

Applications of the Public Private Partnership Business Model: Selected Cases from Local Government Authorities in Tanzania

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Abstract

Public Private Partnerships (PPPs) are among the emerging business models of delivering non-core public goods and services. The key issue in a PPP business model involves the use of a purely profit-motivated private sector to deliver public goods and services. This is the case for governments of national scope as well as for local government authorities (LGAs) across the world. Indeed it is the case, too, for Tanzania. Given the nature of PPPs and the conditions of both the public and the private sector, the public private partnership paradigm can be a very valuable business model for delivering public goods and services both core and non-core. In this paper the author presents practical applications of the PPP business model in Tanzania. Drawing from his research for the Association of Local Authorities in Tanzania (ALAT) on public private partnerships¹ in local government authorities and in a 2018 experience with a Special Purpose Vehicle (SPV) PPP business model for a United Nations Capital Development Fund (UNCDF) assignment in the Same District Council (SDC), the author provides some practical application of the PPP business model to selected local government authorities in Tanzania.

¹ Ngowi (2016) “Public Private Partnerships (PPPs) in Local Government Authorities (LGAs) in Tanzania”.

1. Introduction and Background

According to Ngowi and Jens (2013) the PPP concept describes a partnership in which the private sector delivers public goods and/or services.² The concept refers to a government service or private business venture which is funded and operated through a partnership of the government and one or more private sector companies. A PPP usually involves a long-term contract for a private sector entity that is providing a government service other than procurement. A PPP is characterized by a contractual arrangement between a public sector authority, such as a local government authority, and a private party. The private party provides a public service and assumes some financial, technical and operational risks for providing the service. Among other things, a PPP is a means to balance government budgets because it has the potential to bridge the gap between the public needs and the governments' existing financial and human resources.

According to URT (2009)³, the concept of PPP entails an arrangement between public sector and private sector entities whereby the private entities renovate, construct, operate, maintain, and/or manage a facility, in whole or in part, in accordance with output specifications. The private entity assumes the associated risks for a significant period of time and, in return, receives benefits/financial remunerations according to the agreed terms. These can be in the form of tariffs or user charges.⁴ Based on URT (2011),⁵ partnership in the PPP context is an arrangement where the private party:

- performs an institutional function on behalf of the (public) institution;
- acquires the use of public property for its commercial purposes;

² Assessment of Public-Private Partnerships (PPPs) In Tanzania: A report for Uongozi Institute, Tanzania

³ The 2009 National PPP Policy in Tanzania

⁴ This definition is rather narrow and does not capture most PPP practices on the ground.

⁵ PPP Regulations of Tanzania (2011)

- assumes substantial financial, technical and operational risks in connection with the performance of the institutional function or the use of state property; and
- receives a benefit for performing the institutional function or from utilizing the public property.

The principal act governing PPPs in Tanzania is the Public Private Partnership Act No. 18 of 2010. Also applicable are the Public Private Partnership Regulations passed in 2011.

Reasons for a PPP

There are various reasons for the existence and implementation of PPPs. According to Ngowi and Claussen (2013), the following are among the reasons for undertaking PPPs:

- ❖ To increase *efficiency* and use available resources more *effectively*;
- ❖ To *reform sectors* through a reallocation of roles, incentives, and accountability; and
- ❖ To *attract private capital investment* in order to supplement public resources or release them for other public needs.

According to the PPP Policy (2009), a PPP arrangement is beneficial to a country and justifiable in view of the potential benefits that accrue to all parties. The potential benefits include:

- Facilitating creative and innovative approaches for stimulating the private sector to engage in specific PPPs – to achieve this end the government may allow bidders to compete on the basis of their ability to develop unique and creative approaches to the delivery of the required output;
- Enhancing government’s capacity to develop integrated solutions that effectively address public needs;
- Reduced costs of implementation and realization of quality products and services – cost reduction would be attributable to economies of scale and operating efficiency;
- Accessing technical and managerial expertise, financial resources and technology from the private sector;

- Facilitating large scale capital injections while reducing public debt and dependency on aid;
- Better responsiveness to consumer needs and satisfaction of those needs;
- Fostering economic growth by developing new investment opportunities and increasing provision of public goods and services; and
- Ensuring fulfilment of the best interests of the public and private sectors through the appropriate allocation of risks and returns.

2. Salient Features of the PPP Business Model

The salient features of the PPP business model include but are not limited to various forms of PPP contractual arrangements. Contract formulations may proceed according to their purpose. To specify some:

2.1 Service Contract

In this form of PPP, the government remains the owner and provider of the infrastructure service. It contracts out portions of the operation of the infrastructure to the private sector partner. The infrastructure can be, for example, a bus terminal, a port, a market, an airport, or a bridge.

