Employment and Youth Development	3,400,000,000	4,122,990,000
Ministry of Planning, Economy and Empowerment	49,556,908,300	53,709,000,000
Ministry of Higher Education, Science and Technology	42,248,945,000	47,432,389,000
Ministry of Natural Resources and Tourism	24,689,749,500	24,676,000,000
Anti-Drug Commission	-	400,000,000
TACAIDS (Tanzania Commission for AIDS)	26,036,894,000	49,632,209,000
Immigration Department	5,362,998,000	4,459,000,000
Public Service Commission	139,998,000	-
Ministry of Information, Culture and Sports	40,004,064,000	4,991,000,000
Ministry of Infrastructure Development	280,747,990,000	378,445,000,000
Ministry of Livestock Development	9,914,660,000	9,776,000,000
Total Ministries	**1,685,670,168,900**	**1,768,613,662,800**

Source: Parliament of Tanzania Web http://www.parliament.go.tz/bunge/Vol4-Min07.asp

The share of the budget for the Ministry of Infrastructure and Development is 16.6% in FY2006/07, which is the second biggest after Ministry of Energy and Minerals and is estimated 21.4%, the biggest budget share in FY2007/08.

Table 2.2.3 shows the review of the further budget allocation in the transport sector for the period 2001/02 - 2005/06 in the First Phase of the Ten Year Transport Sector Investment Program by the Ministry of Infrastructure and Development.

Table 2.2.3 Financing for transport sector 2001-2006

in TSHs million

Sub-sector	2001/02	2002/03	2003/04	2004/05	2005/06	TOTAL	Share
Roads*	154,200.00	210,610.00	218,500.00	276,030.00	359,090.00	1,218,430.00	82.1%
Railways	44,920.00	7,478.40	8,661.10	20,341.80	26,502.00	107,903.30	7.3%
Airports	1,943.10	12,826.00	11,018.20	42,925.60	3,983.50	72,696.40	4.9%
Ports	14,470.00	8,460.00	12,931.00	24,267.00	25,325.00	85,453.00	5.8%
GRAND TOTAL	**215,533.10**	**239,374.40**	**251,110.30**	**363,564.40**	**414,900.50**	**1,484,482.70**	**100%**

Source MOID
*The amount does not include what was spent on local government roads.

Road sub-sector by far plays the major role in terms of budgeting for the transport sector.

(2) Dar es Salaam City Council

There are three municipal councils in the Dar es Salaam City and each council is an autonomous municipality. Mayor and Councillors are democratically elected, while the Municipality Director is appointed by the Minister responsible for Local Governments and the City Director is appointed by the President of United Republic of Tanzania.

One of the key functions of the council is to attain a revenue level which matches the cost levels in service delivery. **Table 2.2.4** shows the major income source and its trend of collection.

Table 2.2.4 Dar es Salaam City Council Revenue Collections during 2000 - 2002

No	Source	2000	2001	2002
1	Development Levy	1,425,596,350.00	1,768,869,180.00	1,786,080,860.00
2	Bus Stand Fees	314,482,230.00	454,111,094.00	479,127,957.00
3	Parking Fees	151,048,210.00	185,781,237.80	159,209,200.75
4	City Service Levy	106,143,976.00	137,749,739.00	89,436,579.59
5	Dividends from Shares	81,630,000.00	150,100,000.00	232,867,500.00
6	Hiring of City Buildings and Conferences	10,944,500.00	29,248,000.00	19,742,500.00
7	Solid Waste Disposal	47,570,977.00	80,226,796.00	83,831,668.75
8	City Bus Licensing Fees	71,231,412.72	82,909,408.00	724,940.00
9	Hiring of Plants and Vehicles	14,669,783.48	29,702,350.00	33,777,000.00
10	Others	172,589,175.60	140,573,984.20	126,925,161.00
	Total	2,395,906,614.80	3,059,271,789.00	3,011,723,367.09

Source: City Treasure, Five Year Strategic Plan for Year 2004/05 - 2008/09, Dar es Salaam City Council

The Development Levy, which share is approximately 60% of the total revenue, has replaced by the Local government Reform Programme of the central government.

Local Governments have the mandate to raise certain revenues from taxes, levies and fees. The local governments set their own revenues policy within the limits set by the central government. They retain all their revenue and use it as part of their own budgets – these revenues do not form part of the central government revenue. The taxes, levies, fees are revenue sources which local governments are mandated to raise under the Local Government Finances Act are as follows[2]:

- Taxes on Property
- Taxes on Goods and Services
  Crop cess and Forest produce cess
- Taxes on Specific Services
  Guest House Levy
- Business and Professional Licences
  Commercial fishing license fees
  Intoxicating liquor license fee
  Private health facility license fee
  Taxi license fee
  Playing permit fees
  Other business licenses fees
- Motor Vehicles, Other Equipment and Ferry Licences
  Vehicle license fees
  Fishing vessel license fees
- Other Taxes on the Use of Goods, Permission to Use Goods
  Forest produce license fees
  Building materials extraction license fee
  Hunting licenses fees
  Muzzle loading guns license fees
  Scaffolding / Hoarding permit fees
- Turnover Taxes
  Service levy
- Entreneurial and Property Income
  Dividends
  Other Domestic Property Income
  Interest
  Land rent
- Administrative Fees and Charges

Local Governments are not allowed to levy and taxes, levies or fees which are not on this list.

(3) Municipalities of Dar es Salaam

Tables 2.2.5, **2.2.6** and **2.2.7** show budget framework of the three municipalities in Dar es Salaam City. The budget shares for transportation, which is in the Work expenditure, are relatively small.

[2] Local Revenues, Ministry of Finance web-site at http://www.mof.go.tz

The three municipal councils are responsible for primary education and partly secondary education, where the community is mainly involved, primary health care, city waste management and cleanliness, District roads, water supply, trade and informal sector development, forestry, fisheries, wildlife and parks. The Dar es Salaam City Council (DCC) performs a coordinating role and is responsible for cross-municipal issues. DCC is responsible for urban planning, protocol services, and public bus services terminal for up-country and neighbouring countries, city bus services, road services within the city, fire and rescue services, sanitary land fill site management, legal services, Kariakoo market services and Benjamin Mkapa High School.

Table 2.2.5-1 Ilala Municipal Council's Annual Budget Framework 2005-2006

Revenue	Estimate	Actual	Percentage
Own Source	7,190,000,000.00	7,036,500,619.00	97.9%
Government Fund	9,077,137,000.00	7,686,418,233.60	84.7%
Total	**16,267,137,000.00**	**14,722,918,852.60**	**90.5%**
Expenditure	**Annual Approved Expenditure**	**Actual Expenditure**	**Variance**
Administration	5,016,524,234.48	5,429,209,022.16	-412,684,787.68
Finance	444,146,228.37	372,601,508.97	71,544,719.40
Urban Planning and Monitoring	1,120,849,732.92	829,447,372.77	291,402,360.15
Rural Development	74,431,762.32	33,430,394.89	41,001,367.43
Water Supply	60,071,883.00	46,690,626.05	13,381,256.95
Works	570,067,390.04	376,939,254.51	193,128,135.53
Education	5,204,746,272.88	5,208,118,350.14	-3,372,077.26
Health	1,373,392,559.06	1,310,623,177.82	62,769,381.24
Trade & Informal Sector	99,720,172.00	87,020,990.66	12,699,181.34
Waste Management	658,178,520.51	643,776,231.29	14,402,289.22
Total	**14,034,557,930.00**	**13,901,948,235.80**	**132,609,694.20**

Source: Medium Term Plan and Expenditure Framework for the Year 2007/08 - 2009/10, Ilala Municipal Council

Table 2.2.5-2 Ilala Municipal Council's Annual Budget Framework 2006-2007

Revenue	Estimate	Actual	Percentage
Own Source	8,000,000,000.00	5,470,928,688.00	68.4%
Government Fund	13,557,491,200.00	8,597,837,002.00	63.4%
Sub-Total	**21,557,491,200.00**	**14,068,765,690.00**	**65.3%**
Expenditure	**Annual Approved Expenditure**	**Actual Expenditure July - December 2006**	**Variance**
Administration	5,912,621,718.00	3,146,784,790.00	2,765,836,928.00
Finance and Trade	636,180,280.00	273,385,372.80	362,794,907.20
Town Planning and Settlement	864,790,502.00	139,540,181.80	725,250,320.20
Waste Management	822,863,132.00	549,918,339.10	272,944,792.90
Water and Works	716,666,943.00	337,538,615.60	379,128,327.40
Economic Development and Social Welfare	519,534,741.00	129,290,607.50	390,244,133.50
Education	5,953,434,200.00	4,228,005,995.00	1,725,428,205.00
Health	2,788,670,978.00	1,767,622,034.00	1,021,048,944.00
Sub-Total	**18,214,762,494.00**	**10,572,085,935.80**	**7,642,676,558.20**

Source: Medium Term Plan and Expenditure Framework for the Year 2007/08 - 2009/10, Ilala Municipal Council

Table 2.2.6 Kinondoni Municipal Council's Annual Budget Framework

SOURCE OF FUNDS	APPROVED REVENUE	ACTUAL
Personal Emoluments (PE)	7,587,142,894.00	7,626,118,903.63
Education Block Grant	1,065,468,135.69	632,637,100.00
Capitation	1,020,574,000.00	1,500,234,615.00
Health Block Grant	784,343,925.38	517,938,800.00
Basket Fund	620,470,000.00	620,473,490.00
Roads Block Grant	129,080,496.00	1,037,697,737.58
Water Block Grant	229,474,092.93	296,744,800.00
Agriculture Block Grant	28,776,493.96	36,892,400.00
Capacity Building	67,577,700.00	70,400,000.00
LGDG	143,713,200.00	143,713,200.00
Donors	3,174,699,140.00	1,477,083,321.22
MSD	86,500,000.00	1,391,400.00
Community Contribution	239,009,942.00	12,844,000.00
TOTAL FUNDS:	**21,082,235,319.96**	**19,497,891,155.01**

