

Client – World Bank and PPP Node

Implementing Agency - Ilala Municipal Council

Project - PPP pre-feasibility study for 8 municipal Projects in Dar-es-Salaam

Deliverable - Buguruni Market Final Pre-feasibility Report



October, 2018

Abbreviations

Abbreviation	Full-form
AfDB	African Development Bank
BOQ	Bill of Quantities
BRELA	Business Registration and Licensing Agency
CA	Contracting authority
CAPEX	Capital expenditure
CBD	Central business district
CCTV	Closed circuit television
CRB	Contractors Registration Board
DBMO	Design, build, maintain and operate
DBFOMT	Design, build, finance, operate, maintain, and transfer
DPR	Detailed project report
DSCR	Debt-service coverage ratio
EOI	Expression of interest
EIRR	Economic internal rate of return
ELR	Employment and labor relations
EPC	Engineering, procurement and construction
EMA	Environmental Management Act
ENPV	Economic net present value
ERB	Engineers Registration Board
ESIA	Environmental and social impact assessment
ESMP	Environmental and social management plan
ESMS	Environmental and social management system
FRF	Fire and Rescue Force
FY	Financial year (April-March)
GHG	Greenhouse gas
GoT	Government of Tanzania
IAS	International accounting standards
ICMS	International construction market survey
IFC	International Finance Corporation
IFRIC	International Financial Reporting Interpretations Committee
IMC	Ilala Municipal Council
IRR	Internal rate of return
KPI	Key performance indicators
LCC	Lifecycle cost
LGA	Local government authority
LGDA	Local government district authority
LGFA	Local Government Finance Act

Abbreviation	Full-form
LTPP	Long-term Perspective Plan
MIC	Municipal investment corporation
NEMC	National Environment Management Council
NPV	Net present value
O&M	Operation and maintenance
OP	Operational policy
OPEX	Operational expenditure
OSHA	Occupational Safety and Health Authority
PO-RALG	President's Office - Regional Administration and Local Government
PPP	Public-private partnership
Project Co	Project company
PS	Performance standards
PV	Present value
PST	Project screening tool
QCBS	Quality and cost-based selection
RFQ	Request for qualification
RFP	Request for proposal
SCF	Standard conversion factor
Sq m	Square meter
TDFC	Tanganyika Development Finance Company
TIN	Tax identification number
TRA	Tanzania Revenue Authority
TZS	Tanzanian shillings
USD	United States dollar
VAT	Value added tax
VGf	Viability gap funding
WACC	Weighted-average cost of capital
WB	World Bank

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1. Project summary

Introduction and objectives

The World Bank has contracted a consortium to undertake public-private partnership (PPP) pre-feasibility studies for eight municipal projects. The consortium comprises the following international and local companies: (1) CRISIL (India), leading the consortium; (2) Clyde & Co (Tanzania), providing legal support; (3) Crown Tech (Tanzania), providing inputs on the costing and engineering aspects; and (4) Knight Frank (Tanzania), providing demand and market assessment inputs. The studies commenced in December 2017 and will conclude in October 2018.

The project studied in this report (one of the eight mentioned above) involves redevelopment of the Buguruni market in the Buguruni ward of the Ilala Municipal Council, Tanzania. The project aims at building a state-of-the-art three-storey market, catering to 3,609 traders at Buguruni, providing better facilities to both traders and consumers. It is designed to reduce congestion on the roads and provide better facilities to the market users. The study assesses the project's strategic, technical, economic, financial, commercial, legal, regulatory, and institutional feasibility under the PPP model.

Strategic case

The main stakeholders of the project are: Ilala Municipal Council (the contracting authority), PPP Node (for quality assurance of the process and content), World Bank (for financing future steps in the transaction process), traders (off-takers and users), the ProjectCo (or the special purpose vehicle, SPV, i.e., a private party/ developer/ concessionaire), and customers (as the users of the new market).

The project is both strategically important and embedded in national and sectorial development plans. It will address hygiene and congestion issues. Both traders and consumers will benefit from it. IMC owns the land, but the land title has not been submitted yet.

The main risks of the project are: (1) traders refusing to relocate temporarily, (2) traders refusing to relocate to higher floors, (3) insufficient expertise of ProjectCo to deliver the project on time and in accordance with an agreed set of specifications as mentioned in the contract. We have formulated a comprehensive set of mitigation measures for the local government authority (LGA) to effectively manage these risks.

Economic case

We have analyzed the project's main cost and value drivers and identified a comprehensive set of critical success factors. Moreover, we have worked out various technical options and in an iterative process, proposed a three-floor market. The economic appraisal builds on both quantitative and qualitative indicators taking into account various economic benefits such as health improvement of traders and customers, increase in income of traders due to improved infrastructure, additional jobs created, and sustainability. With an economic internal rate of return (IRR) of 18%, we can unequivocally conclude that the project is economically justified.

Commercial case

Given the need to tie together both construction and operation in one contract as well as the LGA's limited financing ability, we recommend a design, build, finance, operate, maintain and transfer (DBFOMT) model. It optimizes the ProjectCo's incentive structure and minimizes lifecycle costs of construction and operation. The Tanzanian law does not separate ownership of land from its immovable assets. Moveable assets can be owned by the ProjectCo though.

Project risks have been analyzed in detail and have been assigned to either LGA or ProjectCo or shared between them. In addition, we present a set of comprehensive mitigation measures prior and during commercial operations. As payment mechanism, we recommend the ProjectCo collecting the fees from the users as it is incentivized to maximize revenue collection. In this way it will be an end user pays PPP model. We recommend using a 15-year concession period in keeping with the local laws and regulations.

Financial case

Our financial analysis is based on a rigorous market demand study, in addition to a willingness-to-pay survey. These exercises provided us with a high level of certainty on both the project's future demand and the traders fees' we propose. Both variables are key drivers in the project's financial analysis. With a project IRR of 19% and an equity IRR of 20%, we can conclude that the project is financially viable with a high probability of attracting market interest at the pre-feasibility stage.

A value for money analysis (VfM) unequivocally confirmed the financial advantage of the proposed DBFOMT model vis-a-vis the traditional public procurement. It is about USD 5.4 million cheaper for the GoT to pursue the proposed PPP strategy rather than the public procurement route. We calculated the VfM cost advantage by comparing the present value of life cycle costs and revenues of both procurement options over the 15-year contract period.

Management case

The LGA's institutional capacity, understanding and knowledge of PPP intricacies is limited. We have enlisted various recommendations in Section 7.1 to address these deficiencies.

We have carried out a comprehensive legal due diligence and reviewed pertinent laws and regulations. We did not observe any legal impediments in carrying out the project as a PPP. Various legal non-material issues have been observed though, for which we have suggested solutions.

From a social and environmental perspective, we do not discern any obstacles and propose a comprehensive set of mitigation measures both during and after the construction. The social due diligence undertaken by the World Bank independently recommends some steps to be taken to mitigate the minor socio-economic impacts. The project has been categorized under IFC Category B and will need a full environmental and social impact assessment (ESIA). We have prepared a relocation strategy in close conjunction with the LGA and cognizant of the social impact of the temporary relocation of traders.

Project Screening Tool

Buguruni Municipal Market scores 3.5 out of maximum possible score of 5.0 on the six parameters presented in the Project Screening Tool. The score is driven by the following factors. The municipal market has a strong case for its strategic suitability and preliminary feasibility, as there is a high demand from the traders, which will lead to high occupancy of stalls within the market. The market facility will have multiple revenue sources such as daily fees from traders, washroom fees, parking fees, advertisement, etc., which will make the Project viable, as user charges are adequate to cover capex and opex. However, the Project involves temporary relocation for ~3,300 traders for a period of three years, creating slightly higher risks in terms of Project execution and implementation, resulting in a low level of PPP suitability. The institutional capability is also limited as IMC is yet to execute any PPP Project. For further details, refer to Section 19.