2.2 Management Contracts

A management contract PPP is an expanded version of a service contract PPP. It includes some or all of the management and operational functions of the public service (e.g., a hospital, a port authority, or utilities such as water and power). Although the ultimate obligation for service provision remains in the public sector, the daily management, control and exercise of authority are assigned to the private partner or contractor operating the business in question.

2.3 Lease Contracts

In this form of PPP, the private partner is responsible for the entire service. It undertakes obligations relating to quality and

service standards. Except for new and replacement investments, which remain the responsibility of the public authority, the private partner operating the business provides the service at its own expense and risk. Examples of such risks are political consequences, the variability of the exchange rate, financial risks, and the risks to the reputation of the personnel or entities who have engaged themselves with the contract.

2.4 Concessions

Under the concessions form of the PPP, the private sector operator is responsible for the full delivery of services in a specified area, including operation, maintenance, collection, management, and the construction and rehabilitation of the facility. The private sector operator is responsible for all capital investment and for providing the assets.

2.5 Build–Operate–Transfer Type Arrangements

Build–Operate–Transfer (BOT) and similar PPP arrangements are specialized concessions in which a private firm or consortium finances and develops a new facility or a major component in an existing facility with performance standards set by the government.

2.6 Joint Venture

Joint venture is an alternative contractual arrangement for PPPs. In this case the ownership of the facilities and the managerial and operational responsibility is shared by the public sector and private partners. The public and private sector partners either form a new company or assume joint ownership of an existing company through a sale of shares to one or several private investors.

3. Application of the PPP Business Model to Local Government Authorities (LGAs) in Tanzania

In order to correctly contextualize this work, it is worth noting and acknowledging that various local government authorities (LGAs) have implemented various types of PPP projects even

before the PPP Policy (2009) was in place. Below is a summary of some PPP projects in selected LGAs.⁶

3.1 Arusha Municipal Council (AMC)

The application of PPPs in Arusha is in the form of a private sector delivery of revenue collection and cleaning services. In 2005, the municipality invited private individuals, companies, cooperatives, institutions and groups who were legally registered to offer revenue collection in such markets as Soko Kuu, Kilombero Wholesale Market, Sanawari, Mjinga, Mapunda, Kijenge and Mbauda. It also invited private sector services in revenue collection in such bus stands as the one for big and small buses, for taxi and pick-up parking areas as well as other car parks. The municipality took steps to invite the private sector to provide solid waste collection and disposal in such wards as Sombetini, Sokini, Daraja Mbili, Unga Limited, Kati, Them, Kaloleni, Engutoto, Olorien, Lemara and Ngarenaro. It also invited the private sector to operate some public pay toilets at the Main Market, Jogoo House, the main bus stand, the Kaskazini and Kusini toilets, the Kilombero Market and the Kijenge round-about.

3.2 Morogoro Municipal Council (MMC)

The Morogoro Municipal Council (MMC) has practised PPPs in a number of areas and in a variety of forms. In 2005 it invited private sector participation in municipal service deliveries in certain areas. These now include revenue collection in auctions; abattoirs; the town bus stand; Sabasaba, the Mji Mpya Market and the Main Market. It also invited the private sector to invest in and operate a municipal asset at the Rock Garden recreational area.

3.3 Bariadi District Council (BDC)

The council involved the private sector in various forms of public service including collecting revenue in auctions, in markets, from hides and skin as well as from traditional healers.

⁶ Summarized from Ngowi (2006) "Public-Private Partnership (PPPs) in the Management of Municipalities in Tanzania."

3.4 Kigoma District Council (KDC)

In 2005, the Kigoma District Council (KDC) called for private sector participation in the provision of various goods and services. These include revenue collection in sixty-six (66) council markets including Simbo, Nyamoli, Kasuku, Msimba, Mgaraganza, Kagango, Kigalye, Mkabogo, Kizenga, Nyamhoza, Nkungwe, and Nguruka.

3.5 Others

Other similar cases of PPPs that involved local government authorities in the financial year 2005/06 are documented in Ngowi (2006). These include PPPs in the Njombe District Council (NDC); the Kisarawe District Council (KDC) and Dodoma Municipal Council (DMC). All the cases above are based on a study that was conducted in 2006 (about 10 years before the research informing this work was conducted). This shows inter alia that PPPs in local government authorities started even before the PPP Policy (2009) was in place.

4. Application of the PPP Business Model in Local Government Authorities by 2016

Our attention shifts to some specifics about the application of PPP business models in five selected local government authorities by the year 2016 are presented and discussed. These local government authorities are Dodoma, Morogoro, Bagamoyo, Mtwara Mikindani and Tandahimba.

