1. Country and Sector Background

1. Tanzania has sustained robust economic growth of around 7 percent from 2002 to 2008, driven by sound macroeconomic policies, market-oriented reforms, a favorable global environment and debt relief. However, one of the country’s main challenges remains to translate economic growth into poverty reduction, with the country registering only a small decline in poverty incidence from 35.7 percent in 2000/01 to 33.5 percent in 2007. The actual number of poor increased by about 1.3 million due to population growth. The global economic slowdown is likely to further impede poverty reduction efforts.

2. The Tanzania Development Vision 2025 emphasizes the need for more inclusive growth and poverty reduction, underpinned by the structural transformation of the economy from “a low productivity agricultural economy to a semi-industrialized one.” Well functioning and productive urban centers are essential for the successful transformation of the Tanzanian economy and efforts to translate economic growth into poverty reduction. There are early signs of a gradual structural transformation of the Tanzanian economy. Industry and services accounted for 73 percent of GDP in 2008 and were also the main contributors to GDP growth in 2008, with strong growth in industry and construction (9.6 percent) and services (8.9 percent);
agriculture grew more slowly at an average of 4.6 percent. However, the country remains heavily dependent on agriculture, where the majority of labor is employed, mostly in subsistence farming and small-holder cash-cropping. While agriculture will continue to be critical, the necessary economic transformation will come from the expansion of manufacturing and services, the sectors with greater potential to absorb labor and improve productivity. As the 2007 Country Economic Memorandum notes, Tanzania’s growth will “depend on the ability of the economy to diversify and to increase its international competitiveness”.

3. Recent World Bank research, entitled “The Urban Transition in Tanzania,” was completed in 2008 and sets out the main issues in the urban sectors as follows:

   (a) **Rapid urban population growth.** The urban population in mainland Tanzania increased from 5.7 percent (685,092 people) in 1967 to 22.6 percent (7.6 million people) in 2002. According to United Nations’ population projections, the percentage of people living in urban areas is likely to grow from 24 percent in 2005 to 38 percent (25 million people) in 2030.

   (b) **Urban unemployment.** Three characteristics of Tanzania’s urban labor force are: (i) much of the urban labor force (thirty eight percent) is employed in agriculture; (ii) informal employment has increased dramatically; and (iii) there is more unemployment in urban areas than in rural ones. A key challenge is therefore not only to create jobs but to create formal jobs in urban areas.

   (c) **Proliferation of informal and illegal settlements.** The overwhelming majority of urban land transactions and urban land development are outside of the formal system and it is estimated that 89 percent of real estate development in Tanzania is extralegal.

   (d) **Urban infrastructure deficits.** Investments in urban infrastructure have not kept pace with urban population growth, resulting in poor or declining access to urban infrastructure and services in several sectors. In particular low density of urban roads which are in good or fair condition has contributed to high congestion levels, economic loss through time away from productive activities, higher travel costs, poor road safety and higher air pollution. Preliminary estimates suggest that US$880 million or more should be invested each year in Tanzania’s cities just to service new residents.

   (e) **Intergovernmental fiscal framework.** The framework for local revenues and intergovernmental transfers cannot accommodate these financing needs. In Tanzania, most domestic revenues are collected in urban areas (more than 80 percent in Dar es Salaam alone) while more than 80 percent of transfers go to rural areas. Even in per capita terms, transfers to rural Local Government Authorities (LGAs) are 21 percent higher than transfers to urban LGAs.

   (f) **Own source revenues.** Tanzanian LGAs have experienced the progressive elimination of several own-source revenue instruments (including the elimination of
business licenses as a significant source of revenue in urban LGAs) and have not been very efficient at tax collection.

2. Objectives

4. The Project Development Objective (PDO) is “to improve the quality of and access to basic urban services in participating LGAs”. This would be achieved through the rehabilitation and expansion of urban infrastructure and institutional strengthening activities aimed at improving the fiscal and management capacities of the participating LGAs, including the Capital Development Authority (CDA).