Conclusions and next steps

Building on a rigorous, comprehensive and multi-disciplinary analysis, we confirm that the proposed PPP is strategically, economically, commercially, financially and managerially viable. In addition, it is in keeping with all the requirements set out in local laws and regulations and in particular, the PPP law. A project implementation plan has been prepared identifying the next steps required to move the project forward. These steps include obtaining land title deeds and preparing supporting infrastructure. We present a procurement plan in which we propose a two-phased procurement strategy with a prequalification and bidding phase. We

also propose various options for the financial bidding variables. We estimate 15 months for procurement, hiring a transaction advisor up to executing the PPP agreement. In summary, total 3,600 traders would benefit catering to over 40,000 customers on a daily basis, considering each trader caters to 10-15 customers daily.



2. Background and objective

This chapter contains the background of the assignment and the objective of the project and this study. It also briefly explains the project timelines and provides the details of the consortium.

2.1 Introduction

Leveraging the PPP platform in the country

In the last five years, Tanzania's annual GDP growth rate averaged 7%, compared with 4.4% for Sub-Saharan Africa, making it one of the 20 fastest growing economies in the world. However, the ageing economy remains heavily dependent on agriculture, which accounts for over a quarter of the GDP and employs about 65% of the work force. There is an urgent need to shift towards targeted industrial and manufacturing growth, along with growth in the tertiary sector, to support economic progress and poverty alleviation programs. Leveraging the PPP platform will help in the much needed transition of the country from low to middle income with a focus on six priority areas, including infrastructure improvements.

Assignment description

Municipal governments in Tanzania plan to implement a number of projects through PPP, in particular projects that may not require any public funding (aside from land contributions) and might generate new sources of revenue for the municipalities. In an era where central government funding for municipalities is intermittent and decreasing, municipalities are seeking new mechanisms to meet public service expectations. The limited size of municipal projects often creates a challenge when considering a PPP due to the associated transaction costs of project preparation.

In order to advise the municipalities in Tanzania on how to reduce the cost of these projects, and achieve economies of scale, the World Bank appointed an international consortium consisting of CRISIL Infrastructure Advisory (India) and Tanzania-based local firms, i.e., Crown Tech Consult, Clyde & Co Tanzania, and Knight Frank Tanzania. The aim was to undertake pre-feasibility studies for potential PPP projects in municipal infrastructure. These projects were initially identified by the LGAs of Dar es Salaam. Based on the recommendations of the Consultant, eight potential PPP projects have been finalized by the World Bank for this assignment. Redeveloping the Buguruni Market in Dar es Salaam is one of them.

2.2 Consortium partners

The consortium partners (further the Consultant) for this assignment comprise four international and local firms as mentioned under:

CRISIL Infrastructure Advisory (lead partner)

CRISIL is the lead contractor and is responsible for deliverables, project management, financial analysis, infrastructure gap assessment, economic review, risk assessment in addition to conducting capacity-building workshops.

Crown Tech Consult

Crown Tech is responsible for the site and infrastructure evaluation, assessment of resettlement needs and environmental impacts and preparation of the project conceptual design.

Clyde & Co

Clyde & Co is responsible for the legal due diligence and a review of national and municipal laws, acts and guidelines of Tanzania relevant to the identified projects, title deeds, ownership, use and user rights and other relevant legal aspects.

Knight Frank

The firm is responsible for the market and demand studies. It has studied the lease rentals, demand-supply gap, occupancy rates, and conducted the willingness-to-pay survey.

2.3 Objectives

Project objective

The project objective is to develop an organized market with designated space for each trader, reduce the congestion and provide better facilities such as public toilets and parking spaces to traders and customers. The redeveloped market would cater to the needs of the traders as well as consumers with dedicated spaces on each of the three floors for traders, segregation of traders selling similar goods on each floor, lifts and pulleys to carry goods to the higher floors, car parking space for consumers, cargo parking facility for trucks to unload goods, proper access pathways within the market, along with basic amenities such as toilets (separately for workers and consumers), drinking water, electricity and ceiling fans.

Study objective

The study aims at preparing a pre-feasibility report encompassing the technical, financial, strategic, commercial and economic aspects of the project under the PPP mode. In addition, management aspects, such as the legal, regulatory, social and environmental factors are also covered in detail. Each of these has been detailed in separate chapters of the report.

2.4 Study execution

The study commenced on November 17, 2017 and will be completed in October, 2018. The first level assessment report was submitted after conducting stakeholder discussions to get a better understanding of the Project. The draft pre-feasibility report was submitted and presented to the World Bank, PPP Node and Ilala Municipal Council, during the fourth mission in June 2018. Responses to verbal comments received during consultations and written comments received from World Bank, PPP Node and LGAs have been incorporated in the respective sections in the final pre-feasibility report. The study includes four main deliverables as presented below:

Table 2.1: Main deliverables and the progress

Deliverables	Progress	Actual / proposed submission
Inception report	100%	December 21, 2017
First-level assessment report	100%	February 16, 2018
Draft pre-feasibility report	100%	June 4, 2018
Final pre-feasibility report (report on hand)	100%	October 25, 2018

Source: Consultant

2.5 Report layout

The report comprises nine sections as mentioned under:





3. Strategic case

This chapter covers the rationale/ objective behind the project and the economic benefits it is expected to provide to the economy. It also covers the roles and responsibilities of the various stakeholders involved in the project and existing arrangement between them.

3.1 Project objectives

The primary objective of the project is to provide a state-of-the-art market with designated space for each trader and provide better facilities such as common toilets and parking spaces for traders and customers. The redeveloped market will include a three-floor building with parking space and support utilities such as storage space for traders, common toilets, electric substation, drainage network and solid waste collection huts.

- *Trading space for traders* - The plan is to develop a modern market with a proper structure and designated space for traders/vendors. The proposed market building (including the ground floor) will accommodate traders currently operating in and around the Buguruni Market. Around 3,600 traders have been envisaged to be accommodated in the market.
- *Parking space* – Some portion of the land will be used to develop internal roads and parking slots for market users and delivery trucks. This area will be used for delivery trucks to off-load goods in the night and early morning, and during the market operating hours, as a car park and for internal movement of vehicles and customers.
- *Utilities/ support infrastructure* – Remaining portion of the land area will be used for developing required utilities/support infrastructure such as storage space for traders, common toilets, electric substation, drainage network, lighting, firefighting facilities, washing and cleaning areas and solid waste collection huts.



3.2 Stakeholders

This section outlines the roles and responsibilities of key stakeholders in the redevelopment of Buguruni market.

Ilala Municipal Council

The council would be the main implementing agency and will be responsible for monitoring the construction and implementation of the project.

PPP Node

PPP Node, established under the President's Office-Regional Administration and Local Government (PO-RALG), will assess the project submitted by the municipal council before approving it.

World Bank

The World Bank is collaborating with the PPP Node to undertake pre-feasibility studies for potential PPP projects identified by the LGA of Dar es Salaam. It funds the pre-feasibility study as well as the selection of transaction advisor for conducting detailed feasibility studies and for selection of ProjectCo.

Traders

Traders would be most critical for redeveloping the market as they need to be relocated to other nearby places and they should be provided written assurance that they would be allocated spaces in the redeveloped market. Further, the access to basic services such as water, toilets and electricity should be provided at the relocation area and the relocation area should not be further away from the earlier place so as not to lose out on any customers.

