I. Introduction and Context

Country Context

Overview
The United Republic of Tanzania has experienced a high level of economic growth averaging between five to seven percent per annum over the past decade. The location and the size of the country (with a land mass of about 947,000 km²), its mineral and agricultural resources, its tourism potential coupled with the good performance of the national economy and its critical role as a transport hub for its land locked neighbors, provides unrivaled opportunities for the development of modern transport infrastructure and services.

One of the country’s main challenges is to translate economic growth into poverty reduction and the achievement of the Millennium Development Goals by 2015. Thus, the Government of Tanzania (GoT) has developed a five-year (2010/11-2014/15) national strategy for growth and poverty reduction, known as MKUKUTA II which focuses on three clusters: (a) growth and poverty reduction; (b) improvement of quality of life and social well-being; and (c) good governance and accountability. The MKUKUTA II recognizes the importance of transport in delivering critical services and reducing bottlenecks to growth in both rural and urban areas.

Tanzania has an extensive transport system with a road network of about 93,000 km and a railways
system of 3,681 km (2,706 km are operated by Tanzania Railways Limited (TRL), and 975 km by Tanzania-Zambia Railway Authority (TAZARA). Two important ports are connected to this network, Dar-es-Salam on the Ocean and Mwanza on Lake Victoria. In addition, Tanzania has a total of 368 aerodromes and four international airports. The Tanzania – Zambia (TANZAM) pipeline carries oil for the refinery in Kapiri Imposhi (Zambia).

Sectoral and Institutional Context

A National Transport Policy (NTP) was formally approved by the GoT in 2003 and is being updated to reflect the changes that are necessary to improve performance of the sector. The over-arching goal of the NTP is to facilitate the achievement of the National Development Vision 2025, the Millennium Development Goals (2015), and the MKUKUTA. One of the major achievements of the NTP has been the fundamental reform of transport sector management. The reform includes the delegation of regulatory and executive functions to autonomous authorities, creation of an independent user financed funding mechanism for road maintenance, concessioning of the operations of transport entities to private operators, and limiting the role of the Ministry of Transport to policy setting and sector oversight.

The GoT has developed a 10-year (2007/08 to 2016/17) Transport Sector Investment Program (TSIP), to implement the NTP, which the World Bank is supporting in partnership with other donors. The TSIP describes the current transport environment as one where “the movement of freight along major corridors handling international traffic of land-locked neighboring countries to/from Tanzania, or national traffic to/from remote areas from the coast, is characterized by long transit time, extensive delays and high transport costs.” The Short Term Sector Investment Program (STSIP) has been developed to help align the TSIP with the annual Medium Term Expenditure Frameworks. Although the quality of the road network and the associated services has improved significantly during the last decade, the transport costs are still high and for some neighboring land-locked countries it can be as high as 50 percent of the value of exports.

During the last 20 years, the railway transport has lost major market share on long haul inter/intra regional transport corridors to the road transport due to deteriorating railway infrastructure and inefficient operating standards. The 2007 concession of Tanzania railways did little to upgrade rail infrastructure and to improve the competitiveness of the railway transport vis-à-vis road transport on inter/intra regional transport corridors. Although there is general consensus regarding the shortcomings of the existing rail transport in Tanzania, the lack of a commonly agreed strategy has led to an uncoordinated response by key stakeholders in the sector to tackle the rapidly declining market share for the railway mode of transport, poor railway infrastructure and major capacity issues. Consequently, a new railway centric intermodal transport strategy based on a clear business model for both freight and passengers services on key inter/intra regional transport corridors is needed. Although passenger service is important, this project focuses on freight traffic.

The project targets the logistics processes and in particular: (a) processing time at the port, (b) regularity (of train operations) and reliability (of the transit time), (c) loading and unloading time and facilities at the rail heads, (d) intermodality facilities.