A number of issues have been delineated in explicating the application of the PPP business model to the selected local government authorities. Some of the key issues for each LGA are sketched in what follows.

4.1 The Case of Dodoma Municipal Council (DMC)

As far as the Dodoma Municipal Council is concerned, traditional services delivered under PPPs have included revenue collection of various kinds from a number of sources. The revenues include service levies, auctions such as the Kizota auction, abattoir fees, restaurant fees, parking fees, market fees such as those collected at the Main Majengo, Sabasaba, Chang’ombe,

Chamwino and Maili Mbili markets; hotel levies; toilets such as the main bus stand toilet, Jamatini, the Old Stand (SIDO) and the Bonanza toilets. Another area where PPP has been used in the Dodoma Municipal Council include waste collection in Dodoma town and property leases such as the lease of the Kizota butcher.

4.2 The Case of Bagamoyo Town Authority (BTA)

It was found in the study informing this work that the practices of PPP in the Bagamoyo Town Authority include revenue collection. In this case the revenue sharing formula is 60% for the private sector and 40% for the public sector. Revenue collection has been partly privatized to the ADOSTA Company which is the main revenue collector for the Bagamoyo Town Authority. The outsourced means for revenue include forestry products such as logs, charcoal, and firewood at Kibindu Forestry and Saadani; salt mining at Saadani; and minerals including aggregates and stones at the Msata area. These means for revenue have not been lucrative from 2014/15. From 2015/16 the Bagamoyo Town Authority started collecting revenue from this source itself through village governments instead of through a PPP. Another revenue source that is privatized is the bus stand whose collection is 3,800,000 Tshs per month.

Before engaging in a partnership with the private sector, the Town Authority makes an assessment of the existing potential for revenues. It then draws up a contract with the private sector to hammer out collection proposals that can anticipate a win – win situation.

There are PPP practices in land management in which the private sector does the demarcating and calculates the involved costs before the plots are sold in partnership with the Bagamoyo Town Authority. In the case of land, the Bagamoyo Town Authority was supposed to do the planning and demarcate the land. However, it did not have the adequate funds for that. Therefore, the private sector comes in to do the work using its own finances. The companies that have been involved in a land PPP in the Bagamoyo Town Authority since 2013 include Land Space, Wellington and Land Consult. These are private land developers. They incur the cost for the acquisition of land, and use the Bagamoyo Town

Authority for the processing of title deeds before they put the plots for sale. The private sector also prepares roads, does surveys and all other necessary preparations to increase the value of the land. The Bagamoyo Town Authority may be the one to advertise the land sales on behalf of or in collaboration with the private sector. The Bagamoyo Town Authority takes between 9.5% and 10% of the net profit from the sale of the land.

When it comes to the land transactions, the PPP has given the Bagamoyo Town Authority a number of reasons to be happy. These include better town planning and more revenue arising from the plot purchase application fee of 20,000 Tsh. The department dealing with land has been able to buy a new vehicle because of the incoming revenues. Land owners pay 30% of the statutory fees to the Bagamoyo Town Authority as retention from the Ministry of Land. The government receives fees such as legal fees for transfers, notification fees, and capital gain taxes in the case of transfers. Due to the better land planning because of the collaboration with a PPP, there are increased potentials for Bagamoyo to move from the town authority to the council and therefore get property tax and other related benefits. The fact that a PPP is involved with the land saves the Bagamoyo Town Council from paying the cost of land compensation. This is because the private sector buys land from individuals. The town council, therefore, is not involved in compensating them.

Future Possibilities for PPP Projects in Bagamoyo

Possible future PPP projects in Bagamoyo include a modern, multipurpose complex bus terminal construction to accommodate the new Msata road linking Dar Es Salaam with the northern regions of Tanga, Kilimanjaro and Arusha. Another potential project is the construction of an ultramodern market for various goods including grains and fruits. This has to be huge with a multipurpose complex similar to supermarkets. Other potential PPP projects in Bagamoyo include rental houses/real estate, recreation and tourist facilities such as hotels, beach development, a planned port and an industrial park at the Export Processing Zone.