ProjectCo

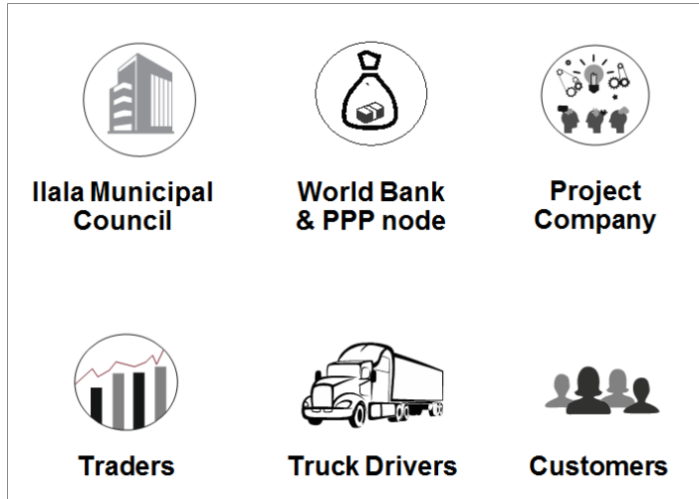
ProjectCo (or the SPV) is a private party/ developer/ concessionaire responsible for the design, construction, financing, operation and maintenance of the project.

Customers

Customers are one of the major stakeholders in the project as the traders' willingness to relocate will highly depend on the customer's willingness to go to the location where they will be relocated during the construction. The redeveloped market will provide better facilities to customers, such as proper access to shops, toilets and parking facilities. The project will benefit improve customers' buying experience as traders dealing in similar goods would be segregated on each of the three floors. Also the new market structure would be free of rainwater accumulation.

Truck drivers

For smooth operation of trucks, proper access to the market is a necessity. The truck drivers will be provided a dedicated space for loading or unloading of goods near the market premises. Currently, truck drivers unload goods on nearby roads, resulting in traffic congestion and sometimes in spoilage and wastage of fruits, vegetables and other products.



3.3 Strategic and sector review

This section provides a brief overview of the municipal market and its end users, the overall context of the municipal market under IMC and the project's strategic alignment with municipal and national development plans.

Municipal market overview

In cities, municipal markets emerge at select locations, which are of strategic importance and have good connectivity. Good connectivity results in more buyers and sellers. The buyers are assured that in the municipal market they will get the required products at a reasonable price and the sellers are confident that they would be able to sell their produce by the end of the day, which help them lower the loss of perishable food items.

Markets in Ilala Municipal Council

Ilala has more than 25 markets. The markets are frequented by lower income group citizens and sell both perishable and non- perishable food commodities such as mangoes, mabungo, grains, and chicken.

Table 3.1: Similar markets in IMC

Market Name	Location	Traders and type of commodities
Ilala Market	Located on Uhuru Street, about 2 km from Buguruni Market	Small-scale retailers and wholesalers who sell both perishable food commodities as well as second hand goods
Sambusa Market	Located off Kawaka Road, about 3.5 km from Buguruni Market	Small wholesalers who sell both perishable and non-perishable food commodities
Mchikichini Market	Located on Uhuru Street, about 2.5 km from Buguruni Market	Small-scale retailers who sell secondary hand goods, especially clothes, shoes and bags
Ilala Municipal Business Park	Located on Kawaka Road, about 2.5 km from Buguruni Market	Small-scale retailers who sell both brand new and second-hand goods, especially clothes, shoes, bags, electronic equipment, etc.

Source: Consultant

The proposed market is located in Buguruni ward, which is dominated by small scale trading activities and include both retailer and whole sale traders. These traders operate through small shops or temporary pavement outlets locally known as “wamachinga”. The ward is located close to the central business district area and has good connectivity to other parts of the city.

Strategic alignment to national goals

The proposed project of redevelopment of Buguruni market is strategically relevant and is aligned with government goals. Moreover, it is consistent with the national development plans such as the Five Year Development Plan 2016/2017 - 2020/2021, Long-term Perspective Plan 2011/12–2025/26 and Development Vision 2025. The project is driven by development goals such as job creation, improvement in health conditions, poverty eradication and sustainability. It is expected that the project will provide livelihoods for additional families and also improve the livelihood of the existing traders.

3.4 Business need

This section highlights the need for a state-of-the-art municipal market at Buguruni.

1. Unorganized old market place

The market structure is old and dilapidated made of thin metal sheets supported by metal poles. Numerous stalls are located very close to each other in a haphazard manner. It also has a few unorganized butcher shops, which results in additional solid waste creation. Some of the sheds appear to be leaking also, resulting in accumulation of rainwater inside the market premises during rainy season.

2. Highly congested

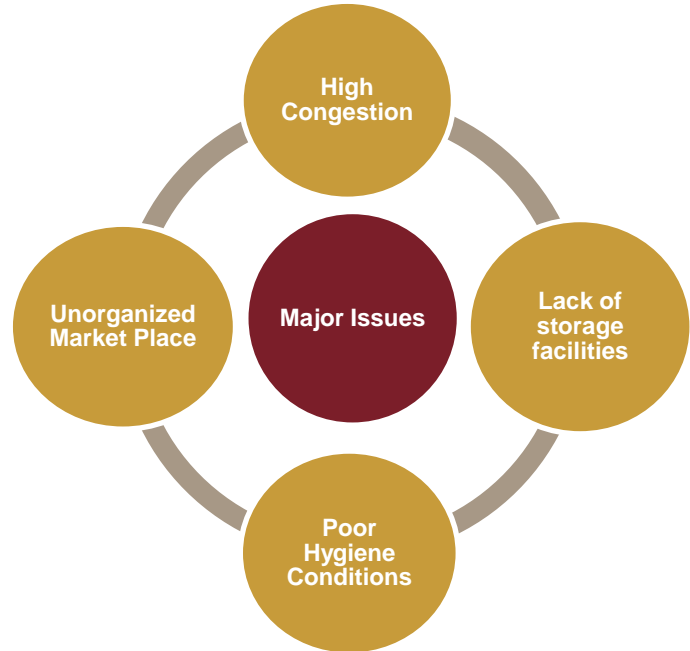
Over 2,800 traders operate from the market, with several traders operating from the streets around the market. The cramped market makes it difficult to access stalls/tables. The streets surrounding the market are also partially occupied by traders, leading to traffic congestion.

3. Poor hygiene conditions

The market has an open drainage system that is insufficient to discharge rainwater. This results in flooding of streets surrounding the market. Also, poor waste management renders the space in and around the market unhygienic.

4. Lack of storage facilities

There are no godowns /warehouses for bulk storage within the market. Lack of proper storage facilities within the market causes inconvenience to the traders and also affects their business prospects as perishable food items get wasted at the end of the day, resulting in food wastage.



The following photos clicked during the site visit shows the existing state of the market:



Access road - Uhuru Street



Traders outside the market



Crowd inside the market



Trading stalls within the market



Trading stalls within the market



Crowded access road

Source: Consultant

The current poor condition of the Project facility has been shown above to highlight the inadequacies and the numerous problems faced by the beneficiaries. There is indeed a strong business justification and need for better hygienic conditions, in addition to improved traffic circulation outcome. This underpins the need for redeveloping the Buguruni market from an environmental, operational, and buyers' perspective.

3.5 Existing arrangements

This section outlines the existing legal arrangements of the project.