5. The project will target the following seven urban centers (selected on the basis of several criteria including economic contribution, service coverage, urban population growth and strategic location): Mwanza, Arusha, Mbeya, Mtwara, Kigoma, Tanga and Dodoma. In Dodoma, the project will support both the Dodoma Municipal Council and the CDA.

3. Rationale for Bank Involvement

6. The success of Tanzania’s growth and poverty reduction strategies depends on the strong performance of its cities, which account for the majority of the country’s physical, financial, intellectual and technological capital and produce more than half of Tanzania’s GDP. Cities are the engines of economic growth, with industry and services (based in cities) contributing 56.3 percent of the country’s growth from 1990 to 2003. Urban productivity is estimated to be more than twice that in rural areas (2.3 times in 2006). The urban productivity advantage, which will continue to grow, can be multiplied through appropriate infrastructure, and institutions.

7. Urban centers are also critical to nationwide improvements in welfare. Recent research suggests a robust relationship between rural productivity and distance from urban centers. Areas within two hours’ travel time of cities of at least 100,000 people appear to have diversified into nonagricultural activities (Dorosh et al, 2008). Farmers closer to cities tend to use better equipment and both more and higher-quality fertilizers and pesticides, resulting in clear gains in productivity. The growth of urban markets is a key factor in raising the income of the rural population in the associated hinterland. Recent research from India confirms the importance of urbanization in reducing poverty in rural areas by leading to gains in productivity and incomes (Cali and Menon, 2009).

8. The World Bank previously financed essential rehabilitation and expansion of urban infrastructure in ten project towns under the Urban Sector Rehabilitation Project (USRP), which closed in December 2004. Despite the success of USRP an immediate follow-on project was not prepared. The Local Government Support Project (LGSP), now under implementation, which supports the Local Government Capital Development Grant (LGCDG) system’s annual allocations of US$1.50 per capita for local infrastructure, does not provide the critical mass of funding needed for large-scale urban infrastructure. Several sectors are increasingly integrating funding into the LGCDG system, with the result that the system now appears to have a significant rural bias—investment levels are approximately 50 percent higher in rural LGAs than in urban LGAs.
9. Recognizing the increasing importance of urban centers for Tanzania’s economic development, the Prime Minister’s Office-Regional Administration and Local Government (PMO-RALG) formulated an Urban Development and Environmental Management (UDEM) framework. UDEM proposed to address the investment burden of urban LGAs by making available additional financial resources (of US$1.00 per capita). There has been limited donor uptake (only the Danish Government committed funding for a subset of urban LGAs). While there remains support for a formula-based financing mechanism for urban LGAs, there is also strong support for a specific urban investment project that would accommodate larger infrastructure investments.

4. Description

10. The project will comprise of three components as follows: (1) Core urban infrastructure and services; (2) Institutional strengthening; and (3) Implementation support and preparation of future urban projects.

11. **Component 1: Core urban infrastructure and services (Estimated cost is US$146.1 million 100% financed by IDA).** This component will support improvements in core infrastructure and key urban services in the participating LGAs and the CDA. It will comprise two sub-components that will: (a) provide financing for subprojects prioritized by the participating LGAs and the CDA; and (b) provide technical assistance for construction supervision and support for the implementation and monitoring of Environmental and Social Management Plans (ESMPs) and Resettlement Action Plans (RAPs) linked to individual subprojects, including the payment of compensation costs arising from the implementation of the project. Specifically, the project will support investments in: (i) urban roads and drainage, including associated structures such as drainage ditches, culverts/bridges, footpaths and street lighting; (ii) solid waste management including solid waste collection centers, equipment for transportation and disposal, and disposal sites; (iii) community infrastructure upgrading (roads in residential areas); and (iv) local infrastructure such as bus stands and lorry stands/parking areas.