4.3 The Case of Mtwara Mikindani District Council (MMDC)

Among the PPP practices in the Mtwara Mikindani District Council include a PPP in land demarcation in collaboration with the Unity Trust of Tanzania (UTT). The plan was to demarcate 1,000 plots. This project had not taken off when field research for this work was done in early January 2016. It was waiting for ministerial approval as per PPP regulations. The Mtwara Mikindani District Council engaged in this PPP project because it had no capital to cover the costs involved. Unity Trust of Tanzania was to give capital to pay for the compensation that the district council could not afford. The district council made the proposal for the PPP: Unity Trust of Tanzania was interested. However, the PMO-RALG stopped the project because the council did not seek them to get advice. After the council followed the needed procedure, the former Prime Minister (Hon. Pinda) agreed to the plan, but his term expired before signing. It is hoped that the present administration will sign the plan.

Another potential PPP project is a bus terminal construction at Chipukuta area. The Mtwara Mikindani District Council requested funds from the national government and engaged a company to do drawings. These were completed in September 2015. It has expected a private sector to do the construction. At the time of the present study, the plan was for the council to call for expressions of interest so that the private sector could do the construction through a PPP.

The Mtwara Mikindani District Council has entered into a PPP to do some revenue collection. Maxcom/Max Malipo has accepted the task of collecting revenues from a few specified sources while Ward Executive Officers (WEOs) do other revenue collections. According to respondents at the council, Max Malipo provides electronic devices to collect revenue on a commission basis. Future PPP projects are planned at Vigaeni area for ultramodern real estate development including shopping malls and a business complex. Drawings will be made and expressions of interest will be invited.

4.4 The Case of Tandahimba District Council (TDC)

As with the other local government authorities, the Tandahimba District Council TDC has established a collaborative relationship with the private sector by means of a PPP in various areas. This collaboration extends to revenue collection at the Tandahimba market and bus stand. Before privatization, the Tandahimba District Council collected revenue to know the potential then privatized. Cashew nut crops surplus (5% of farm gate price) is collected by the Council through the District Treasurer (DT) office at the present time. But earlier on, it was collected by Tandahimba Newala Cooperative Union (TANECU) through a contractual relationship with a PPP. This avenue proved to be ineffectual because there was a long process of waiting for the District Council to get its cheque.

Possible Future PPP Projects for Tandahimba

There is a huge PPP potential in the Tandahimba District Council. The council is the leading producer of cashews in Tanzania. Construction of go-downs by means of a PPP is a huge opportunity in the Tandahimba District Council.⁷ In 2015 Tandahimba produced a total of 57640 tonnes of cashew nuts. The cost of storage in go-downs is 14 Tshs per kg. In the course of 2015, the District Council was able to acquire over 700,000,000 Tshs in revenue from storing cashew nuts in its go-downs.

That is not all: there is a potential for construction of a cashew processing plant that would be available for leasing. The price for cashews can rise from 1800 to 5000 Tshs per kg when they are processed. The District Council would be able to construct a processing plant by means of a PPP and rent it out to the private sector. According to the input I have received, a majority of factories in the Tandahimba District Council are now warehouses. Sizable processors such as Olam have moved processing plants to Mozambique, and the River Valley factory has been closed. At Mtama there was an expansive factory, but now it is merely a warehouse. There is a further fact to keep in mind that the Small Industries Development Organization (SIDO) facility is no longer

⁷ A go-down is a place of storage, a warehouse.

processing cashews. If one were to speak frankly, one would have to admit that there is a need to study why all these declined before investing in processing plants through a PPP.

4.5 The Case of Morogoro Municipal Council (MMC)

PPP projects in the Morogoro Municipal Council include the Msamvu Bus Terminal (i.e., the Msamvu Complex), revenue collection from various sources such as parking slots and abattoirs; cleaning; operation of toilets at the sites of the Municipal Council properties at Rock Garden, at the Golf Course in Gymkana, the Kikundi Snake bar and Kambarage. The Morogoro Municipal Council is also engaged in a PPP in land development in collaboration with the Tanzania Investment Bank (TIB). The Council does the survey and maps while the bank funds the compensation. This is somehow similar to the Bagamoyo Town Council's manner of operating and the project associated with the planned land by means of a PPP in Mtwara Mikindani. Another PPP operation in the Morogoro Municipal Council is at the Mango Park established by the private sector on the council's land. The private sector operates the facility, will cover its costs and then will make the transfer to the Council by means of a Build-Operate-Transfer (BOT) PPP model.