Land owned by IMC

Buguruni Market is located in Dar es Salaam city center along the main road. The market is owned by the IMC by virtue of Government Notice No. 13 of 2000. In accordance with the PPP Policy 2009, and PPP Act 2010, the IMC may sell or lease any land or premises it owns to a ProjectCo in order to carry out a PPP project during the concession period, i.e., 15 years. There is no minimum required lease value and this should be assessed in detail in the feasibility stage. On the expiry of this period, IMC will resume the operation and management of the Buguruni Market. Thus, the ownership of the land title remains with IMC, whilst the operation and management of the assets and economic activities will be transferred to ProjectCo for the duration of the project.

Project is eligible for PPP based on its cost

The Buguruni Market Project falls under the trade and marketing category (Section 4(4) of the PPP Act 2010) and thus qualifies to be developed under the PPP mode. Further, the maximum limit for PPP projects to be carried out by an LGA is USD 70 million (Regulation 76(2) (a) of the PPP Regulations 2015). Thus, the project capex of USD 5.6 million falls within the scope and can be carried by IMC as a PPP project.

IMC has right to collect user fees

The IMC may charge rent, fees or tariffs to businesses or persons occupying or using the facilities in the Buguruni Market according to the bylaws (Section 61(b) of the LGUA Act). Under the PPP agreement between the IMC and ProjectCo, the IMC can grant the right to ProjectCo to collect user fees from the tenants (traders/merchants) occupying the buildings developed under the PPP. The PPP agreement will stipulate to whom these revenues accrue, i.e., to ProjectCo or LGA or any sharing mechanism. Applicable taxes chargeable to the users will be paid to the Tanzania Revenue Authority.

3.6 Project overview

This section provides an overview of the project location with respect to major landmarks and assesses the connectivity of the project site. It also assesses the status of the project land in terms of ownership and availability of the title deed.

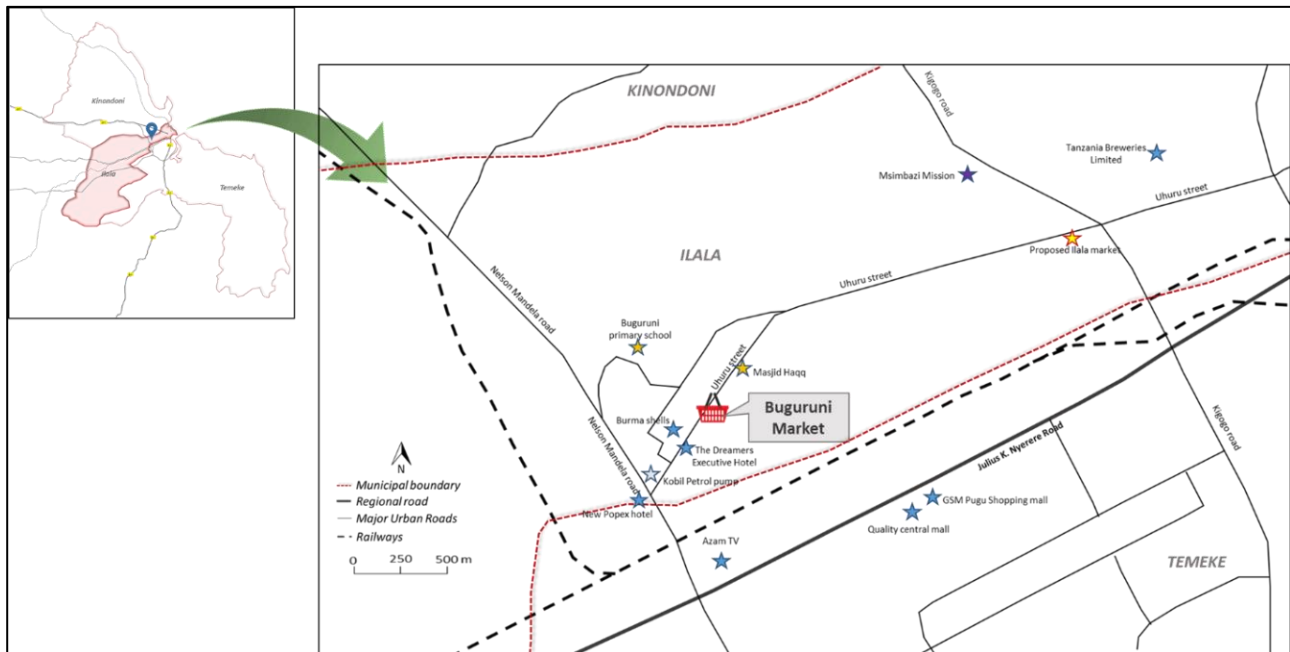
Location

The project site is located in Buguruni ward, IMC. It is about 1.5 km from the IMC headquarters and is located on Uhuru Street, approximately 300 m from its junction with Nelson Mandela Road. It is close to the central business district area and has good road connectivity to other parts of the city. The project site is located about 14 km south of Ubungo bus terminal and nearly 5 km northeast of Julius Nyerere International Airport. The nearest bus stop is Sokoni (100 m) and nearest railway station is Kamata (1.5 km).

Connectivity

The area is accessible via Uhuru Street, which connects to Kawawa / Kigogo Road and Nelson Mandela Road, which are both dual carriage tarmacked roads. There are several bus stops along Uhuru Street.

Figure 3.1: Location map of Buguruni Market



Source: Consultant

Land title deed

The existing market is spread over an area of 1.58 acre along the Uhuru Road. The land is owned by the IMC, and as per the council, the payment for the land title deed has been made but further approval from Commissioner of Lands in Dodoma is still pending. Hence, the title document is yet to be provided to the Consultant for verification. The LGA has informed that it is expected to be provided shortly.

Land for temporary relocation

The proposed modern market will be built on the same land parcel. The traders will need to be temporarily relocated during the construction period. The relocation sites have been identified at Tabata market and Vingunguti market which are owned by the IMC.

3.7 Main benefits

This section highlights the project's main benefits.

Improved livelihood of traders

Redevelopment of the market will improve the livelihood of 3,609 traders, including around 2,800 traders operating within the market as well as those traders operating outside. This also includes the additional traders who will be allotted trading spaces in the market (resulting in their self-employment) owing to the increased space available because of the proposed multi-floor structure.

Improved hygiene and reduced health problems

The market has open drains for discharging storm water. The water mixes with other waste, leading to unhygienic conditions surrounding the market. Around 500 traders operate outside the market, and the unsanitary conditions are detrimental to their and customers' health. The modern market will be more

organized and better hygiene conditions that will be beneficial not only for the traders but also for the customers visiting the market. That will reduce health problems and reduce healthcare expenditure.

Improved space management

Currently, the market is highly congested with a large number of traders. As a result, accessing certain sections of the market is difficult. The modern market will have designated trading spaces for each trader, potentially improving their businesses. All the traders who are operating just outside the facility or on its perimeter will be accommodated in the Project facility and none of traders will be left out.



Enhanced shopping experience for customers

The Buguruni area is dominated by low- and middle-income group people, who prefer to shop in markets such as the Buguruni Market rather than malls and shopping centers. Redeveloping this market will improve the shopping experience of a large portion of population in this area.

Improved supporting infrastructure and amenities

There are no storage spaces in the market currently, causing inconvenience to traders and also affecting their business prospects. The modern market will have dedicated storage spaces for traders. It will also have other amenities such as public toilets and drinking water facility for traders and customers.