Source: Medium Term Plan and Expenditure Framework for the Year 2007/08 - 2009/10, Kinondoni Municipal Council

Table 2.2.7-1 Temeke Municipal Council's Annual Performance Review 2005/2006

Sector		Approved Budget	Acctual Released	Actual Expenditure
Agriculture	P.E.	0.00	0.00	0.00
	O.C.	17,746,600.00	14,580,100.00	7,120,310.07
	DEV.	10,000,000.00	10,000,000.00	7,700,000.00
Sub-Total		**27,746,600.00**	**24,580,100.00**	**14,820,310.07**
Health	P.E.	1,068,222,300.00	1,054,125,200.00	1,054,125,200.00
	O.C.	322,569,700.00	284,835,028.00	320,346,600.00
	DEV.	15,011,700.00	30,000,000.00	15,011,000.00
Sub-Total		**1,405,803,700.00**	**1,368,960,228.00**	**1,389,482,800.00**
Education	P.E.	4,335,948,300.00	4,750,231,249.00	4,750,231,249.00
	O.C.	974,759,600.00	770,997,200.00	814,685,343.00
	DEV.	47,140,000.00	48,000,000.00	44,870,000.00
Sub-Total		**5,357,847,900.00**	**5,569,228,449.00**	**5,609,786,592.00**
Works/Roads	P.E.	29,341,800.00	27,825,678.39	27,825,678.39
	O.C.	7,865,200.00	6,059,400.00	10,012,110.00
	DEV.	0.00	0.00	0.00
Sub-Total		**37,207,000.00**	**33,885,078.39**	**37,837,788.39**
Water	P.E.	31,434,800.00	30,989,657.67	30,989,657.67
	O.C.	51,859,900.00	39,179,900.00	23,079,453.85
	DEV.	10,000,000.00	30,000,000.00	10,000,000.00
Sub-Total		**93,294,700.00**	**100,169,557.67**	**64,069,111.52**
Administration	P.E.	580,275,467.00	528,053,183.32	528,053,183.32
	O.C.	1,319,807,000.00	1,316,996,400.00	1,316,996,400.00
	DEV.	0.00	0.00	0.00
Sub-Total		**1,900,082,467.00**	**1,845,049,583.32**	**1,845,049,583.32**
Gramd Total		**8,821,982,367.00**	**8,941,872,996.38**	**8,961,046,185.30**

Source: Medium Term Plan and Expenditure Framework for the Year 2007/08 - 2009/10, Temeke Municipal Council

Table 2.2.7-2 Temeke Municipal Council's Annual Performance Review 2006/2007

Sector		Approved Budget	Acctual Released	Actual Expenditure	Balance
Agriculture	P.E.	0.00	0.00	0.00	0.00
	O.C.	18,000,000.00	7,500,000.00	7,120,103.00	379,897.00
	DEV.	14,600,000.00	14,600,000.00	0.00	14,600,000.00
Sub-Total		**32,600,000.00**	**22,100,000.00**	**7,120,103.00**	**14,979,897.00**
Health	P.E.	2,822,211,914.00	1,310,562,531.00	1,310,057,225.71	505,305.29
	O.C.	322,000,000.00	127,148,000.00	143,693,500.05	-16,545,500.05
	DEV.	44,000,000.00	44,000,000.00	44,000,000.00	0.00
Sub-Total		**3,188,211,914.00**	**1,481,710,531.00**	**1,497,750,725.76**	**-16,040,194.76**
Education	P.E.	4,738,286,600.00	3,760,271,253.00	3,752,171,959.00	8,099,294.00
	O.C.	989,000,000.00	495,962,000.00	437,030,321.00	58,931,679.00
	DEV.	31,000,000.00	15,200,000.00	15,200,000.00	0.00
Sub-Total		**5,758,286,600.00**	**4,271,433,253.00**	**4,204,402,280.00**	**67,030,973.00**
Works	P.E.	31,914,300.00	27,999,297.75	27,999,297.75	0.00
	O.C.	8,000,000.00	2,667,000.00	2,074,220.00	592,780.00
	DEV.	0.00	0.00	0.00	0.00
Sub-Total		**39,914,300.00**	**30,666,297.75**	**30,073,517.75**	**592,780.00**
Water	P.E.	31,218,400.00	20,292,970.00	20,292,879.33	90.67
	O.C.	52,000,000.00	17,333,000.00	6,900,606.00	10,432,394.00
	DEV.	13,000,000.00	13,000,000.00	0.00	13,000,000.00
Sub-Total		**96,218,400.00**	**50,625,970.00**	**27,193,485.33**	**23,432,484.67**
GS 2 & Above	P.E.	4,992,769,300.00	458,711,420.12	458,629,410.12	82,010.00
	O.C.	1,320,000,000.00	556,938,900.00	556,938,900.00	0.00
	DEV.	2,000,000.00	2,000,000.00	0.00	2,000,000.00
Sub-Total		**6,314,769,300.00**	**1,017,650,320.12**	**1,015,568,310.12**	**2,082,010.00**
Gramd Total		**15,430,000,514.00**	**6,874,186,371.87**	**6,782,108,421.96**	**92,077,949.91**

Source: Medium Term Plan and Expenditure Framework for the Year 2007/08 - 2009/10, Temeke Municipal Council

(4) Taxes and Levies

As mentioned, domestic revenues mainly come from tax and non-tax domestic sources as follows:

- Tax revenue
- Customs duty
- VAT (Value Added Tax)
- Excise Duty (Imports and local)
- Income tax
- Non-tax revenue
- User charges
- Dividends

Income tax

Income tax is a tax on gains and profits from business, employment and investment of individuals, corporations and other entities. Corporations pay 30% of their profits, while individuals pay different rates on different parts of their parts of their income.

VAT

VAT is a consumption tax, which is paid by the consumer at a rate of 20% of the value of the product bought.

Import Duty

From the 1st January 2005, the East African Community Customs Union came into force for Tanzania, Kenya and Uganda. The implications of this are:

- A common external tariff in respect of all goods imported into Tanzania, Kenya and Uganda from foreign countries has been established
- Customs duties and other charges of equivalent effect imposed on imports from other partner states shall be eliminated.
- Non-tariff barriers to trade between the partner states shall be removed. A non-tariff barrier means any measures, other than an import duty or tariff, which would restrict trade flows.
- The harmonisation of the Customs Union's management and procedures. The aim of the EAC Customs Union is to create one single customs territory.

Other TRA Taxes

As well as Income Tax, VAT and Import Duties, a number of other taxes are also collected by the TRA, which include following:

- Excise Duty
- Soft Drinks
- Alcoholic beverages
- Tobacco products
- Petroleum products
- Communications services (Mobile phone services and Pay-to-view satellite TV services)
- Vehicles
- Plastic bags
- Fuel Levy (additional special purpose tax on fuel for the purpose of road rehabilitation and maintenance)
- Stamp duty
- Skills development levy

(5) Changes in the rate of Taxes and Levies in FY 2007/08 Budget

The government budget (revenue and expenditure) for FY2007/08 is set in force on the 1st of July and it is expected that the road related fund will be increased accordingly.

Salient Features of the 2007/08 Budget

(i) The Transport Sector Investment Programme requires 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.

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

2.3 Expenditure

Public expenditure policy in Tanzania is largely guided by a participative process called the Public Expenditure Review (PER). PER has been an ongoing process since fiscal year 1998/99 and includes stakeholders from: the Ministry of Finance, President's Office for Planning and Privatisation, Public Service Management and Regional Administration and Local Government, sector Ministries, TRA, Bank of Tanzania, research institutions, development partners and civil society.

The proposed investment for the period FY 2007/08-2011/12 in TSIP will include development projects and maintenance of trunk, regional, district, feeder, urban and community roads, and Institutional Development and Capacity Building. Projects considered for the program include all ongoing projects. The cost for components of the Transport Sector Investment Programme (TSIP) First Phase running from 2007/08 – 2011/12 are summarized in **Table 2.3.1**.

Table 2.3.1 Summary of the Transport Sector Investment Requirement (USD million) Phase 1 of the TSIP

SN	PROGRAMME COMPONENT	FY 2007/08	FY 2008/09	FY 2009/10	FY 20010/11	FY 20011/12	TOTAL
1	Roads	543.33	617.54	718.04	746.41	662.87	3,291.18
	TANROADS	*509.81*	*570.04*	*654.00*	*666.46*	*569.73*	*2,973.04*
	PMO-RALG	*33.52*	*47.50*	*64.04*	*79.94*	*93.15*	*318.15*
2	Air Transport	39.05	47.21	86.93	71.2	59.95	284.34
3	Railways	88.18	121.4	152.6	193.02	207.61	763.35
4	Maritime Transport	82.25	107.55	77.23	87.28	83.43	437.74
5	Institutional Support	28.47	33.91	30.55	30.84	33.31	157.57
6	Cross Cutting Issues	10.7	10.7	10.7	10.7	10.7	53.5
GRAND TOTAL		**791.98**	**938.31**	**1,076.05**	**1,139.45**	**1,057.87**	**4,986.68**

Source: MID

As the table explains, majority of the expenditure on the transport sector is provided to Road sector, especially to the TANROADS (Tanzania National Roads Agency). TANROADS is the executing agency for national roads administration, while three municipalities, Ilala, Temeke and Kinondoni, are for regional road administration. As a road administration body, TANROADS is to prepare guidelines, standards and specifications for road works for development and maintenance. **Table 2.3.2** shows the summary of constrained budget of TANROADS for development and maintenance for FY2007/08.