Potential Future PPP Projects in the Morogoro Municipal Council

The potential for more PPPs include the construction and operation of hotels in Morogoro, tourist attractions in the mountains surrounding the council and the establishment of real estate. Other possibilities for a PPP arrangement include the District Development Community Centre (DDC) which has construction drawings in place and an Environmental Impact Assessment (EIA) that has been arranged for planned shops, parking sites, recreation areas, and so forth. According to those who expressed their opinions at the council, what has been

hindering this plan from taking off is how to market it in a harmonious collaboration with the private sector.⁸

The current abattoir in the Morogoro Municipal Council is very small and at the city centre: one can conjecture realistically that the construction of a modern abattoir is in order. An area has been identified at Mkundi for this purpose. The issue that hinders the project from taking off is to compensate the five (5) people in the 500 acre area at the just price of 800 million Tshs. Other PPP projects that are in the pipeline include construction of the main market at the town centre as a modern, complex and multipurpose facility. The Council would borrow funds (about 9 trillion Tshs) and build the market. The private sector would operate the market. Critically thinking, it would have been better for the Council to let the private sector build and operate the market through a PPP rather than taking upon itself the responsibility of borrowing and construction. The private sector is better suited to do borrowing, construction and operating than the public sector.

In-Depth Study of the Msamvu Bus Terminal PPP at the Morogoro Municipal Council

This is a modern complex bus terminal project undertaken through a PPP from 2007. The objective has been to develop the existing terminal in order to increase the Council's revenue, provide better services to users and create more jobs. The Municipal Council wrote a proposal and submitted it to the Local Authorities Provident Fund (LAPF) and National Social Security Fund (NSSF). The proposal was accepted by the LAPF, who has funded the project by means of a PPP that links with Special Purpose Vehicle (SPV). The two partners are represented equally on the steering committee, each constituting 50% of the membership. The Municipal Council contribution is to provide land valued at five (5) billion Tshs. Shares are 60% for LAPF and 40% for the Municipal Council.

The project is under the management of Msamvu Properties Company, Ltd. This is the SPV that collects all the revenues. When

⁸ The author advised them to make announcements in various media and call for expressions of interest or proposals from the private sector to invest by means of a PPP.

it has collected a total of 100 trillion Tshs, the sum is deposited in a special fixed account. There is a board for the company composed of six members, with three from the Local Authorities Provident Fund and three from the Morogoro Municipal Council. The PPP is for a 15- to 20-year contract in possession of the asset by the SPV company after which it will transfer the asset to the Municipal Council. By the end of 2015, when the field study for this work was completed, phase one of the project was under way. The complex is intended to have multiple uses including a modern bus terminal, hotel, petrol station, conference halls, business stalls, banking halls, and shopping malls. According to the council members who contributed their input, all the PPP procedures have been followed.

The council respondents have some worries about the Msamvu PPP project. They are afraid that Land Authorities Provident Fund may take over the station since it is investing more than the Municipal Council. The situation seems provoked to the lack of financial muscle on the part of the Council. The Council members are of the view that LAPF will be taking a substantial share of generated profits and then transfer the project to a Municipal Council obsolete facility because of the wear and tear and need for maintenance after the end of the PPP contract. To partly avoid such an unfortunate turn of events in the future, it is advised that true financial experts who know the structures and personnel of the organizations involved and who recognize what is at stake for the future should play a vital role at PPP meetings. According to the Municipal Council members, it is the LAPF experts that are on the board of the SPV company that operates the project. The Municipal Council members who are on the board are politicians by experience and expertise: they are not technical people. Those who voiced their opinion are of the view that at least the council economist should have been part of the board. This is because PPPs are highly technical and not political matters. Those giving the researcher their input informed him that even when the council experts are invited to attend board meetings, they are not free to speak.

4.6 The Case of the Same District Council (SDC) by March 2018

Similar to the Msamvu PPP that hinged on the collaborative link with Special Purpose Vehicles, the Same District Council planned for Special Purpose Vehicle in the name of the Kalamawe Dam Investment Company⁹. The company was registered as SPV PPP and was owned by various stakeholders. These included the District Council, six villages, Pangani Basin Water Authority, a private sector and various community groups including livestock keepers, farmers and fishermen. The company followed the paradigm of the PPP business model with the aim of having equitable ownership of resources among stakeholders including villages which are the land owners according to the Land Act of 1999.

5. Advantages of the PPP Business Model with Local Government Authorities

There are a number of benefits for local government authorities to use the PPP business model. Some of these advantages include increases in collected revenue whenever the PPP projects are implemented successfully. Also there have been investments in various infrastructures – for example, bus terminals and markets – that the local government authorities could not afford to build using their own sources of revenue. Furthermore, PPPs help in doing away with some undue interference from political figures or other unnecessary personnel, for example, in revenue collection. The fact that the private sector is more aggressive, faster, quicker and more innovative as well as less bureaucratic than the public sector is a fact not to be scoffed at. The PPP business model, therefore, delivers quicker and more efficient benefits than a pure public sector operation.

⁹ This is a relatively large dam that has been around since 1957. It has potential for fishing and irrigation.