Increase in land valuation of nearby areas

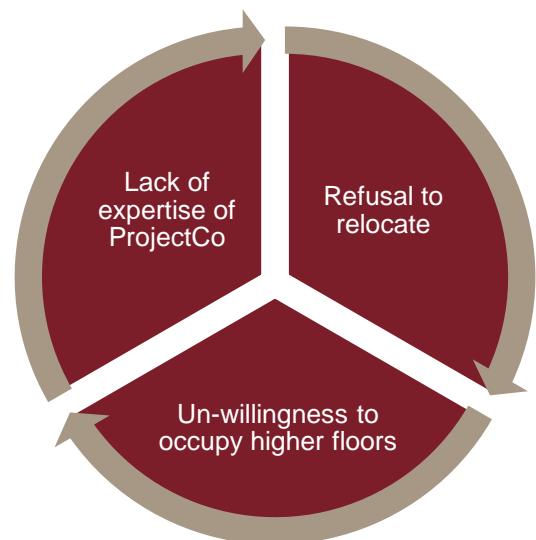
The redevelopment of the market will give an impetus to the real estate sector in the area surrounding it. This increase in the area’s land value will directly benefit the local community.

3.8 Main risks

This section highlights the main risks facing the Buguruni Municipal Market Project.

Refusal of traders to relocate

Given the proposed project is brownfield, which is currently occupied by about 3,300 traders (including those operating in and around the Ilala market), it is imperative that all traders are relocated and resettled. All traders need to be relocated and resettled at the identified location. The sample group of traders consulted during the willingness to pay survey, agreed to relocate. However, it might be possible that a large group of traders is not willing to vacate the proposed project site and prefer to continue operating at the current site. This would lead to delays in the project’s implementation.



As per the assessment by market assessment team, majority of the traders are willing to relocate and only few

people suggested the redevelopment to be undertaken in phases. The same was also verified by IMC. Summarizing, we do not expect major issues in the temporary relocation of existing traders.

Unwillingness to occupy space on higher floors

Currently, the Buguruni Market only operates on the ground floor. The proposed redevelopment of the market envisages three floors for traders (including the ground floor). Even though the proposed project contains the provision of lifts for traders to carry goods to higher floors, the willingness of the traders to move to higher floors is still uncertain. This might result in traders trying to occupy space on the ground floor, which would result in higher congestion. This aspect was discussed with LGA officials but they do not consider it as a major risk. They have assured that they will be able to convince the traders moving to higher floors, by grouping traders selling similar type of goods, floor-wise. The officials have proposed to allocate the ground floor to the traders selling perishable goods (fruits and vegetables), the first floor to traders selling non-perishable goods, and the second floor for electric items, garments, etc. This kind of segregation of traders would reduce the undue advantage of operating at lower floors and lead to fair competition amongst traders.

Lack of expertise of ProjectCo

ProjectCo should have significant experience as PPP operator of municipal markets. This does not seem available in Tanzania though. The municipal council should appoint a ProjectCo which should preferably be a consortium of local and regional companies with sufficient experience in the PPP components: design, build, finance, operate and maintain.

Steps for mitigation of potential risks

Detailed stakeholder consultations need to be undertaken and the group leaders of the unions of traders need to be taken into confidence, as they will play an important role in convincing traders to relocate to the proposed relocation site. The proposed site is close to the existing site and temporary structures along with water, electricity, toilets, and other amenities, will be provided to facilitate their transition during the relocation process. The fee increment is marginal and amounts to 30-50% in the wake of improved facilities provided at the redeveloped market, such as increased stall size with larger access space, toilets, electricity, water, security, storage facility, etc.



4. Economic case

The chapter outlines the benefits of redeveloping the Buguruni Market results to the economy. It identifies the critical success factors for the PPP, identifies and appraises various realistic and achievable technical options, and recommends the preferred option.

The redevelopment project will result in increased employment opportunities and savings by way of reduced healthcare spending. A distributional impact analysis sets out how the stakeholders are expected to benefit. A sensitivity analysis, meanwhile, reveals how the economic IRR (EIRR) is impacted by different variables. The chapter finally presents the economic case for the redevelopment of the Buguruni market.

4.1 Critical success factors

Following are the critical success factors for the successful redevelopment of the Buguruni Market:

Financial closure

One of the key success factors of a PPP project is obtaining financial closure on time. In many cases, it can be seen that the government signs the contract and often the selected bidder takes significant time to arrange the financing. In the meantime, the government waits and often without any remedies or penalty clauses in the contract. This can be avoided by requesting the selected bidder to submit an irrevocable and first-demand guarantee, linked to the financial closure deadline agreed upon. In the Buguruni Market Project, financial closure should ideally be achieved in about 12 months. If, after 12 months, financing agreements have not been signed, the government can exercise the guarantee.

PPP agreement

Generally, as part of the procurement process and post selection of the preferred bidder, the draft PPP agreement is finalised in a round of final negotiations. However, to ensure timely completion of the negotiation process, it is proposed that the draft PPP agreement be shared with the shortlisted bidders. Feedback and comments will then be incorporated into the contract's final version, which serves as reference for the bidder's proposals. Final negotiations with the preferred bidder would, therefore, take limited time.

User charges

In order to make the project financially viable, there is a need to marginally increase the trader fees as outlined in Section 6.5. This was discussed with IMC. We believe that the increase in fees seems reasonable and has been agreed to by the IMC based on the following arguments. The redeveloped market will provide more space to the traders and will provide each trader with independent trading stalls as opposed to the current situation, IMC will make relevant changes in the municipal bylaws to reflect the revised fees.

Willingness to pay the increased user charges

As mentioned above, in order to make the project financially viable, we propose a marginal increase in daily fees charged from the traders. A willingness to pay survey and extensive consultation was undertaken by the Consultant as well as by IMC. The outcome points out that the majority of traders willing to pay a higher fees (2 to 3 times of the current fees) if they are provided with adequate space and proper facilities as outlined in Section 10. Additionally, it has been discussed with the IMC that the increase in fees would be preceded by an educational campaign to raise awareness amongst the traders on proposed benefits.

Contract management skills

Both before and after commercial operations start, the LGA should have enough skills to manage the contract. These include project management capability, designing capacity, running awareness campaigns, managing contractual risks, and project financing skills. The institutional assessment review highlights the main skill gaps in the LGA officials. It is recommended that all concerned officials should attend adequate training that covers all the above mentioned aspects. In addition, we recommend bringing in a resident international PPP contract management consultant to support the LGA in these functions.

4.2 Technical options

This section explores various technical options for redeveloping the Buguruni Market.

Option 1 - Do nothing

This option maintains the current status quo, which would result in further degradation of the market complex facility in the years to come. With unhygienic conditions around the market and the rainwater seeping through leaking sheds, there is a high chance of infection and water-borne diseases. Based on this, we discard this option.

Option 2 - Build the market elsewhere

The LGA would be required to identify a new land parcel for the creating a new market. Even if the LGA identifies and purchases another land parcel, convincing the traders to leave the current market and relocate there is expected to be challenging. Therefore, we discard this option.

Option 3 - Build new market with only ground floor

In this case, the existing market is demolished and a new market building with only the ground floor is constructed. However, given the lack of space and the huge number of traders currently operating in the market, constructing only the ground floor would not suffice at all. Thereby, this option is also discarded.

Option 4 - Build new market with three floors (option proposed by Consultant)

This option entails demolishing the existing market and building a new market building of three floors (including the ground floor). The number of floors were arrived at considering that large traders would require 10 sq m of space and small traders would require 3 sq m. Traders selling similar types of goods would be grouped together on each of the floors.

The total number of big traders would be 100 and small traders would be 3,509, who would be occupying 1,000 sq m of built up area and 10,526 sq m of built up area respectively. This is the most viable and recommended option.