Table 2.3.2-1 Summary of Constrained Development Budget for FY 2007/08 - Dar es Salaam Region

A) Trunk Roads

Activity	Physical			Financial (TSHs million)		
	Unit	Length /No	Target (Km)	Roads Fund	Foreign	Total Estimates
Relocation of public utilities & clearance of road reserve along Kilwa Road	Km	16.00	12.00	3,300.00	0.00	3,300.00
Relocation of public utilities & clearance of road reserve along Mandela Road	Km	16.50	16.50	350.00	0.00	350.00
Design of DSM Ring Roads	Km	30.00	30.00	100.00	0.00	100.00
Improvement of drainage system at Kiuta area along Nyerere Road	Km	2.00	0.70	400.00	0.00	400.00
Construction of paved drains along New Bagamoyo Road (Tegeta – Mpiji Bridge Section)	Km	14.00	2.00	125.00	0.00	125.00
Pavement overlay along Nyerere Road (Tazara – Dia1)	Km	12.50	2.00	600.00	0.00	600.00
Construction of service roads along Nyerere Road	Km	12.50	1.50	450.00	0.00	450.00
Subtotal Trunk Roads	Km	103.50	64.70	5,325.00	0.00	5,325.00
	No					

B) Regional Roads

Maintenance Activity	Physical			Financial (TSHs million)		
	Unit	Length /No	Target (Km)	Roads Fund	Foreign	Total Estimates
Chanika – Mvuti (DSD)	Km	19.50	2.00	500.00	0.00	500.00
Kimbiji – Tundwi Songani	Km	13.60	5.00	100.00	0.00	100.00
Mombasa – Msongola (Gravel)	Km	13.50	5.00	250.00	0.00	250.00
Kibamba – Kwembe – Makondeko	Km	17.20	4.00	120.00	0.00	120.00
Kigogo – Mabibo – Kirungule – Kimara (Feasibility Study & Design)	Km	14.70	14.70	50.00	0.00	50.00
Subtotal Trunk Roads	Km	78.50	30.70	1,020.00	0.00	1,020.00
	No					
Grand Total		182.00	95.40	6,345.000	0.00	6,345.00

Source: Proposed Budget for Development of Trunk & Regional Roads FY 2007/08 - Dar es Salaam Region, Regional Manager's Office, February 2007

Table 2.3.2-2 Summary of Constrained Maintenance Budget for FY 2007/08 - Dar es Salaam Region

A) Trunk Roads

Maintenance Activity	Unit	Physical		Financial (TSHs million)		
		Inv. Length	Target Length	Roads Fund	Foreign	Total
Routine & Recurrent – Paved	Km	120.40	115.10	245.37	0.00	245.37
Routine & Recurrent – Unpaved	Km	21.30	15.00	20.59	0.00	20.59
Periodic Maintenance – Paved	Km	34.18	5.10	1,108.00	0.00	1,108.00
Periodic Maintenance – Unpaved	Km	0.00	0.00	0.00	0.00	0.00
Spot Improvement – Paved	Km	7.00	5.00	100.00	0.00	100.00
Spot Improvement – Unpaved	Km	0.00	0.00	0.00	0.00	0.00
Bridge Preventive Maintenance	No	34	14	21.00	0.00	21.00
Bridge Major Repairs	No	34	2	95.00	0.00	95.00
Backlog Maintenance	Km	0.00	0.00	0.00	0.00	0.00
Subtotal Trunk Roads	Km	182.88	140.20	1,589.96	0.00	1,589.96
	No	34	16			

B) Regional Roads

Maintenance Activity	Unit	Physical		Financial (TSHs million)		
		Inv. Length	Target Length	Roads Fund	Foreign	Total
Routine & Recurrent – Paved	Km	126.10	126.36	59.10	0.00	59.10
Routine & Recurrent – Unpaved	Km	354.70	354.86	217.02	0.00	217.02
Periodic Maintenance – Paved	Km	81.06	9.70	987.30	0.00	987.30
Periodic Maintenance – Unpaved	Km	119.30	12.50	1,002.21	0.00	1,002.21
Spot Improvement – Paved	Km	0.90	1.00	40.00	0.00	40.00
Spot Improvement – Unpaved	Km	17.40	2.20	33.49	0.00	33.49
Bridge Preventive Maintenance	No	60	60	21.60	0.00	21.60
Bridge Major Repairs	No	0	3	857.00	0.00	857.00
Backlog Maintenance	Km		0.00	0.00	0.00	0.00
New Technology	Km	0.00	1.50	375.00	0.00	375.00
Subtotal Trunk Roads	Km	699.46	506.62	3,592.72	0.00	3,592.72
	No	60	63			
Grand Total				5,182.683	0.00	5,182.68

Source: Proposed Budget for Development of Trunk & Regional Roads FY 2007/08 - Dar es Salaam Region, Regional Manager's Office, February 2007

Due to lack of sufficient budget TANROADS could execute approximately 24% of required maintenance work for trunk roads and 44% of regional roads, in total 35% of required maintenance work for the FY2007/2008. Approved budget of TANROADS for FY 2007/08 is approximately 77% of planned development work for trunk roads, 44% of that for regional roads and 69% of planned work in total. **Table 2.3.3** shows the summary of unconstrained budget of TANROADS for development and maintenance for FY2007/08.

Table 2.3.3-1 Summary of Unconstrained Development Budget for FY 2007/08 - Dar es Salaam Region

A) Trunk Roads

Activity	Physical			Financial (TSHs million)		
	Unit	Length /No	Target (Km)	Roads Fund	Foreign	Total Estimates
Relocation of public utilities & clearance of road reserve along Kilwa Road	Km	16.00	12.00	3,300.00	0.00	3,300.00
Relocation of public utilities & clearance of road reserve along Mandela Road	Km	16.50	16.50	350.00	0.00	350.00
Design of DSM Ring Roads	Km	30.00	30.00	150.00	0.00	150.00
Improvement of drainage system at Kiuta area along Nyerere Road	Km	2.00	2.00	1,109.00	0.00	1,109.00
Construction of paved drains along New Bagamoyo Road (Tegeta – Mpiji Bridge Section)	Km	14.00	2.00	250.00	0.00	250.00
Pavement overlay along Nyerere Road (Tazara – Dia1)	Km	12.50	3.00	900.00	0.00	900.00
Construction of service roads along Nyerere Road	Km	12.50	2.85	855.00	0.00	855.00
Subtotal Trunk Roads	Km	103.50	68.35	6,914.00	0.00	6,914.00
	No					

B) Regional Roads

Maintenance Activity	Physical			Financial (TSHs million)		
	Unit	Length /No	Target (Km)	Roads Fund	Foreign	Total Estimates
Chanika – Mvuti (DSD)	Km	19.50	3.00	900.00	0.00	900.00
Kimbiji – Tundwi Songani	Km	13.60	7.00	350.00	0.00	350.00
Mombasa – Msongola (Gravel)	Km	13.50	7.00	450.00	0.00	450.00
Kibamba – Kwembe – Makondeko	Km	17.20	7.00	350.00	0.00	350.00
Kibamba – Tungi – Vijibweni	Km	6.50	3.00	150.00	0.00	150.00
Kigogo – Mabibo – Kirungule – Kimara (Feasibility Study & Design)	Km	14.70	14.70	100.00	0.00	100.00
Subtotal Trunk Roads	Km	85.00	41.70	2,300.00	0.00	2,300.00
	No					
Grand Total		188.50	110.05	9,214.000	0.00	9,214.00

Source: Proposed Budget for Development of Trunk & Regional Roads FY 2007/08 - Dar es Salaam Region, Regional Manager's Office, February 2007

Table 2.3.3-2 Summary of Unconstrained Maintenance Budget for FY 2007/08 - Dar es Salaam Region

A) Trunk Roads

Maintenance Activity	Unit	Physical		Financial (TSHs million)		
		Inv. Length	Target Length	Roads Fund	Foreign	Total
Routine & Recurrent – Paved	Km	120.40	115.10	556.57	0.00	556.57
Routine & Recurrent – Unpaved	Km	21.30	21.30	31.95	0.00	31.95
Periodic Maintenance – Paved	Km	34.18	34.18	5,674.35	0.00	5,674.35
Periodic Maintenance – Unpaved	Km	0.00	0.00	0.00	0.00	0.00
Spot Improvement – Paved	Km	7.00	7.00	150.00	0.00	150.00
Spot Improvement – Unpaved	Km	0.00	0.00	0.00	0.00	0.00
Bridge Preventive Maintenance	No	34	18	27.00	0.00	27.00
Bridge Major Repairs	No	34	3	130.00	0.00	130.00
Backlog Maintenance	Km	0.00	0.00	0.00	0.00	0.00
Subtotal Trunk Roads	Km	182.88	177.58	6,569.87	0.00	6,569.87
	No	34	21			

B) Regional Roads

Maintenance Activity	Unit	Physical		Financial (TSHs million)		
		Inv. Length	Target Length	Roads Fund	Foreign	Total
Routine & Recurrent – Paved	Km	126.10	126.10	389.83	0.00	389.83
Routine & Recurrent – Unpaved	Km	354.70	354.70	613.38	0.00	613.38
Periodic Maintenance – Paved	Km	81.06	81.06	5,182.26	0.00	5,182.26
Periodic Maintenance – Unpaved	Km	119.30	119.30	686.68	0.00	686.68
Spot Improvement – Paved	Km	0.90	0.90	18.00	0.00	18.00
Spot Improvement – Unpaved	Km	17.40	17.40	299.05	0.00	299.05
Bridge Preventive Maintenance	No	60	60	21.60	0.00	21.60
Bridge Major Repairs	No	0	3	857.00	0.00	857.00
Backlog Maintenance	Km		0.00	0.00	0.00	0.00
Subtotal Trunk Roads	Km	699.46	699.46	8,067.80	0.00	8,067.80
	No	60	63			
Grand Total				14,637.676	0.00	14,637.68

Chapter 3 External Sources

This chapter presents the review and the prospect of the financial information specific to the sources other than that from domestic revenue. Tanzania is on the way of restructuring the debt under the Heavily Indebted Poor Country (HIPC) initiative; therefore, searching for the possible external sources for transportation projects is required to take into consideration about this issue. There is a potential in the use of property in Tanzania for bore efficient utilization such as the funding source, thus more chance of tax revenue from the property. In this regard, this chapter starts with the analysis of the current taxation system in Tanzania followed by the introduction of proposed schemes that do not require increase of tax rates.