12. **Component 2: Institutional strengthening (Estimated cost is US$12.8 million 98% financed by Government of Denmark and 2% financed by IDA).** This component will support the strengthening of the fiscal and management capacity of the LGAs for improved operations and maintenance (O&M) and infrastructure development. The intended outcomes for Component 2 include: (a) improved capacity for urban infrastructure development and management including technical design, procurement, financial management, contract management, and environmental and social safeguards; (b) improved asset management and O&M; (c) enhanced cost recovery and management of key urban services including solid waste; (d) improved own source revenues; and (e) improved strategic urban planning. The component will also support capacity improvements in PMO-RALG.

76. **Component 3: Implementation support and preparation of future urban projects (Estimated cost is US$11.5 million 100% financed by IDA):** This component will: (a) provide support for project implementation; and (b) finance preparation activities for future urban projects and technical assistance to the urban sector.
5. Financing

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<td>Government of Denmark</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>175.50</strong></td>
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</table>

6. Implementation

13. The implementation of the project will be mainstreamed at PMO-RALG and LGA levels, utilizing existing staffing structures and government systems. As far as possible, participating LGAs and the CDA will be responsible for implementing their own subprojects including all fiduciary, safeguards and reporting requirements. PMO-RALG will be responsible for the overall management of the project, providing overall coordination and technical support to the LGAs and the CDA. Project teams have been established at both levels.

7. Sustainability

14. Project sustainability will be pursued through:

   (a) **Improved management capacity of LGAs, CDA and PMO-RALG.** The project will be implemented through existing national and local government structures, thereby building capacity and systems for urban infrastructure development at both levels.
   
   (b) **Increased mobilization of local revenues and improved cost recovery of key urban services.** Specific actions will be implemented targeted at improving own source revenues and improving cost recovery of key urban services in order to increase funds available for O&M and new infrastructure development. Commitments to improving revenues will be included in contractual Performance Agreements between PMO-RALG and the participating LGAs.
   
   (c) **Improved asset management and increased allocation of funds for operations and maintenance.** The project will support targeted interventions to improve asset management, increase allocations of revenue for infrastructure operations and maintenance and support the development of a maintenance culture at the local level. Commitments to improving allocations for O&M will also be included in LGA Performance Agreements.
   
   (d) **Technical assistance on municipal finance and borrowing.** The project will support analytical work on municipal finance and borrowing in large urban LGAs. It is envisaged that this work would ultimately lay the foundation for municipal borrowing, for example by developing nominal ratings of municipal credit worthiness.
8. Lessons Learned from Past Operations in the Country/Sector

16. Lessons learned from previous World Bank financed urban development projects in the region point to the fact that to achieve project sustainability, projects should: (a) have well-defined objectives; (b) be simple and easily manageable, especially in the context of weak capacity for project implementation; (c) instill ownership at the local level; (d) ensure capacity to maintain infrastructure investments; and (e) be well coordinated with related projects and programs.

(a) **Well defined objectives.** TSCP will focus only on outcomes that can feasibly be achieved and whose success can convincingly be demonstrated, specifically the improvement of access to and quality of urban infrastructure in the participating urban LGAs.

(b) **Simple design.** Simplicity is achieved by only including activities central to the achievement of the PDO. The project has only three components. One component targets infrastructure investments that will directly improve the quality of and access to urban services. A second component targets improvements in the financial and technical capacities required to plan, finance, implement and maintain urban services. And a third component provides support for project implementation.

(c) **Local ownership.** The participating LGAs and the CDA have developed their own funding proposals based on consultations with residents and other urban stakeholders. The LGAs and CDA will have primary responsibility for the implementation of their subprojects including fiduciary aspects and safeguards management. Project implementation will be mainstreamed within existing municipal departments to promote ownership and sustainability.

(d) **Institutional strengthening and sustainability of outcomes.** Institutional strengthening is central to the project, aimed at ensuring that the necessary financial and technical capacities are available at the local level. This is critical to the sustainability of investments financed under the project as well as the capacity of LGAs to continue to improve service delivery.