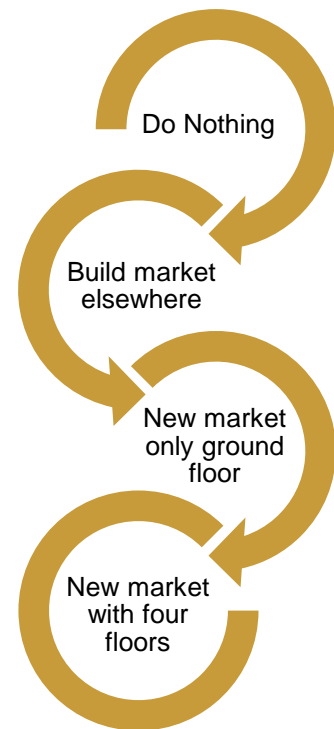


Table 4.1: Summary of technical options

S. no.	Technical option	Recommendation
1	Do nothing	Discarded
2	Build a market somewhere else	Discarded
3	Build new market with only ground floor	Discarded
4	Build new market with three floors	Accepted

Source: Consultant

We conclude that the recommended technical option of developing a new market with three floors is our assumption for all the workings and all the estimates of costs incurred and revenues generated for the financial and economic analysis of the project are based on this assumption.

4.3 Economic appraisal

This section assesses the economic impact of the project and the benefits accruing to the economy in terms of increased income of traders, savings on account of reduced healthcare spending, employment opportunities, and other environmental benefits. Financial and economic analyses have similar features; they both estimate the net benefits of a project comparing the with-project and without-project situations. The basic difference is that the financial analysis compares revenues and costs looking at the project only, while the economic analysis takes a wider perspective and looks at the project's contribution to the economy as a whole taking into account its positive and negative externalities.

Assumptions and methodology

The economic analysis looks at both quantifiable and non-quantifiable factors such as incremental income, taxes paid, savings in healthcare expenditure, job creation and reduction in traffic congestion. We quantify the economic benefits to the greatest degree possible. But where this is not possible, we present a qualitative description of the economic benefits. Various assumptions and considerations made in arriving at the economic benefits of the project are as follows:

- *Period of analysis* - The economic appraisal for the Buguruni Market has been undertaken for a time period of 30 years the life of the asset and in turn its effect on the economy will be for a longer period of time than the concession period.
- *Economic prices* - In the financial analysis, we use market prices reflecting financial costs to a project. In the economic analysis, we convert these financial prices into economic prices using a standard conversion factor (SCF). An SCF of 0.9 has been assumed to eliminate the effect of market price distortions, especially taxes and subsidies.
- *Discount rate* - A discount factor of 12% has been assumed to calculate the economic NPV of the project. This is in keeping with other infrastructure appraisal benchmarks used by the World Bank and other multilaterals.

Economic indicators

The economic appraisal considers both qualitative and quantitative aspects. The qualitative aspects cover factors which cannot be quantified such as reduction in food wastage owing to bulk storage facility, improved security of petty traders who currently operate at the road side, dust emissions (air pollution) during construction period, noise pollution during market operation, etc. The quantitative analysis consider the benefits (surpluses) accrued to three major stakeholders of the project, which are as follows:

- a) *Producer surplus*: The producer surplus covers the net benefits accrued to the retail traders from the Project. It will include the overall increase in income of the retail traders due to improved infrastructure of the market. The overall savings in healthcare expenses of these traders due to the hygienic facilities such as clean toilets and proper solid waste management at the market is an additional economic benefit. The producer surplus will be calculated in real terms and excludes inflation. It also considers any loss of livelihood of producers in the other markets due to development of this market.
- b) *Consumer surplus*: The consumer surplus covers the net benefits accruing to the end-consumers of the municipal market facility. The major economic benefit to the consumers is in terms of savings in healthcare expenses through consumption of safe food products. The modern market will provide hygienic and quality goods such as vegetables, fruits and other food items for consumption, reducing the overall healthcare expenses of the household.
- c) *Developer surplus*: The developer of the municipal market facility will get the benefits in terms of the overall profits generated from the project. The profits accrued will then be converted from their nominal value to real value to get the current economic benefits to the developer.

We have used the following indicators to calculate the economic benefits as described above:

Table 4.2: Economic indicators

No.	Component	Indicator	Quantified
1	Incremental income of the traders	Net incremental surplus 'with-project' scenario and reducing it by 50% for any loss of livelihood of traders elsewhere	Yes
2	Savings in healthcare expenses of traders	Number of small and large traders operating from the facility multiplied by a proportion of per-capita spend on hygiene-related diseases	Yes
3	Savings in healthcare expenses of consumers	Number of people consuming products from the market multiplied by a proportion of per-capita spend on food-related diseases	Yes
4	Profit after tax (PAT)	Profit after tax from the project is brought down to real terms by dividing it with inflation rate	Yes

Source: Consultant

Metrics

For economic analysis, the capex and relocation cost of traders of the Buguruni Market Project have been derived from the financial analysis and multiplied with the SCF to arrive at the economic costs. Here, the capex excludes VAT, since it is considered as a form of transfer payment.

In the producer surplus, the current cost and revenue of the traders presently operating in the market has been considered for the duration of 30 years in the without-Project situation. The proposed revenue after redeveloping of the market has been considered in the with-Project scenario. The difference between these two scenarios results in the incremental surplus for the traders generated by the improved infrastructure. The savings in healthcare expenditure for the traders has been calculated by multiplying the number of traders with average per capita healthcare expenditure on diseases.

In the consumer surplus, the savings in healthcare expenditure for the consumers has been calculated by multiplying the number of consumers of the vegetables and fruits from the market with average per capita healthcare expenditure on diseases.

In the developer surplus, the overall profits generated from the project are taken into account. The profits accrued are then converted from their nominal value to real value, to yield the economic benefits to the developer.

The net economic benefits generated by the project have been determined by considering the capex and relocation cost incurred during first two years of construction and then adding the producer surplus, consumer surplus, and developer surplus incurred over the 30 years period.

Based on the assumptions, the project's economic IRR (EIRR) for 30 years stands at 18%. The economic net present value amounts to USD 3.6 million. Thus, the project is viable from a socio-economic viewpoint and underpinned with robust economic metrics. Moreover, efficiency benefits will accrue to the traders by the removal of middle men who charge traders for their unofficial services.

Sensitivity analysis

We consider the following scenarios: Project capex (including relocation cost of traders) increases or decreases by 20% and the project PAT increases or decreases by 20%. Even in these adverse circumstances, the EIRR remains high and convincing, as depicted in the table below.

Table 4.3: Sensitivity analysis

	EIRR (%)
Base case	18.0%
Scenario 1	
With-project capital cost higher by 20%	14.8%
With-project capital cost lower by 20%	21.6%
Scenario 2	
With-project PAT lower by 20%	16.6%
With-project PAT higher by 20%	19.2%

Source: Consultant

4.4 Distributional impact

This section assesses the distribution of economic benefits across all the stakeholders and envisions that all the stakeholders are more or less better off with the implementation of the project. The distributional impact has important implications for the project. Underpinning the project's economic pre-feasibility, its benefits need to be re-distributed so that all stakeholders will be better off.