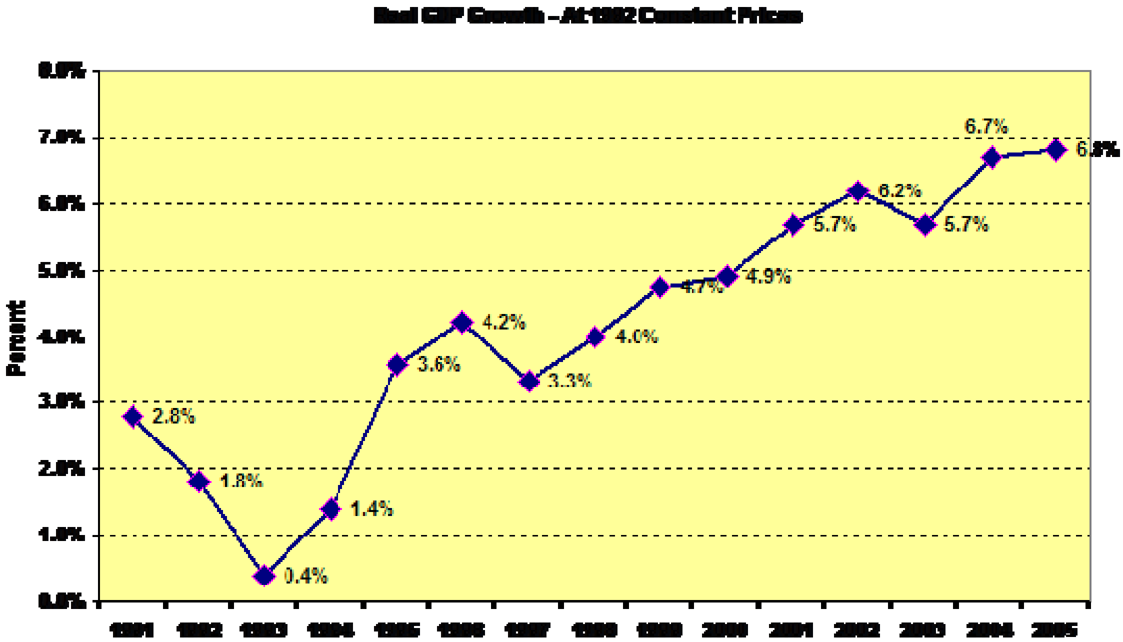
3.1 External Sources

To achieve the transport sector physical infrastructure development, maintenance and institutional development programmes set in the First Phase of the TSIP (2007/08-2011/12 – **Table 2.3.1**), about USD 4,986.68 million have been estimated out of which USD 2,475.17 million or 49.6% has already been committed or secured. Therefore the identified funding gap in this programme is about USD 2,511.51 million or about 50.4%. The financing gap will be bridged by Government revenues, donor assistance, loans from financial institutions and the private sector. The financing of TSIP will enable the attainment of the MDGs, National Vision 2025, MKUKUTA and the National Transport Policy.

External debt is the outstanding amount of current and not contingent liabilities that require payments of interest and/or principal by the borrower at some points. This definition excludes equity, shares and financial derivatives, as these do not require payment of interest and principal. In the 1980s, Tanzania was in a situation of unsustainable debt and so had to ask for restructuring. It entered the Heavily Indebted Poor Country (HIPC) initiative. Under the HIPC initiative, Tanzania passed to decision point in 1999 and completion point in November 2001. In the fiscal year 2005/06, external debt stands for 41% of the total income source of the national budget (refer to Chapter 2 and **Table 2.2.1**).

Many economic indicators show Tanzania's good economic performance in the recent years. Despite 2006 drought with negative impacts on agriculture growth and electricity generation, Tanzania's economic performance continues to be strong. Since 2000, Tanzania's real GDP has grown at an annual rate of about 6.3 percent. A drought in early 2006 reduced growth of agriculture to about 3.7

percent from 5.2 percent in 2005. It also influenced industry and the service sector, with growth in the manufacturing sector slowing down to 7.5 percent in 2006 compared to 9 percent in 2005. Growth has picked up recently and is expected to be near 7 percent in 2007.



Source: National Bureau of Statistics

Figure 3.1.1 Real GDP Growth at 1992 constant prices

Borrowing capacity is one indicator of the state's economic performance. Countries without certain economic infrastructure find difficulty in getting external loans even if their debt capacity ratio is positive. However, balancing the amount of debt and development is another issue. Lenders do not necessarily always pay sufficient attention to keep good balance for the debtor nations, which might bring a risk to a country to fall into a serious debtor situation. Good governance could be one of the key issues for additional loans, grants and the improvement in balancing debt and development. According to the recent African Governance Ranking conducted by a team of Ibrahim Foundation headed by Professor Robert Rotberg, Tanzania received a fairly good ranking among 48 African countries[1]. This information about good governance is apparently a favourable sign for the country's future.

Recent information about the government's talk to creditor countries on debt relief is a good suggestion. According to the latest information, the government has agreed with Russia and Iran for the debt relief based on property treatment[2]. Property is the asset, which could utilize as funding source and this issue will be discussed further later in this report.

Overall projected resources for the implementation of MUKUKUTA (NSGRSP) is based on the Medium Term Plan and Budget Framework for 2005/06 – 2007/08 while ensuring consistency with macroeconomic targets. The Budget Frame work estimated donor contributions based on historical

[1] Source: African Governance Ranking, African Business magazine, November 2007
[2] Source: Articles in Citizens newspaper on December 1st, 2007

trends and will be updated as donor pledges and commitments, submitted to the government. Total external support including HIPC relief is projected to decline from 14% of GDP in 2004/05 to 11% in 2007/08 in line with indicative figures of donor support[3]. **Table 3.1.2** shows the Budget Framework (2004/04 – 2007/08) of Tanzania in resources.

Table 3.1.1 Budget Framework (2004/05 - 2007/08) of Tanzania

(Unit: Tsh Million)

	2004/05 Ceilings	2005/06 Projections	2006/07 Projections	2007/08 Projections
I. TOTAL RESOURCES	**3,347,539**	**4,103,144**	**4,355,669**	**4,561,157**
Domestic revenue	1,739,288	1,983,125	2,261,168	2,580,582
Programme loan and grants	434,476	822,358	834,392	846,603
Project loans and grants	587,441	788,135	819,840	831,837
Basket Support Loans	109,956	73,281	66,801	2,799
Basket Support Grants	160,488	199,305	197,024	164,680
HIPC relief IDA, IMF and ADB	74,664	111,503	98,669	103,454
Non Bank Borrowing	0	0	0	0
Bank Borrow ing	231,111	115,018	77,774	31,201
Adjustment to cash	0	0	0	0
Privatisation Funds	10,115	10,420	0	0

Source: MUKUKUTA (NSGRP), Ministry of Finance

It is important for Tanzania to seek possible external sources of funding without increasing the debt and in this contest invitation of private investors is important. MUKUKUTA also clearly describe this importance as "the public sector will play a critical role in the implementation of the strategy to invigorate the participation of the private sector – the engine of growth". To invite private investment, it is necessary for the project to be profitable or there should be supporting schemes in the project that reduce the risk of private investors. PPP is, of course, important source and necessary implementation of prerequisite condition for PPP is required to be prepared by the public assistance to attract potential private investors.

For this purpose the Government is currently making substantial efforts to establish the Public-Private Partnerships (PPPs) policy and legal framework for the entire sector with the assistance of the World Bank. The development of a PPP framework will assist to eliminate constrains to private investment in infrastructure as follows:

- An inappropriate enabling environment;
- The high project development cost;
- High and uninsurable country risks;
- The need for subsidies for the project to be financially viable; and

[3] Chapter VIII: NSGRP Financial Strategy, MUKUKUTA, Ministry of Finance

- The need to strengthen public capacity to negotiate and implement private infrastructure projects

Technically, the entire road network qualifies for PPP in some scheme though limited resources exist in practice to accomplish the scheme. However, according to the study report by PPIAF of the World Bank[4], the potential of PPP project in the road sector in Tanzania is considered be the road with over 5000 ADT, average daily traffic, which share in total main road network in length is 1.3%. Recent increase in fuel levy, 200 Tsh per litter, may improve the funding gap for maintenance and will increase the opportunities for maintenance contracts and concessions.

[4] Draft Report, Design of A Specific Policy and Legal, Regulatory and Institutional Framework for Public-Private Partnerships (PPP) in The Road Sector in Tanzania

Chapter 4 Revenue and Expenditure Forecast

This chapter presents the financial prospects in the transport sector based on the information on revenue and expenditure analyzed in the previous chapters. Forecast is based on the passed trend and the present forecast and do not include potential revenue schemes, which will be presented in the following chapter.

4.1 National Mid-Term Plan and Budget Framework

Medium Term Plan and Budget Framework and Transport Sector Investment Programme (TSIP) clearly reflect the government policy to place priority on the development of transport infrastructure.