A number of studies have concluded that the use of intermodal transport would reduce the high transport costs in Tanzania and in the sub region. However, intermodal transport has not really developed on key surface transport corridors due to the poor performance of both railways and port services, resulting in unreliability and unpredictability of the transport chain. The current situation
leads to increased producer prices and the lengthening of the supply chain. Besides constraining national activity and reducing competitiveness of Tanzania’s tradable sectors, poor infrastructure also creates delays for transport of good to its six landlocked neighbors (Eastern Democratic Republic of Congo (DRC), Rwanda, Burundi, Uganda, Zambia and Malawi).

The resulting increase in transport costs (for instance, 40 percent of the value of exports for Burundi) impact on the business and regional development, thus impeding needed investment and growth in the greater regional economy. While development and performance of the Tanzania surface transport corridors remains weak, competing transport corridors from Mombasa or Durban reaching out to some of Tanzania’s neighbors will continue to attract most of the traffic which could otherwise be transiting through the country. Due to the lack of good inter modal integration and poor performance of the railways; Tanzania is rapidly losing the opportunity to become the major regional transport hub for it rapidly growing neighbors which have an estimated combined population of about 90 million.

The proposed World Bank support is based on a comprehensive strategy that: (a) defines a business model that establishes the existing and emerging transport requirements and optimizes the scope of the infrastructure rehabilitation accordingly, (b) meets the conditions for competitive rail services, and (c) improves the performance of the train operator TRL (both at management and operational level) in carrying out transport services on this infrastructure, in order to increase its market share within the transport sector as well as improve its financial self-sustainability.

Relationship to CAS
The planned project activities are largely consistent with the Country Assistance Strategy (CAS) objectives, in particular “building infrastructure and improving delivery of services”. Key results related to transport sector have been identified in the CAS as: (a) increasing access; and (b) improving quality of services. The proposed project is included in the current CAS as one of the high-priority operations, as it will improve the overall rail performance, increase capacity for high volume users (shippers and freight forwarders) and facilitate access to land-locked neighboring economies (page 27 of the CAS).

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)
The project development objective is to: (a) restore a viable rail operation with a minimum level of reliable intermodal service, and (b) rehabilitate the rail line to be functional and enable an acceptable level of maintenance. The project focus will be on improving the train operations of the intermodal container business in order to facilitate trade, economic productivity and efficiency and global competitiveness for Tanzania and neighboring countries.

The main factors to be addressed are the poor state of the rail infrastructure and equipment, and the operational weaknesses in all components of the logistics chain, starting at the port (long customs clearance processes, long operating delays and insufficient intermodal facilities).

By contributing to increase the port capacity in Dar-es-Salaam, by setting up new logistics services and standards along this railways line (and up to Mwanza and Kigoma), this corridor upgrade will directly benefit Tanzania transport sector.
Operations improvements for the container business will also positively disseminate to the regional economy and other sectors, by facilitating trade and providing a more regular and reliable transport system, and contribute to:

- economic productivity and efficiency,
- improve Tanzania global competitiveness,
- tackle road congestion and lower stress on existing or new road network (and therefore overall road maintenance budget)
- offer low-carbon emission transport solutions and therefore contribute to improving environmental conditions.

A number of recent news articles and studies have pressed for Tanzania to re-engage on the Central corridor and help the development of its landlocked neighbors. This corridor provides a shorter and more direct link to these countries: a recent East African Corridor Diagnostic Study (CDS) indicates that a price of a Twenty-Foot Equivalent Unit (TEU) container from Dar-es-Salaam to Bujumbura would be 50 percent cheaper than the similar movement by road from Mombasa.

**Key Results (From PCN)**

The key results anticipated in the project are:

**Operational:**
- Measurable improvement in the supply chain performance for containerized exports and imports transiting to/from the port of Dar-es-Salaam and to/from landlocked neighboring countries. Key indicators will be the regularity (scheduled trains and journey time) of new container services of direct block-trains between Dar-es-Salam port and Isaka terminal.