Table 4.4: Distributional impact on various stakeholders

Beneficiary	Distributional Impact	Impact
IMC	It will be able to fulfill its social responsibility without any significant capex. The project gives IMC an opportunity to leverage on private sector efficiencies in redeveloping the Buguruni Market and still remain the owner of the asset	High
Traders	They will be highly benefitted as they will get a dedicated space to sell their goods. Also, their sales would increase manifold on account of hygienic marketplace	High
Customers	Their overall buying experience would improve on account of segregation of traders selling similar goods and clean hygienic marketplace, devoid of accumulation of rainwater, and facilities such as separate washrooms	High
Truck Drivers	They would be able to unload their goods at dedicated space and thereby reduce the traffic congestion on roads and lessen the chances of fruits and vegetables getting spoiled	High

Beneficiary	Distributional Impact	Impact
ProjectCo	It will generate optimal returns for the investment made in the redevelopment of the Buguruni Market and based on the commercial freedom provided, it can charge reasonable fees for cargo truck entry and car parking. Rest of the fees would be as per the municipal bylaws	Medium

Source: Consultant



5. Commercial case

This chapter shows that the recommended option results in a well-structured and viable PPP transaction. It provides an overview of the project's structuring aspects, outlines the proposed PPP model and the roles and responsibilities of the municipal council and ProjectCo as well as the contractual arrangements.

The risk allocation matrix presents the allocation of the risks to each party in each of the project phases i.e. design, build, finance, operation, maintenance and transfer (DBFOMT). The output specification provides insight in the area statement and related to technical components.

We have also provided a brief description of the proposed payment mechanism. The overall proposed term of the PPP, the procurement methodology and the accountancy treatment of the proposed PPP model has also been detailed.

5.1 Project structure

This section provides an overview of the project structuring aspects in terms of roles and responsibilities allocated to LGA and ProjectCo.

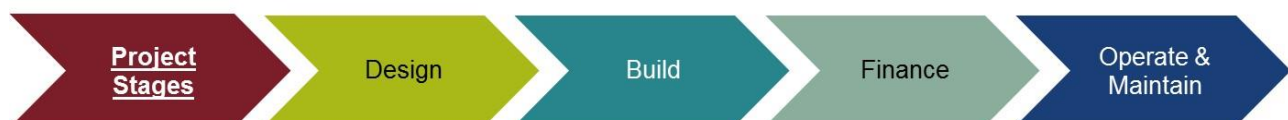
Project structuring overview

Structuring a PPP project boils down to allocating responsibilities, rights, and risks to each contract party. The aim is to structure a PPP that will be technically feasible, economically and commercially viable, and fiscally responsible and also provide VfM. A typical PPP structure would involve contractual arrangements between a number of parties including the government, project sponsor, project operator, financiers, suppliers, contractors, engineers and end users.

Information from the feasibility study and economic viability analysis is key input to the PPP structuring. For example, identifying the key technical risks, and providing estimates for demand and users willingness to pay for services. The PPP structure then feeds into the commercial viability, affordability and VfM analysis, which could iteratively result in changes to the proposed risk allocation. In short, PPP structuring is a crucial component in the overall development process of preparing a PPP project

Different stages of project implementation

In PPP structuring, we discern the following building blocks which have to be allocated to one of the parties and responsibilities defined. This analysis then determines the PPP model proposed.



- *Design* – The task in this stage is preparing the conceptual design and the layout plans of the project facility as proposed in the development mix and components in the proposed project configuration. The proposed design should be approved by the concerned municipal council for the project to move ahead. The proposed design should also take care of the regulations and municipal by-laws applicable to the facility. Designing the project would also take into account environmental and safety regulations in addition to identifying the project's scope of services, design characteristics and specifications for all project

components, and performance and quality requirements. These aspects would form the conceptual and detailed design and, finally, the bill of quantities (BOQ) would be estimated from the detailed design.

- *Build* - The task involved in this stage is building the actual Project facility as per the approved conceptual and detailed designs. Timelines and costs should be adhered to in this stage by the ProjectCo. The ProjectCo is expected to contract an engineering, procurement and construction (EPC) contractor, who could also be a shareholding member of the SPV.
- *Finance* - The task involved is providing finance for the construction of the facility. Typical Project finance or gearing is 30% equity and 70% debt arranged from commercial banks or multilateral financing institutions. Project finance could be challenging in our case given that the immovable assets will remain under the ownership of LGA and cannot be used as a lending security. This financing constraint brings an additional challenge to the table, which is discussed in the legal section.
- *Operate and maintain* - The ProjectCo is likely to sub-contract the operation of the facility to an O&M contractor(s) that could also be a shareholder in the SPV.

5.2 Proposed PPP model

This section explores the different options of implementing the PPP project. It also delves into aspects crucial for successful implementation.

LGA's constraints

As mentioned above, we discern various significant constraints in executing the proposed project under the public procurement model. The finances of the IMC are already stretched; it runs a deficit of TZS 9.4 billion or USD 4.1 million (as of 2017). Also, in the last five years, the average deficit of IMC stands at TZS 3.8 billion. The details of the same are provided in Section 16. Therefore, it does not have sufficient resources to fund the project on its own (the project capex is about TZS 13 billion or USD 5.6 million). Furthermore, there is a clear need to combine construction and operation phases aiming at minimizing life cycle costs. The party responsible for construction should preferably also avoid contractual handovers and disconnects.

Life cycle costs are the total cost of facility ownership, and thereby, a design should be selected that ensures the facility will minimize this. Life cycle cost analysis should be performed in the early phases of the design process while there is the possibility of refining the design to ensure reduction in these costs. In addition, the municipal council has limited experience and skills in managing the construction of state-of-the-art municipal market projects on time and within budget. The rationale for the PPP model is driven by the private sector resources and leveraging its expertise. It also helps the LGA in providing basic infrastructure services in the context of constrained financial budgets. Additional underpinning arguments for the PPP are explained below-

- *Sufficient experience in arranging finances* - ProjectCo is expected to have past experience in implementing similar kind of Projects and sufficient experience in arranging finances from different sources based on its technical and financial credentials.
- *Utilization of modern technologies* - Having past experience in this field, ProjectCo can leverage its expertise and modern construction technologies to develop market and include features that the public sector might not have envisaged.
- *Minimization of life cycle costs* - ProjectCo can not only integrate the development of the cost components but also innovate and cross-subsidize the development of some components with others and thus minimize total life-cycle costs of all the assets combined.
- *Leveraging past experience* - ProjectCo can leverage its past experience in EPC management and bring in efficiency in operation and maintenance techniques, which will in turn maximize profits.

- *Incentivized to maximize collected revenues* - ProjectCo is incentivized to maximize the collection of fees. By assuming responsibility of construction as well as operation and maintenance of the facility, it is provided with the commercial freedom to exploit the market facility in the best way possible.