Adequate transport infrastructure and services are key factors in Tanzania's efforts to promote growth and reduce poverty, as described in the MKUKUTA - the National Strategy for Growth and Reduction of Poverty (June 2005). The MKUKUTA gives emphasis to increasing accessibility to economic and social services. This not only promotes economic growth, but also improves the physical links between people and services. This can lead to a direct improvement in well being of the people through better access to health, education and other economic services. In rural areas, the MKUKUTA emphasizes agricultural development, because agriculture remains the dominant sector in the economy. It accounts for over 48% of the Gross Domestic Product; 80% of employment and 55% of total foreign exchange earnings of the country. However, the agricultural sector is characterized by low productivity. As the majority of poor people lives in the periphery areas of the country in the rural areas and is engaged in agriculture, unlocking the country's potential for rural development is seen as the key to making a substantial impact on poverty reduction.[1]

As the national transport policy, TSIP also mentions that maintenance has priority above improvement. For this purpose, the national budget for 2007/08 has increased the road related funds, Excise duty on petrol and diesel, Fuel levy and Motor vehicle registration and transfer tax. However, soon after the implementation of the revised rate, the arguments for increase of bus fare and the worries for inflation started to occur. This issue needs be carefully watched.

[1] 10 YEAR TRANSPORT SECTOR INVESTMENT PROGRAMME (TSIP) PHASE I 2007/08 – 2011/12, Jan 2007, Ministry of Infrastructure Development

Some of the operational targets for promoting sustainable and broad-based growth in MUKUKUTA (NSGRP) are:

- Accelerated GDP growth rated to attain a growth rate of 6-8% per annum by 2010
- Increased growth of manufacturing sector from 8.6% to 15% by 2010
- Increased agricultural growth from 5% in 2002/2003 to 10% by 2010
- Scaled up participation of the informal sector and SMEs (including cooperatives)
- Increased export promotion of value added minerals from the current 0.5% to 3.0% by 2010

The Central Government has two primary budget resources, which are domestic revenue and external assistance. Domestic revenue accounted for half of the central government total revenue in 2005/06, and tax revenue is the major source. Tax revenues are collected by the Tanzania Revenue Authority (TRA), an executive agency under the Ministry of Finance that was established in 1996. The TRA is mandated to collect major taxes including Income Tax, VAT, Import Duty and Excise Duty. Non-Tax Revenue, which accounted for 8% of the total central government revenues in 2003/04, comprised of fees, levies and dividends etc. and is collected by the Ministry of Finance and other Central Government Ministries.

External Assistance is the second major avenue of resources for the Central Government's budget, which accounted for approximately 41% of the Government's resource envelop. The overall strategy guiding effective management of external assistance is outlined in the Tanzania Assistance Strategy (TAS). **Table 4.1.1** shows the budget allocations in the Mid Term Plan and Budget Framework.

Table 4.1.1 Proposed Budget Allocations in Medium Term Plan and Budget Framework

Tshs. million

	2005/06		2006/7		2007/08		2008/09	
A. Resource Envelope	**4,176,051**	100%	**4,650,120**	100%	**4,766,253**	100%	**5,231,713**	100%
Domestic revenue	2,066,752	49.5%	2,356,097	50.7%	2,673,861	56.1%	3,074,941	58.8%
Programme loan and grants	616,165	14.8%	693,012	14.9%	758,049	15.9%	804,549	15.4%
Project loans and grants	682,557	16.3%	749,998	16.1%	800,578	16.8%	859,726	16.4%
Basket Support Loans	101,291	2.4%	105,651	2.3%	59,283	1.2%	60,131	1.1%
Basket Support Grants	231,297	5.5%	175,025	3.8%	126,609	2.7%	109,126	2.1%
HIPC Debt relief－Multi lateral	93,600	2.2%	73,000	1.6%	95,000	2.0%	95,000	1.8%
MDRI （IMF）	0	0.0%	328,860	7.1%	19,780	0.4%	0	0.0%
Non Bank Borrowing	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Bank Borrowing	259,225	6.2%	163,478	3.5%	231,093	4.8%	228,239	4.4%
Adjustment to cash	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Privatisation Funds	10,420	0.2%	5,000	0.1%	2,000	0.0%	0	0.0%
Infrastructure Bond	114744	2.7%	0	0.0%	0	0.0%	0	0.0%
B. Expenditure Allocations								
1. Recurrent Expenditure								
1) Other Charges								
CFS	526,092	12.6%	268,895	5.8%	375,282	7.9%	447,772	8.6%
Ministries /*	1,389,143	33.3%	1,353,939	29.1%	1,382,009	29.0%	1,455,826	27.8%
Subtotal	**1,915,235**	**45.9%**	**1622834**	**34.9%**	**1,757,291**	**36.9%**	**1,903,598**	**36.4%**
Regions	17,447	0.4%	18,874	0.4%	19,948	0.4%	21,472	0.4%
LGAs	154,337	3.7%	154,405	3.3%	166,248	3.5%	178,727	3.4%
Special Exp.	0	0.0%	55,076	1.2%	62,510	1.3%	66,416	1.3%
Total OC	**2,087,019**	**50.0%**	**1,851,189**	**39.8%**	**2,005,997**	**42.1%**	**2,170,213**	**41.5%**
2) PE								
CFS	2,052	0.0%	2,363	0.1%	2,855	0.1%	3,364	0.1%
Parastatals	100,630	2.4%	157,845	3.4%	174,981	3.7%	194,934	3.7%
Ministries	251,010	6.0%	401,069	8.6%	467,653	9.8%	544,400	10.4%
Regions	20,343	0.5%	33,839	0.7%	39,204	0.8%	45,398	0.9%
LGAs	329,813	7.9%	565,094	12.2%	651,682	13.7%	742,843	14.2%
Subtotal	**601,166**	**14.4%**	**1,000,002**	**21.5%**	**1,158,539**	**24.3%**	**1,332,642**	**25.5%**
Total PE	**703,848**	**16.9%**	**1,160,209**	**25.0%**	**1,336,374**	**28.0%**	**1,530,939**	**29.3%**
Total Recurrent	**2,790,867**	**66.8%**	**3,011,398**	**64.8%**	**3,342,372**	**70.1%**	**3,701,152**	**70.7%**
2. Development Expenditure								
1) Local								
Ministries	358,036	8.6%	592,759	12.7%	420,291	8.8%	482,310	9.2%
Regional/LGAs	12,002	0.3%	15,289	0.3%	17,120	0.4%	19,267	0.4%
Total Local	**370,038**	**8.9%**	**608,048**	**13.1%**	**437,411**	**9.2%**	**501,577**	**9.6%**
2) Foreign								
Ministries	975,558	23.4%	1,002,657	21.6%	967,148	20.3%	1,013,711	19.4%
Regional/LGAs	39,587	0.9%	28,016	0.6%	19,322	0.4%	15,273	0.3%
Total Foreign	**1,015,145**	**24.3%**	**1,030,673**	**22.2%**	**986,470**	**20.7%**	**1,028,984**	**19.7%**
Total Development	**1,385,183**	**33.2%**	**1,638,721**	**35.2%**	**1,423,881**	**29.9%**	**1,530,561**	**29.3%**
Total Budget	**4,176,051**	**100%**	**4,650,120**	**100%**	**4,766,253**	**100%**	**5,231,713**	**100%**

/* OC for Ministries in 2005/06 includes PE (Salary Adjudtment) amounting to Tshs. 80,731.2 million
Source: Guidelines for the Preparation of Meduum Term Plan and Budget Framework for 2006/07 –2008/09, MPEE & MoF

4.2 Road Funds

As analyzed in Chapter 2, due to lack of sufficient budget TANROADS could execute approximately 24% of required maintenance work for trunk roads and 44% of regional roads, in total 35% of required maintenance work for the FY2007/2008. Approved budget of TANROADS for FY 2007/08 is approximately 77% of the planned development work for trunk roads, 44% of that for regional roads and 69% of the planned work in total.

The financial source of road maintenance come from the Road Fund managed by the Roads Fund Board provided in the Road Tolls (Amendment) No.2 Act, 1988. The key functions of the board is to advise the Minster on new sources of road levies, adjustment of rates of existing levies and on regulations for the collection of road levies for the purpose of ensuring an adequate and stable flow of funds to road operations and to supply the money deposited into the Fund.

4.2.1 The Sources of the Road Fund

The financial sources of road maintenance come from the road funds managed by the Roads Fund Board. The Road Tolls (Amendment) No. 2 Act 1988 gives the road funds as the following sources[2]:

- All moneys collected as roads tolls imposed on diesel and petrol;
- Transit fees;
- Heavy vehicle licensing;
- Vehicle overloading fees; and
- Other sources determined by the Parliament.

The fuel levy accounts for over 95% of the funds.

4.2.2 2007/08 Budget and the Road Fund

Some of the outstanding features of the 2007/08 budgets are;

- Transport Sector Improvement Program requirements of US$ 640 million per annum for the next 10 years;
- Roads take up about 777.2 billion Tsh. or about 12.8% of the budget. This is about 95% of the requirements including maintenance needs;
- Excise duty on petrol and diesel increased by Tsh. 22 and 20 respectively; and
- Fuel levy from 100-200 Tsh per liter.
- Motor vehicle registration and transfer tax increased from 20,000 TSHs to 80,000, 230,000 and 100,000 with engine sizes bellow 1,500cc, over 1,500 and not exceeding 5000cc and over 5,000cc respectively.

The road maintenance fund, amount of 169,737 TSHs billion, is expected be generated by the last two features. Some of the implications are expected based on the 2007/08 budget framework as follows;

- Less than half of the required maintenance funds have been awarded up to the 2006/07. The additional increase is likely to contribute significantly toward better conditions of roads;
- Backlog maintenance requires about US$ 600 million to rehabilitate roads to bring the network

2 A Quick Review of the Implication of the 2007/08 Government Budget on Transport Infrastructure Financing in Tanzania, NM Lema, Associate Professor of Construction Management, University of Dar es Salaam, June 2007

to maintainable level. A recent analysis indicated that the best option for increasing the asset value is to concentrate on removing backlog;

- 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 implementation agencies and construction industries; and
- The road network under LGAs is about 50,000 km but receives 30% of the share, in comparison to TANROADS, which has about 28,000 km, receives about 70% of the share. This creates the imbalance of maintenance level between them[3].