6. Main Challenges in the Application of the PPP Business Model to a Rapport with Local Government Authorities

There are a number of obstacles, challenges and constraints when one applies the PPP business model to contractual arrangements with local government authorities in a successful way. These include but are not limited to politics in which ‘big’ political names are related to the private sector businesses including some politicians who use their own companies and personnel to do some clever manoeuvring for local government authorities PPP projects. This disrupts what should be an equal playing ground, and so it engenders unfair competition. It may lead to inefficient, non-competitive and costly service delivery. Other challenges include overestimation of revenues to be collected so that those who belong to the private sector can garner financial benefits that in truth are not theirs.

Another problem that needs to be addressed is that of bidders who are unable to pay the local government authorities the agreed amount. There are occasions, too, when some private sector operators sabotage processes such as revenue collection to show that the amounts agreed upon cannot be achieved. Corruption by some local government authority staff members who may collude with the private sector on the pricing and tendering process is sometimes a possibility. Ignorance on the part of some, especially the local government authorities, and on the part of some politicians who are involved in the process provokes unnecessary misunderstanding and a dishonest distribution of revenues. Dishonesty and a lack of loyalty on the part of some businessmen who cheat on actual revenues cast shadows on the whole process.

Quite detrimental to the process are the lack of balance between what local government authorities know – or, more to the point, do not know – and what the private sector knows. The local government authorities’ lack of information is hurtful to the entire process. What debilitates the objectives of the process, too, is the fact when the private sector provides the services, the expense to the consumer is greater than when the local government authorities provide the services. When it was the public authority who rendered the public goods and services, everything seemed more

affordable; and the public were receiving more for the money they were spending than in the scenario where the private sector via the PPP business model were providing goods and services.

Those giving input to the present researcher expressed their observations that there are bureaucratic delays, dishonesty, distrust, lack of transparency and politically motivated interference by some government officials in some PPP projects. It is my perception as the researcher that generally both the representatives of the private sector and the government officials were sharing the same views.

There is a question about the sustainability of PPP projects. This is due to inadequate maintenance, gross overstaffing and poor operational practices. It was indicated that PPPs still draw complaints from some quarters due to the poor dissemination of necessary information as well as poor services. It has been noted that there is an intense aggressiveness and a proliferation of advanced skills in the private sector compared to the public sector, particularly in comparison with local government authorities. This makes PPP business models unequal partnerships. It is more or less obvious that this stands to give the local government authorities a hard time in negotiations and the implementation of contracts. On an even more basic level, there is a low knowledge and understanding of PPPs; information asymmetry between partners; a limited knowledge of contracts and a lack of experience in implementing them; and the uneasy presence of politicians on the SPV PPP boards of directors (for example, Msamvu Properties Limited) instead of local government authority experts. A glaring weakness in the PPP arrangement is that in some local government authorities (for example, in the Morogoro Municipal Council), staff have no power to give input in important PPP projects.

For a number of local government authorities, including the Mtwara Mikindani District Council, there is a lack of capital to accomplish preparatory PPP business model procedures (for example, preparing necessary drawings for huge construction facilities) before instituting the PPP projects. Given relatively low income levels and flows, it takes a long time for the local government authorities to collect adequate revenues that match the needs of the private sector.

When all is said and done, the main asset that local government authorities have to contribute in the PPP business model is land. When this researcher ponders thoughtfully all the input he received in the course of his fieldwork he notes that the private sector seems very much to be at an advantage. Besides having more exposure, the private sector is more competent, smarter, more experienced, more research-based, more updated on issues, more legally professional and more focused. In comparison with the lawyers designated by the local government authorities, for example, the private sector uses very competent investment lawyers. Another advantage accrues to the private sector when representatives of the sector take it upon themselves to draft the PPP contracts instead of making the effort to collaborate on a draft that is drawn up jointly by the two partners. The fact that there is no by-law for the PPP in local government authorities places them at a further disadvantage. Local government authorities have to obtain a no-objection decision from relevant authorities at the President's Office Regional Administration and at the local government office on their intended PPP projects; this requirement delays the process. Delays become even more inconvenient when requirements involve going to the Attorney General (AG) before the eventual PO-RALG's no-objection decision. The Unity Trust (UTT) land PPP project in the Mtwara Mikindani District Council, for example, took over three years to prepare and a deal was yet to be reached when this present study neared completion. A scenario such as this one scares away private sector investors who have options for investing in many other projects.