(e) **Coordination with other projects and programs.** Institutional strengthening activities have been elaborated with reference to other related ongoing capacity building initiatives in LGAs including: including: (i) the second phase of the LGRP; (ii) the Capacity Building Grant (CBG) under the LGCDG system; (iii) current and planned activities under UDEM; (iv) road sector support to improve asset management of urban roads; (v) support from MoLHSD for the development of master plans and plot allocations; and (vi) ongoing work of the PMO-RALG tax reform task force.

(f) **Applying a “contractual approach” through a municipal contract mechanism.** TSCP will build on Performance Agreements already utilized under the ongoing LGSP in Tanzania and will draw on experiences in West Africa that
include: the need for clear delineation of tasks and responsibilities in terms of project execution; (ii) close supervision and technical assistance in the early years; and (iii) robust mechanisms for monitoring and reporting.

17. The lessons learned from the successful implementation of USRP merit special attention. In particular the project design for TSCP takes into consideration the following lessons learned:

(a) **Results framework.** Claims to attain higher level outcomes (economic development and poverty reduction) should only be made when there is a convincing rationale that interventions can achieve them and there is a sound M&E system, including baseline data, to measure the achievement.

TSCP will focus only on outcomes that can feasibly be achieved and whose success can convincingly be demonstrated. A survey is underway to establish baseline data for all project indicators.

(b) **Packaging and contracting of works.** USRP success was attributed to: (i) packaging works into larger contracts to be undertaken by experienced large firms able to operate across large areas; (ii) assembling design work already done under earlier operations; and (iii) fully deploying the Bank country office to ensure regular contact with client towns.

For TSCP, contract packages are to be prepared taking into consideration capacity of construction contractors in the country and the region. Packaging will balance the potential for capacity building in the construction industry with efficiency, economy and timely completion of contracts, with emphasis on the latter. All design work for TSCP will be completed prior to project effectiveness with financing from the ongoing LGSP.

(c) **Implementation arrangements.** A project team under the guidance of a steering committee (with participation of permanent secretaries of relevant ministries) contributed to the successful execution of the project. The structure allowed direct reporting of the Project Manager to the Permanent Secretary (PS), PO-RALG, unlike the mainstreamed arrangement, and helped shorten the time to reach decisions.

A steering committee will also guide the work of the TSCP project team. While there are obvious advantages, in terms of efficiency, of having a Project Coordination Unit (PCU), the TSCP will be fully mainstreamed within existing government structures. Since USRP, significant capacity has been built in PMO-RALG and the LGAs.

(d) **Project Support Units (PSUs).** PSUs in each project town, composed of consultants supervising major works and seconded municipal staff, proved to be an effective means for transfer of skills in contract preparation, tendering and management of contracts. Subsequently municipal staff demonstrated their acquired skills by handling the preparation and supervision of small works contracts with very limited backstopping from the PMU.
Since USRP, significant technical capacity has been built at the LGA level. Under TSCP, LGAs and CDA will be responsible for implementing subprojects including procurement. Like USRP, the LGAs and CDAs will be supported by construction supervision consultants.

(e) **Learning by doing.** Direct technical assistance and training with on-the-job experience of executing priority physical investments continues to be a winning combination for improving local government municipal management and urban service delivery.

TSCP will replicate this formula, supporting targeted training and technical assistance coupled with actual experience of implementing large urban infrastructure projects.

(f) **Community contributions.** Making community contribution a condition of construction commencement in the urban setting could lead to delays.

TSCP will not require community contributions. LGAs and the CDA will make in-kind contributions in the form of staff time.

(g) **Effective conflict management minimizes cost and implementation delays.** The project experienced no undue delays or cost overruns due to conflicts arising from project contracts. This was attributed in part to the skills acquired by project staff particularly in contract management including conflict resolution.

TSCP will provide targeted technical assistance and training to support LGAs with contract management and supervision of works.

9. **Safeguard Policies (including public consultation)**

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<td>Projects on International Waterways (OP/BP 7.50)</td>
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</tbody>
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10. **List of Factual Technical Documents**

*By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*
11. Contact point

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