However, it is expected to see better management of traffic in the near future with the increase of allocated budget for road maintenance, which includes expenditures for traffic control and management facilities. The capacity increase of implementation agencies and local governments should be enhanced as well.

[3] A Quick Review of the Implication of the 2007/08 Government Budget on Transport Infrastructure Financing in Tanzania, NM Lema, Associate Professor of Construction Management, University of Dar es Salaam, June 2007

Chapter 5 New Revenue Generation Scheme

This chapter presents some possible schemes for the funding source of the proposed projects. In addition to the revenue and expenditure forecast described in the former chapter, by referring the world experience in other cities, the study team estimates the potential of utilization of land related property. Firstly, the chapter covers the analysis of the current system on property & land taxation and suggests the possible increase in its collection. Secondly, it discusses the potential of utilization of the property without increasing the tax rates as the schemes to generate revenue that are relatively new to Tanzania, such as Tax Increment Financing (TIF), Property Right and Development Right.

5.1 Property and Land Taxation

5.1.1 Introduction

It is well acknowledged among local administrators and development practitioners the rationale for taxing land and property, both as a source of local government revenue and in terms of its effects on efficient land use. Tax revenue is often an important source of finance for local governments and the level, design, and control of property taxation have been, thus, discussed in many countries. Especially, developing countries, including Tanzania, have been exercising a variety of local government reform efforts aimed at improving local service delivery.

However, these efforts did not sufficiently enhance the revenue of the local governments in Tanzania due to some constraints described as follows;

1) low coverage of the properties/land surveyed;
2) underestimated value of the properties/land;
3) low tax rate applied; and
4) limited capacity of the tax evaluators/collectors, etc

A focus in Tanzania has been shifted to non-application of the market rate of the properties/land, as one of the critical elements to generate the local revenue.

This section initially reviews the practice in property/land taxation in Tanzania by comparing the property/land taxation applied to other countries. It then discusses application of the value-based property/land tax and, therefore, possibility of the local revenue enhancement.

5.1.2 Property Taxation in Tanzania

(1) Historical Background

1) Property Taxation

Tanzania has been undertaking a variety of macroeconomic and structural reforms aimed at higher and sustained economic and social development. One important reform priority has been placed on the rationalization of government to improve service delivery and provision of physical infrastructure. To realize the local authority reform objectives, the Government in 1996 developed a "Local Government Reform Agenda 1996-2000" (GOT, 2005[1]).

This Local Government Reform Agenda was translated into the action plan, called "Local Government Reform Programme", with attention focused on strengthening local government capacity to absorb increased responsibilities and financial resources. Priority is being placed on improving local government financial management systems, multi-sectoral planning and service delivery capacity. The Government is also developing appropriate mechanisms to ensure consistency between district programs and sector-wide/national policy priorities (IMF, 1999[2]).

One critical prerequisite for sustainable local government reform is adequate financial resources. Thus, the Government has been evaluating various options to improve local own-source revenue mobilization. The primary effort has been on implementing a local property tax reform that began in 1993 (Kelly and Musunu, 2000[3]).

This property tax reform initiative was structured to mobilize sufficient revenues to maintain the local physical infrastructure under World Bank's assistance and originally to develop a valuation roll for Dar Es Salaam. The valuation exercise was divided into three phases. Phase One (1993-1996) valued about 30,000 properties in Dar es Salaam. Phase Two (1997-2001) was expand by 17,000 properties in Dar es Salaam. Phase Three (2001-2005) completed the valuation roll for Dar es Salaam.

(2) Legal Basis

1) Legal Basis for Property Tax

The Local Government Finance Act of 1982 laid the foundation for the financial management and revenue raising powers of the local authorities. This Act authorized local authorities to collect a property tax and other revenues, such as a development levy (a form of poll tax), business licenses as well as user charges. Section 13 and 15c of this Local Government Finance Act allowed local

[1] The United Republic of Tanzania (2005) Local Government Reform Programme, Medium Term Plan and Budget July 2005

[2] International Monetary Fund (2000) Tanzania Enhanced Structural Adjustment Facility, Policy Framework Paper for 1998/99-2000/01.

[3] Kelly R. and Musunu Z. (2000) Implementing Property Tax Reform in Tanzania, Lincoln Institute of Land Policy, Working Paper.

authorities to impose a flat rate property tax by enacting local by-laws, which were subject to central government approval. These flat rate property taxes could be levied on buildings, adjusted by such factors as size, location, and use. In the following year, the Government enacted the Urban Authorities (Rating) Act of 1983 that introduced a property tax on ratable buildings. These two laws provide the legal basis for the current property tax system in Tanzania.

(3) Property Taxation in Dar es Salaam

1) Tax Base

The property tax base is legally defined to include only buildings, and not land, thus limiting the potential tax base. This limited tax base is due to extensive lags in the identification and maintenance of the building information on the tax roll. Dar es Salaam had about 400,000 buildings while the tax rolls only covered about 100,000 buildings in 1999. Kelly and Musunu (2000) pointed out some of the administrative constraints facing Tanzania with regards to increasing tax base coverage[4]. Property tax base identification was made mostly on an ad hoc basis. Property cards were created and updated periodically, with considerable lag in the building market information especially in the fast growing unplanned areas. There was a lack of systematic administrative procedures, proper tax maps or a consistent property identification numbering system. All this led to incomplete and out-of-dated tax roll information. There was no use of computerization, which has further complicated the maintenance of the property tax rolls.

However, the recent efforts made by the local government has systematically identified buildings and captured the information on the tax rolls. According to the interview with the chief municipal evaluator, the tax rolls of Ilala Musicality have contains 85,000 buildings and now reaches the coverage ratio of 85%.

2) Valuation

The Urban Authorities (Rating) Act stipulates that property should be valued based on the capital market value of the premise or, where the market value cannot be ascertained, the replacement cost of the buildings, structures and other developments, adjusted for depreciation. Until now, due to the perceived lack of market information, all valuation for rating is being done on a cost replacement approach. The law provides for a maximum allowable depreciation rate of 25 percent. In addition, the property tax roll is to be valued every five years or for such longer period as the responsible Minister may approve. According to Kelly and Musunu (2000), it is assumed that the average valuation ratio may be in the order of 30-50% of market value, with large variations among properties. This low valuation ratio would typically be attributed to the valuation standards used, lags in the valuation roll, and lack of indexation in the unit rates used for the flat rate system.

[4] Kelly R. and Musunu Z. (2000) Implementing Property Tax Reform in Tanzania, Lincoln Institute of Land Policy, Working Paper.

3) Tax Rate

Most local governments in Tanzania initially introduced a flat rate property tax system. This flat rate property tax system would apply a single tax amount imposed on each building, no matter how large the size is, and was simple to administer. It created the controversial issue on inequity given the vast differences in use, size, and location of buildings. Thus, the flat rate system in Tanzania has introduced a number of adjustments—differentiating the flat rate by size, building use and location. (Kelly and Musunu, 2000)

For instance, Dar es Salaam reinstated a property tax in 1987 based on a simple flat rate system, which applied a flat amount per building and divided the city into eight zones by land use, and a specific unit amount applied to each building within a particular zone. After several adjustments made, Ilala Municipality, for instance, introduced the current flat rate system in 2003, which differentiates the size and 11 different use of the building (residential, commercial, service trade, petrol station, hotels/guest house, institutions, industrial complex, bar & restaurant, commercial complex, light industry, and heavy industry) in each distinct ward. The **Table 5.1.1-3** tabulates the flat rate initially applied to Dar es Salaam in 1987 and the current one applied to Ilala Municipality in 2003.

Table 5.1.1 1988-1996 Flat Rate for Properties applied in Dar es Salaam

(Unit: Tshs)

Description	Flat Rate per Property
Residential Un-surveyed Areas	200
High Density Residential Surveyed Area	300
High Density Residential Surveyed Area in CBD	10,000
Medium Density Area	1,000
Low Density Area	2,000
Industrial Area	10,000-50,000
Un-surveyed Commercial Area	500
Surveyed Commercial Area outside CBD	1,000

Source: Dar Es Salaam Property Rates By-Laws of 1989

Table 5.1.2 2003 Flat Rate for Residential and Commercial Properties in Ilala Municipality

(Unit: Tshs)

Use of Property	Area	Flat Rate per Property
Residential/Swahili Type		10,000
Residential/Modern Type		15,000
Residential cum-commercial		20,000-30,000
Commercial	- 12-48m2 - Over 48m2	25,000-30,000 30,000-50,000
Service Trade		40,000-100,000

Source: Ilala Municipal Council (Property Rate) By-law of 2003

Table 5.1.3 2003 Flat Rate for Other Properties in Ilala Municipality

(Unit: Tshs)

Use of Property	Area	Flat Rate per Property (A)	Flat Rate per Property (B)
Petrol station & filling stations		250,000	75,000
Hotels	- 1-200m2 - Over 200m2	300,000	-
Guest house	- 1-200m2 - Over 200m2	150,000	100,000 150,000
Institutions	- 1-500m2 - over 500m2	500,000 750,000	
Industrial complex	- 1-600m2 - 600-800m2 - over 800m2	400,000 500,000 600,000	
Bar & restaurant	- 1-50m2 - over 50m2	75,000	45,000 75,000
Commercial complex	- 1-200m2 - over 200m2	300,000 450,000	
Light Industry	- 1-250m2 - over 250m2	150,000 400,000	100,000 150,000
Heavy Industry - Office - Godowns	- 1-400m2 - over 400m2 - 1-50m2 - over 50m2 - 1-400m2 - over 400m2	250,000 500,000 20,000 30,000 50,000 100,000	

Note: Location (A): City Centre, Kariakoo, Gerezani, Shaurimoyo, Ilala, Upanga, Buguruni, Tabata, Vigunguti and along Nyerere Road. Location (B): Kinyerezi, Chanika, Pugu, Msongola, Ukonga, Gongo la Mboto, Kitunda, Kipawa, Kiwalani and Kupunguni and areas away from Nyerere Road.