Critical examinations and inquiries are in the hands of higher authorities (AG) in the central government not in the local government authorities. It was stated in the field study that vetting by higher authorities is for transactions valued from 50,000,000 Tshs! This is a relatively very small amount and implies that almost all transactions have to be vetted by higher authorities implying congestion and bureaucracy. All vetting has to be done in the offices of the higher authorities in Dar Es Salaam although there are also zones of higher authorities in the regions.

Challenges in Revenue Collection by Means of a PPP: The Case of Max Malipo

The private sector’s views on participation in PPPs with local government authorities are very similar to the ones outlined above. In what follows, challenges in revenue collection that take place by way of PPPs with local government authorities are highlighted with a particular reference to Maxcom/Max Malipo as a case study.

Maxcom/Max Malipo is a private company with a focus on revenue solutions through the use of Information Communication Technology (ICT). In its bidding for revenue collection by specified arrangement with local government authorities, it has to deal with individual councils. There are about 168 councils in total. The company has physically visited 60 councils (35.7% of the total) but has a contract with only 8 (7.8% of the total). It also has a Memorandum of Understanding with the Association of Local Authorities in Tanzania to market its revenues collection solution. It has to deal with individual local government authorities because procurement is not centralized and there is no uniformity.

The company claimed that some local government authority officials have their own companies for revenue collection. This brings about conflicts of interest and unfair competition vis-à-vis the private sector. What can complicate the situation greatly is that most local government authorities do not know their revenue sources and revenue payers. This makes it almost impossible to estimate potential revenues before outsourcing revenue seedbeds. Max Malipo offered a means – a smart tool – to resolve this difficulty by using a questionnaire that would collect the information on available businesses, identify properties and mark all businesses. If local government authorities do not know their sources of revenues, the private sector collector has to identify them. In this scenario, the private sector can apply pressure to the local government authorities. Due to lack of revenue data, baselines cannot be established and therefore growth cannot be scientifically established in absence of adequate and reliable baselines. Max Malipo published the information that it has spent over 150,000,000 Tshs to collect the data on tax payers only in Kinondoni. local government authorities are not ready to pay for such investment costs.

Maxcom/Max Malipo's new ICT system is not accepted everywhere because it brings transparency and makes revenue evasion difficult. A particular drawback is that there is no centralized revenue procurement system for local government authorities; therefore Max Malipo has to visit each local government authority physically. According to the company, there is nepotism/corruption in some local government authorities leading to a situation in which unqualified revenue collectors get contracts that may be withdrawn in the future. Max Malipo indicated that Morogoro Municipality had to drop a revenue collector earlier due to inadequate capabilities.

Local government authorities are faced with poor human resource capabilities on PPP issues in general and PPP involvement with revenue collection in particular. There is inadequate innovation on the part of some local government authorities; an unwieldy bureaucracy in the whole procurement process; and late payment after services have been delivered. Local government authorities simply seem not to be thinking in a private sector/business minded way. They are not integrating into their organizational fabric the whole Max Malipo system: they are operating in piecemeal fashion with Max Malipo's technology. It is not an exaggeration to say that some local government authority officials are not dynamic.

7. Innovative PPP Ideas: The Case of Tandahimba

Investigation has disclosed that in Tandahimba there emerged a PPP idea to construct a parking place for lorries that visit the Council to buy cashew nuts. It was estimated that there are over 300 lorries in the Tandahimba District Council between September and January each year for buying cashew nuts. This is a very good source of revenue if they can be made to park in designated and specially constructed areas and then proceed to pay the parking fee. The law allows the Tandahimba District Council to charge parking fees, but it has no specific parking areas.

Other ideas include the construction of modern markets at Tandahimba township, Luhagale, Kiatama, Mahuta and Mchichira. Mahuta and Tandahimba are town authorities. Therefore they have

a lot of business potential. Markets will boost the council’s revenue.

Another very innovative idea is to make investments in income-generating enterprises outside Tandahimba. There has been an idea to buy land in Mtwara town and invest massively in real estate that could give rise to an ultramodern hotel, shopping malls and other hospitable, income-generating facilities. The facilities in question cannot be constructed in Tandahimba because of the remoteness of the Council in relation to the envisaged market/customers for these facilities. The investments would substantially fortify and stabilize the council’s income – an income which currently could evaporate if there were no cashew nuts.

The Tandahimba District Council has thought about constructing real estate (e.g., a hotel) which a private sector would be able to rent and operate at a fee that would go to the Council. The idea was to buy a plot in Mtwara town for a four-star hotel, build a structure or invite a private sector to build according to a PPP model. As noted in the case of Mtwara Mikindani, Mtwara is rapidly expanding because of a number of factors such as the oil and gas economy, the Dangote cement factory, and so forth.