**Institutional:**
- Implementation of a new management accounting and information system no later than one year after appraisal completion, both Reli Assets Holding Company (RAHCO) and Tanzania Railway Limited (TRL). This new information system will:
  - (a) monitor financial and operational results and help clarifying respective responsibilities of the two companies; and
  - (b) help clarify the form and level of the regulatory role for SUMATRA, in terms of track access prices and train operations tariffs.

**TRL:**
- Identify and isolate the new intermodal services operating costs and revenues from the other activities, and also depreciation and maintenance of related equipment;
- Facilitate identification and/or allocation of related resources (human or technical); and
- Plan for track usage and rolling stock maintenance programs.

**RAHCO:**
- Identify and isolate rehabilitated infrastructure running costs (maintenance);
- Design corresponding track access fees;
- Allocate slots at a sustainable and competitive price to the operator(s) (in particular and essentially for the new container services); and
- Prepare the way to open the rail infrastructure access to new operators.

**Regulation:**
- Clear role for SUMTRA (the rail regulator). This will include regulation of infrastructure and equipment, but more importantly apply the existing legal and regulatory powers to harness performance and competition on the rail;
- Isolate the legal and regulatory basis for supporting the project objectives; and
- Design the performance indicators for ensuring project success and allocating responsibilities among key participating organizations (TRL, RAHCO and TPA).
III. Preliminary Description

Concept Description

The proposed project has been earmarked for an IDA credit of US$150 million, and it is important to link the business development model supporting the rehabilitation of the rail network and the rolling stock with the issues facing the port operations and its future development. The market assessment and business planning and the Land Bridge Concept interim reports, have shown that the project should be designed around the following four components:

Component A (Railway Track Rehabilitation – about US$123 million): Emergency rehabilitation to key sections of railway track infrastructure and other infrastructure improvements to guarantee a reliable service between Dar-es-Salam and Isaka. It will involve the procurement of rails, sleepers, and related engineering works (alignments, laying of track, rebuilding of bridges and culverts).

Component B (Rolling Stock Rehabilitation – about US$20 million): The rehabilitation of locomotives and selected rolling stock to deliver service at the level identified above in key results. Most of this equipment will be dedicated to the new intermodal services, although the improvement in TRL’s traction capacity is expected to have a positive impact on existing services.

Component C (Terminals Improvement – about US$2 million): The re-design and upgrading of rail exchanges on the port and particularly in and around the two container depots in the port and the Isaka terminal. This is expected to allow for more efficient modal transfers to rail.

Component D (Capacity Building – about US$5 million). This component will focus on: (a) Training programs for management and/or outsourcing of management capacities that will span over at least three years to reach the project objectives and facilitate the required management adjustment and transition. This training will be related to overall intermodal operations management, as well as specific train operations management, with focus on delivering quality and reliability of services. (b) This will also integrate the development and set up of a management accounting information system.

The above components will be clarified during further project preparation.

IV. Safeguard Policies that might apply

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VI. Contact point

**World Bank**
- Contact: Henry Des Longchamps Devi
- Title: Sr Transport. Spec.
- Tel: 458-0046
- Email: hdeslongchamps@worldbank.org

**Borrower/Client/Recipient**
- Name: Government of Tanzania
- Contact: Ministry of Finance
- Title:
- Tel:
- Email:

**Implementing Agencies**
- Name: Reli Assets Holding Company (RAHCO)
- Contact:
- Title:
- Tel: (255-22) 211-2695
- Email: benhadard@yahoo.com, md_tito@trctz.com
- Name: Tanzania Port Authority (TPA)
- Contact: Mr. Ephraem Ngoza Mgawe
- Title: Director General
- Tel: 255-22-211-6250
- Email: dg@tanzaniaports.com
- Name: Tanzania Railway Limited (TRL)
- Contact: Eng. Kipallo A. M. Kisamfu
- Title: Ag. Managing Director
- Tel: 0784787403
- Email: aman.kisamfu@yahoo.com

VII. For more information contact:
The InfoShop