Source: Ilala Municipal Council (Property Rate) By-law of 2003

For the rated (surveyed) properties, the fixed percentage of the property value is applied as the property tax. The equal percentage of the ratable property value is applied among these three municipalities: 0.15% of the ratable value for the residential and residential cum-commercial properties and 0.20% of ratable value for commercial properties, industrial properties and other uses. According to the interview with the chief evaluator at Kinondoni Municipality, the Municipality is to amend the by-laws by the end of 2007 and to impose 0.30% of ratable value for industrial properties and remains to impose the same rate for residential (0.15%) and commercial properties (0.20%). Minimum property rate for all the municipalities is set at 10,000 Tshs.

4) Tax Collection and Enforcement

The local governments in Dar es Salaam have been long silent for the law enforcement but recently made the best efforts to enhance the local revenue. Ilala Municipal By-laws, for instance, provide for a 25 percent penalty per year, or imprisonment for a term not to exceed twelve months and/or a fine of 50,000 Tshs for those owners who do not pay the tax. The by-laws also provide for a warrant to seize the personal goods and chattels of defaulters.

Despite the various legal provisions to enforce payment, collection rates appeared to be quite low (e.g., less than 30-50% in Dar es Salaam during 1990s). There are a variety of possible explanations to explain this low collection rate – ranging from a lack of taxpayer education/understanding to outright resistance, due to lack of local services. Some attribute the low collections largely to lack of political will and administrative efficiency (Kelly and Musunu, 2000).

The tremendous efforts made by the local authorities contributed to the increase in collection rates up to 70-80%. According to the interview with the chief evaluator at Kinondoni Municipality, 1.6 billion Tshs was collected from the property tax in 2006, while the projected revenue was 2.2 billion Tshs. One of the essential contributors to this is installation of computer-aided information system, using GIS. In Kinondoni, attributes of 110,000 buildings, including the owner, use of the property, size and its evaluation rate are all computerized with its location, which helps to monitor those owners who do not pay the property tax. Other essential measures were also undertaken – establishment of the special unit in the local administration, designated only for tax collection activities, capacity development of this unit, providing an adequate number of staffs, office and transport. Exchanging information on the large taxpayers from Tanzania Revenue Authority and taxpayers education/sensitization programme, establishment of pay stations at Mtaa level, and publishment of defaulters in the newspaper all contributed to an increase in high collection ratio.

Table 5.1.4 Revenue by Property Tax in Ilala Municipality

(Unit: million Tshs)

Year	Revenue by Property Tax	Growth (Base Year 2000)
2000	542	1.00
2001	549	1.01
2002	690	1.27
2003	574	1.06
2004	722	1.33
2005	616	1.14
2006	1,500	2.77

Source: Interview at Ilala Municipality

5.1.3 Comparative Study on Property and Land Taxation

A comparative study has been conducted by Bird and Slack (2002[5]) which illustrates the property and land taxation system practiced in 25 different countries. The following discussions will summarize the findings in this study: what is taxed, how it is taxed, and at what rate?

(1) What is taxed?

The first step, when installing the taxation system, is to answer what should be taxed; properties, land or both. The choice of tax base in some 25 countries is summarized in the following table. The current

[5] Bird R. M.and Slack E. (2002) Land and Property Taxation Around the World: A Review

taxation exercise shows that most countries impose a tax on both land and buildings (or improvements), usually taxed together but in some countries, like Tanzania, taxed separately. In these countries, the land portion is often taxed more heavily than buildings.

The debate on what is taxed has not been resolved with respect to developed countries. The original arguments for land taxation were made in a context in rapidly growing cities where the land value is not stable. It has been, therefore, suggested that valuing land separately may be appropriate in developing countries in which urban areas are growing rapidly (Bahl, 1998[6]). In many developing countries, land and buildings are in practice assessed separately in any case, and so does Tanzania.

Table 5.1.5 Tax Base and Basis of Assessment in Selected Countries

Counties	Tax Base	Basis of Assessment
OECD:		
Australia	Land or land and improvements	Market value; rental value; or combination
Canada	Land and improvements (sometimes machinery included)	Market value
Japan	Land, houses, buildings, and tangible business assets	Market value
Germany	Land and improvements; farm properties also include machinery and livestock	Market value (rental income/construction costs); area
United Kingdom	Land and improvements; some plant and machinery	Market value for residential; rental value for non-residential
Central & Eastern Europe:		
Hungary	Unimproved value (plot tax); buildings (building tax)	Area or adjusted market value
Latvia	Land and buildings	Market value
Poland	Land, buildings, and structures	Area
Russia	Land for land tax; structures for property tax; assets for enterprise property tax	Area; inventory value of structures; value of assets
Ukraine	Land	Area; self assessment
Latin America:		
Argentina	Land and buildings	Market value
Chile	Land and improvements	Area by location for land; depreciated cost for buildings
Colombia	Land and buildings	Market value or self-assessment subject to a minimum
Nicaragua	Land, buildings, and permanent improvements	Cadastral value, self-declared value (unit cost, book or acquisition value)
Mexico	Land and buildings	Market value
Asia:		
China	Occupied land; land and improvements34	Area; market value or rental value
India	Land and improvements	Mostly rental value; limited use of area and market value
Indonesia	Land and buildings	Market value
Philippines	Land, building, improvements, and machinery	Market value
Thailand	Land and improvements (buildings and land tax); land (land development tax)	Rental value; market value
Africa:		
Guinea	Land and buildings	Rental value
Kenya	Land (but can use land and improvements)	Area; market value; or a combination
Tunisia	Land and improvements (rental housing tax); land only (tax on unbuilt land)	Area; rental value
South Africa	Land and/or improvements	Market value
Tanzania	Land, buildings, structures or limited development	Market value (or replacement cost)

Source: Bird and Slack (2002)

6 Bahl R. (1998) Land Taxes versus Property Taxes in Developing and Transition Countries

(2) How is it taxed?

Once the taxable base has been determined, the next step is to determine the value to which the tax rate is applied. In general, two distinct assessment methodologies are used for property and land taxation: area-based assessment and value-based assessment (Bird and Slack, 2002). Under an area-based assessment system, a charge is levied per square meter of land area and/or per square meter of building. Area-based assessments are commonly used where the absence of developed property markets makes it difficult to determine market value.

Market value assessment estimates the value that the market places on individual properties. Bird and Slack (2002) summaries the following methods used to estimate market value:

- The comparable sales approach looks at valid sales of properties that are similar to the property being assessed. It is used when the market is active and similar properties are being sold.
- The depreciated cost approach values the property by estimating the land value as if it were vacant and adding the cost of replacing the buildings and other improvements to that value. The cost approach is used when the property is relatively new, there are no comparable sales, and the buildings are relatively unique. The cost approach is also normally used to assess industrial properties.

Both approaches have advantages and disadvantages. Value-based assessment, if the value is assessed properly by size and location, is straightforward and can create a public consensus since value-based assessment results in a relatively less burden on low-income taxpayers than high-income taxpayers when compared to area-based assessment. On the other hand, area-base assessment is easier to understand and cheaper to administer than value-based assessments. It should be particularly emphasized where the real estate market is not well developed like in many developing countries.

(3) At what rate?

The most controversial argument on land and property taxation in many developing countries is made at what rate of taxation should be applied. Even in countries where progressive rates are imposed, the highest rate on assessed value seldom exceeds much more than 1.0 percent, and it is often lower. Moreover, the effective rate of property taxes is, owing to low assessment ratios and poor enforcement, often much lower than the nominal or statutory rate. In case of Tanzania, Dar Es Salaam initially used a 0.1 percent rate in 1996 for valued residential properties (excluding land tax), raising the rate to 0.15 percent in 1998. Mwanza used a rate of 0.40 percent from 1992-1995. Iringa and Mbeya, on the other hand, used differential rates of 0.30 percent for residential and 0.60-0.70 percent for commercial buildings. In 1996, these two towns switched to a uniform rate system applying 0.70 and 0.60 percent, respectively.

Table 5.1.6 Reliance on Property Taxes by Local Governments in Selected Countries

Counties	Property Tax	Property tax as % of local revenues
OECD:		
Australia	Land tax; municipal rates	60.0
Canada	Property tax	53.3
Japan	Fixed property tax	45.3
Germany	Land tax	15.5
United Kingdom	Council tax; non-domestic rates	28.0
Central & Eastern Europe:		
Hungary	Property tax; plot tax; communal tax; tourism tax	2.2
Latvia	Real estate tax	18.2
Poland	Urban real estate tax, agricultural tax, forest tax	9.7
Russia	Land tax; individual property tax; enterprise tax	8.1
Ukraine	Land payments and taxes	9.5
Latin America:		
Argentina	Property tax	35.0
Chile	Property tax	35.1
Colombia	Unified property tax	25.9
Nicaragua	Property tax	6.4
Mexico	Property tax	13.0
Asia:		
China	Urban and township land use tax; house property tax; urban real estate tax; farm land occupation tax	3.0
India	Property tax	7.0 to 41.0
Indonesia	Land and building tax	10.7
Philippines	Real property tax	13.4
Thailand	Buildings and land tax; land development tax	1.2
Africa:		
Guinea	Rental value tax on housing; local business taxes	32.0
Kenya	Property rates	20.0
Tunisia	Rental value tax on housing; tax on unbuilt land; local business tax	27.2
South Africa	Property rates	21.0
Tanzania	Local building tax; national land rents	18.0

Source: Bird and Slack (2002)

(4) Revenue Enhancement Project

The Dar es Salaam City Council through its Revenue Enhancement Project engaged itself to undertake an assessment and subsequently design on overall Tax Administration for Dar es Salaam Local Authorities (DLAs). The intention is to improve and eliminate bottlenecks in tax administration as much as possible. The improvements required and made should reflect an improved/increased tax revenue collection to the levels targeted.