8. Utilization of Special Purpose Vehicles (SPV)

Among the main reasons for the success of PPP projects has been the creation of a separate commercial venture in the form of a Special Purpose Vehicle enterprise. The SPV provides a good framework for raising funds, linking participants with each other according to a legal format and assuring supply, production and marketing. It brings together various parties like financial institutions, public sector suppliers and the private sector.¹⁰ The SPV venture assists to a remarkable degree the transparent operation of PPPs at the local level. A case study of an SPV-assisted PPP was done at the Msamvu bus terminal construction site in Morogoro. Here is a brief presentation of the case:

¹⁰ See <https://ideas.repec.org/a/umk/journal/v2y2010i1p64-88.html> for details.

*SPV: The Case of the Msamvu Properties Company in Morogoro*¹¹

As partly outlined in the Morogoro Municipal Council PPP projects, the purpose of this SPV was to bring to fruition the Msamvu ultramodern bus terminal. The purpose of the company has been to build the stand and operate it for the foreseeable future as a legal entity. It is a joint venture company between the Morogoro Municipal Council and the LAPF (40:60% shares). The company was established in 2009; operations began in 2010. The Morogoro Municipal Council contributed the capital: 4.5 acres of land that formerly was the bus stand. It is valued at 5 billion Tshs. The total capital of the company is 40 billion Tsh. LAPF is the developer of the property: there are two phases to the property development.

The company has a board of six directors, three from the Morogoro Municipal Council and three from LAPF. The Director General of LAPF is the board director and his deputy is the municipal director. The board meets at least four times annually and has a company secretary. Management is part of the secretariat. The manager oversees the daily activities of the company. He is independent of the Morogoro Municipal Council and the LAPF. Nevertheless, the manager was a former employee of LAPF.

Benefits

The advantages for having the SPV include the following:

- ❖ The Morogoro Municipal Council did not have the capital necessary to invest in the property (35 billion Tshs). The PPP made it possible to raise the capital, while the Council contributed in kind 4.5 acres of land.
- ❖ It is now able to avoid interference from politics.
- ❖ LAPF gets funds from investments. The principal business that LAPF conducts concerns pensions, i.e., meeting long-term liabilities.

¹¹ The presentation of the Msamvu Properties Company in Morogoro is entirely based on an in-depth interview with the Company's manager in December 2015.

- ❖ The Morogoro Municipal Council now gets more revenues than before the company started to manage the terminal. Before the PPP the stand used to give the Council only 300,000 Tshs per day, but now under the PPP, the collection is 1,500,000 Tshs daily.
- ❖ There are direct and indirect forms of employment by means of which people at the Morogoro Municipal Council are given work at the construction site; there are a total of eight (8) revenue collectors that the company has employed.
- ❖ The company pays tax to the government (over 20,000,000 Tshs per year). When the Council was doing the collecting, the company was not paying tax.
- ❖ The company pays advertisement fees to the Morogoro Municipal Council (8000 Tshs per square metre per month),
- ❖ The company pays allowances to the Council health officer involved in cleaning the terminal.
- ❖ The company pays the Council a garbage collection fee for cleaning the stand at 15,000 Tshs per trip in for a total of at least six trips per week.
- ❖ The Council gets dividends from the SPV. It has about 500,000,000 Tshs in a fixed deposit as an investment to be divided between the SPV and shareholders.

Challenge: Understanding the Notion of an SPV

Among the challenges facing the SPV is that some politicians and other people do not understand the SPV concept and therefore demand reports from the company as if it were a public (local government authority) company.

9. Conclusions and Recommendations

9.1 Conclusions

Based on the study that informs this essay, a number of conclusions may be drawn.

- ❖ PPPs in local government authorities in Tanzania have existed even before the 2009 Policy.

- ❖ PPPs are potentially very beneficial for the local government authorities.
- ❖ There are a number of challenges that local government authorities face when undertaking PPP projects.

9.2 Recommendations

Based on the study that informs this essay, a number of recommendations may be offered:

- There is a need to address all the challenges that local governments face in the context of PPPs including shortening the time frame for the PPP processes on the part of the central government when local government authorities have designed projects already in place.
- There is a need for capacity building /training on key PPP issues related to local government authorities for all stakeholders (politicians, local government authority staff, and others).
- There is a need to review the laws that give councillors too much power in their rapport with experts within the local government authority milieu.
- The local government authority's procedure for entering a PPP follows a very long channel which can be time-consuming, unnecessarily bureaucratic, and somewhat discouraging. This should be shortened.
- There is a need to open the door for private sector participation in the council decision-making meetings on PPP matters. Currently the private sector seems to have no voice in the PPP decision-making process.

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