The consultant presents the design of the proposed new tax administration system for Dar es Salaam City Council based on their specific needs. The new tax administration system design is based on findings of the assessment done on the existing tax administration and stakeholders views.

5.2 Tax Increment Financing (TIF)

Infrastructure development project requires huge initial investment cost. Basically, development of infrastructure brings the economic benefits to the resident and property owner. It is considered fare and reasonable that part of the required investment fund for this potential benefit will be levied to the beneficiaries. Contrary to the relocation fee, which is the financial burden to the government, this levy will ease the financial burden of the infrastructure development. In spite of various discussions for this additional levy, there are many global examples utilizing the development levy by the fact that most of the cities in the world are in short of the development budget. However, it is a prerequisite that sustainable taxation system and the mechanism of market price, which are the basis of this system, needs to be implemented and in function.

Tax Increment Financing, or TIF, is a tool which has been used for redevelopment and community improvement projects throughout the United States for more than half a century. With federal and state sources for redevelopment generally less available, TIF has become an often-used financing mechanism for municipalities. **Table 5.2.1** shows the amount of Tax Increment and its expenditures with the number of agencies in California, United States of America. Similar or related approaches are used elsewhere in the world though development levy/tax is more familiar tool as the additional funding source for the investment. It is a kind of fund based on the future property tax for those who will get benefit by the development of infrastructure such as BRT project by DART. However biggest difference and benefit of this scheme is that there is no additional tax to the owner or lessee.

Table 5.2.1 Historical Chart in Use of Tax Increment and Agencies

(Unit: US Dollar)

Year	Tax Increment	Total Expenditure	Total Agencies
1977-1978	179,140,831	558,897,443	127
1978-1979	91,175,585	592,560,676	130
1979-1980	149,318,208	805,862,848	142
1980-1981	205,140,085	667,705,212	151
1981-1982	271,280,972	886,898,507	160
1982-1983	323,706,802	1,069,555,820	188
1983-1984	382,527,107	1,094,839,359	204
1984-1985	431,119,207	1,340,264,107	299
1985-1986	557,978,597	1,133,676,382	322
1986-1987	687,429,663	2,757,084,400	333
1987-1988	806,986,672	2,453,508,573	344
1988-1989	936,708,222	2,269,873,738	349
1989-1990	1,100,436,321	2,570,698,302	364
1990-1991	1,283,781,741	2,878,229,672	375
1991-1992	1,471,469,538	3,109,861,541	381
1992-1993	1,541,109,568	3,723,317,860	385
1993-1994	1,577,507,098	3,484,751,946	388
1994-1995	1,544,815,000	3,306,010,000	390
1995-1996	1,451,094,000	3,250,663,000	399

Source: Tax Increment Financing, LA-40, Development Bank of Japan, June 2002

5.2.1 Mechanism of Tax Increment Financing

TIF is a tool to use future gains in taxes to finance the current improvements that will create those gains. When a public project such as a road, school, or hazardous waste cleanup is carried out, there is an increase in the value of surrounding real estate, and often new investment (new or rehabilitated buildings, for example). This increased site value and investment creates more taxable property, which increases tax revenues. The increased tax revenues are the "tax increment." Tax Increment Financing dedicates that increased revenue to finance debt issued to pay for the project. TIF is designed to channel funding toward improvements in distressed or underdeveloped areas where development would not otherwise occur. TIF creates funding for public projects that may otherwise be unaffordable to localities.

(1) The scheme to generate funds in TIF

Theoretically, the TIF does not require a city to raise the tax rate. It generates money for redevelopment by raising the value of the property in the TIF district. This mechanism can be described in the following way:

1. When the TIF is established, the local government looks at the existing value of all the properties in the TIF district. This is the “initial assessed value,” which stays flat for the entire TIF period that the local government decide[7]. Once TIF is established, increased property tax revenue from the increased value of the TIF district does not go to the city’s general fund but go separately to the TIF fund.

2. The property value in the TIF district would increase, if there were new development, improvement of existing property, or natural growth in property values. The difference between the initial assessed value and new assessed value is the tax increment.

3. The money created by the tax increment goes to a special TIF fund, which is separated from the city’s general fund[8]. The TIF fund can be re-invested in the TIF district to develop public infrastructure and to encourage private investment. This investment will further induce the increase in assessed value of properties in the TIF district.

Figure 5.2.1 and **Table 5.2.2** show the basic mechanisms of TIF.

[7] Normally between 20 to 40 years, depending on state rules
[8] The general fund is used by public agencies to maintain, improve, and develop public schools, parks, and infrastructure.

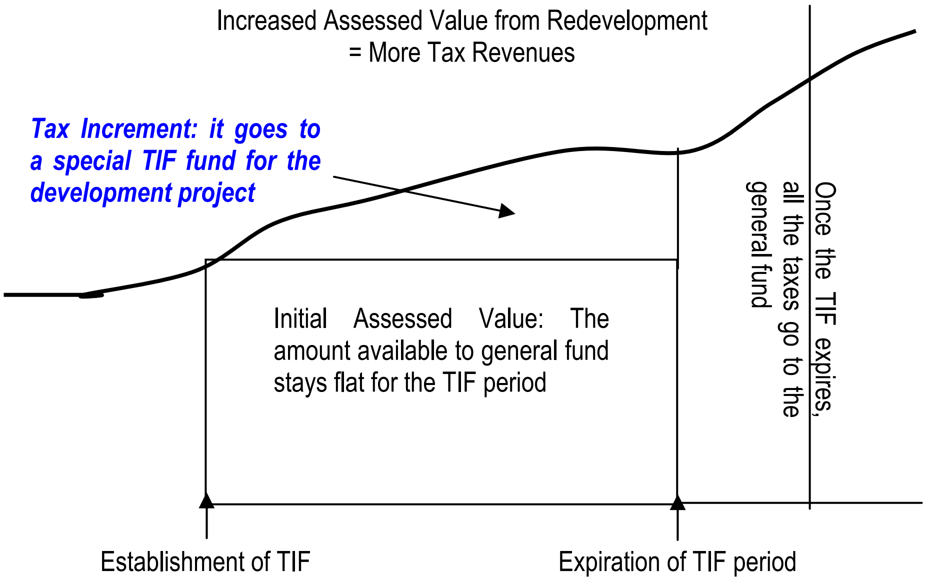


Figure 5.2.1 Basic Mechanisms of TIF

In this sample, we assumed that the initial assessed value of the properties in the TIF district was $1,000,000 when the TIF was established, and it increased by 20 percent to $1,200,000 in one year after it was established. The growth is $200,000, and the tax increment amounts to $20,000, if the tax rate is 10 percent. The tax increment goes to a special TIF fund, and it is re-invested in the TIF district. The TIF is not a new tax. It is a reallocation of a city's property tax revenue from the general fund to a TIF special fund, which allows the city to reinvest in the TIF district.

Table 5.2.2 Generation of Tax Increment in a TIF District.

Step	Description	Amount
Initial Assessed Value (AV)	The total assessed value of all property when the TIF is established. This value is fixed for the TIF period.	$ 1,000,000
Current AV	The current assessed value of all propertyin the TIF district, one year after it was created (assuming it increased by 20 percent)	$ 1,200,000
Growth in AV	The difference between the initial AV and the current AV ($1,200,000 - $1,000,000 = $200,000)	$ 200,000
Tax Rate	The percentage of AV that goes to taxes.	E.g. 10%
Tax Increment	Taxes that go to the TIF fund ($200,000 x 10% = $20,000)	$20,000

Source: Study Team

5.2.2 Use of Fund

Basically there are two ways in utilizing the fund. One is so called Pay-as-you-go scheme, in which local government invest the amount of the fund reserved in the TIF scheme. The other is to issue TIF Bond at any time during the TIF period with TIF increment tax as the resource of redemption.

Pay-as-you-go scheme does not have risk in redemption while TIF bond scheme has strength in raising necessary fund in a short term. In practice there are projects that use mix of these two schemes.

5.2.3 Leverage to Private Investment

One of the important theories/implications of TIF is the involvement of private investors. Since a local government could keep necessary fund for infrastructure redevelopment without increasing tax rate, this redevelopment project could attract private investment. Therefore TIF is considered as the self finance scheme for redevelopment under Public Private Partnership (PPP) scheme.

5.2.4 Community Participation

Strong community participation is a key for successful implementation of TIF. With consistent community participation, TIF can be an effective tool for implementing a community-based revitalization effort through developing affordable housing, improving public infrastructure, putting vacant land to productive use, creating job opportunities, and meeting other local needs. On the other hand, without sustained community participation, TIF gives a power to the local government to change the characteristics of a neighbourhood against the wishes of the community, and drive up the property values to the point where existing residents and businesses cannot afford to stay in the community. Accordingly, the success or failure of TIF depends on how active the community is in the processes of urban planning and development[9].

5.3 Property Right/Development Right

Development right is generally considered as un-quantitative benefit of development project that property value increase by the implementation of the project. Even in the case that the government is the owner of all land, still the right of use or lending fee could be the value added property. After the construction and implementation of BRT, land price/lending fee along the BRT line (road) will increase because of the better access. This future increase in land price, property value or lending fee is the basis of the development right. The government could also utilize this development right along the BRT corridor to the private investor in a public private partnership (PPP) project.

Another option is when DART purchases property along the BRT corridor; they could purchase/get property in wider area than actually required. Then after the completion of the project and when the property value increase DART could get profit by selling the property / right of use at the price more expensive than the price when they purchased before the project.

[9] Regarding the details of the mechanisms of TIF and community participation, see TIF Handbook prepared by Neighborhood Capital Budget Group, 2001.