Recommended DBFOMT model

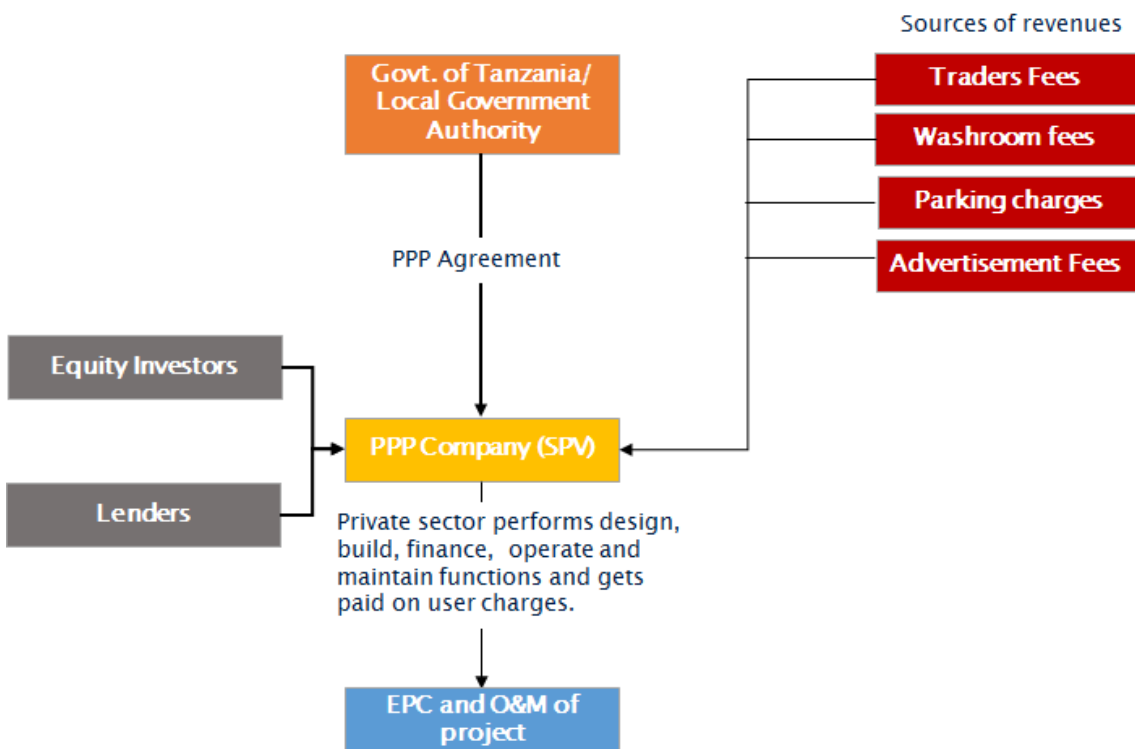
Based on the above constraints, we recommend a design, build, finance, operate, maintain and transfer (DBFOMT) model. In this model, the ProjectCo is responsible for designing, building, financing, operating and maintaining the project facility and finally transferring it at the end of the concession period. The government will only be responsible for providing the land parcel, in addition to the necessary approvals such as environmental permits, modifying municipal by-laws incorporating the percentage of tariff increases and the frequency at which it will get revised, facilitating peaceful relocation, providing support infrastructure, etc.

We also discern the need to tie together both construction and operation in one contract, as well as the LGA’s limited financing ability. The recommended model also optimizes the ProjectCo’s incentives structure as it minimizes the life-cycle costs of construction and operation. The transfer of assets will only be partial as the land and structures remains with LGA, as the Tanzanian law does not separate ownership of the land from its immovable assets. Moveable assets can be owned by the ProjectCo though.

5.3 Roles and responsibilities in the proposed PPP model

This section depicts the proposed PPP model as well as the allocation of roles and responsibilities of both the IMC and the ProjectCo. It also presents various procurement components such as bidding variables and the concession period.

Figure 5.1: Proposed PPP Model



Source: Consultant

The proposed PPP model will have the IMC as the concession’s grantor, which will enter into an agreement with the ProjectCo (the SPV) to carry out the project for the concession period of 15 years. The ProjectCo will be responsible for financing the project, combining both equity investors and lenders (commercial banks or

domestic financial institutions). It will bring in its expertise to successfully construct and operate similar projects. It will generate revenues through fees collected from traders, washroom fees and parking charges.

Responsibilities of IMC

- *Obtaining approvals* - The Municipal Council will take the project through the PPP process in line with the provisions of the PPP Act 2010 and obtain the approvals necessary for entering into the PPP agreement with the ProjectCo.
- *Leasing of project site to ProjectCo, but ownership to remain with IMC* - The project site will be leased to the ProjectCo by the IMC during the concession period. ProjectCo will hand over the project and its assets to the IMC at the end of the concession period at no cost and without encumbrances. The operation and maintenance of the structure will be transferred, but not its ownership, as the municipality owns the land and its structures (for details refer to Section 7.2). The private sector will be handed over the commercial user rights.
- *LGA to operate the market after completion of concession period* - At the end of the concession period, IMC has the right to directly operate the municipal market facility. As per the Tanzanian laws, the maximum length of the concession period is limited to 15 years. An additional 5 years could be provided only in the case of delayed construction owing to government delays.
- *Provision of support infrastructure by the LGA* - The IMC will also enhance support infrastructure such as widening the access roads leading up to the market in anticipation of a further increase in both consumers and cargo post market modernization. Further, the sheds over the stalls are leaking at present, resulting in puddles of water and scum inside as well as the surrounding area of the market on account of poor drainage connectivity and choked drains. The IMC will be required to provide proper storm water drainage connectivity and regularly flush the drains nearby the market.
- *LGA to facilitate all environmental approvals* - The IMC will also be responsible for facilitating the environmental approvals. Various approvals such as environmental, construction permit, operations permit, utilities permit, etc. have to be obtained from municipal council or other authorities (as required) within well-defined timelines. While the ProjectCo will be responsible for obtaining these approvals, the LGA can facilitate the process.
- *LGA to provide for temporary relocation* - The IMC will also be responsible for temporary relocation of ~3,300 petty traders currently operating in Buguruni market in a peaceful and organized way.
- *Accommodate all the authorized as well as unauthorized traders*: The LGA will accommodate both authorized and unauthorized traders in the market building and proactively restrict the traders operating on the adjacent streets, and curtail daladala operators stopping wherever they like on nearby roads aiming at avoiding user charges. If the LGA fails to undertake these measures, the ProjectCo will lose a portion of the potential revenues.
- *Option of follow-on PPP after completion of this PPP and handover to government* - This is a potential option which can be explored by the LGA, as the private sector is more efficient in managing the operations of any infrastructure facility by leveraging its past experience, as compared with the government sector.

Role of the ProjectCo

- *Obligations of ProjectCo* - ProjectCo will be responsible for designing, constructing, procuring, financing, and operating and maintaining the project for the designated concession period.
- *Incorporation of the SPV* - ProjectCo will be contractually obligated to incorporate and register the SPV as per the rules and regulations of Tanzania for the performance of PPP agreement.

- *Commercial operation of market* - ProjectCo will be given the right to develop, build, finance, and operate the project during the period of concession. During this period, it will have the right to commercially operate, i.e., make economic use of the municipal market and collect revenues.
- *Overall management of the market* - ProjectCo will be responsible for the performance of the municipal market (proper space allocation for traders, clean and hygienic toilets and washrooms, clean parking areas for customers and cargo trucks) and for the discharge of all obligations to the IMC throughout the concession period.
- *Sub-contracting to other firms* - ProjectCo will be given the right to sub-contract certain aspects of the operations to reputable parties.

Concession period

- *Contents of PPP agreement* - The PPP agreement will be entered into between the IMC and the ProjectCo for the performance of the rights and obligations of both parties as detailed in the agreement.
- *Concession period* - The concession to develop, build, finance, operate, maintain and transfer the project will be given to ProjectCo for a period of 15 years, which would include the construction period of 2 years. The financial arrangement and amount of viability gap funding to be provided could be determined through the competitive bid process.
- *Commercial freedom given to LGA subject to certain conditions* - The PPP agreement will specify commercial freedom in respect of the development undertaken. It will give the ProjectCo the right to fix the charges, subject to a maximum cap decided by the LGA.
- *Setting up an escrow account* - A special account, specifically for this purpose would be set up wherein all the revenues collected by the ProjectCo would be deposited on a daily basis and these would be ring fenced avoiding uncontrolled diversion of funds.
- *Provisions in PPP agreement* - The PPP agreement should also contain provisions for conducting regular audits and impose penalties on the ProjectCo in case of overcharging.

Table 5.1: Summary of responsibilities of the ProjectCo and IMC

Stages in PPP contract	ProjectCo	Municipal Council
Design	√	-
Construction	√	-
Finance	√	-
Operate	√	-
Maintain	√	-
Transfer	√	-

Source: Consultant

5.4 Risk allocation

In this section, we identify the risks and allocate them to the contractual party that is best able to manage them.

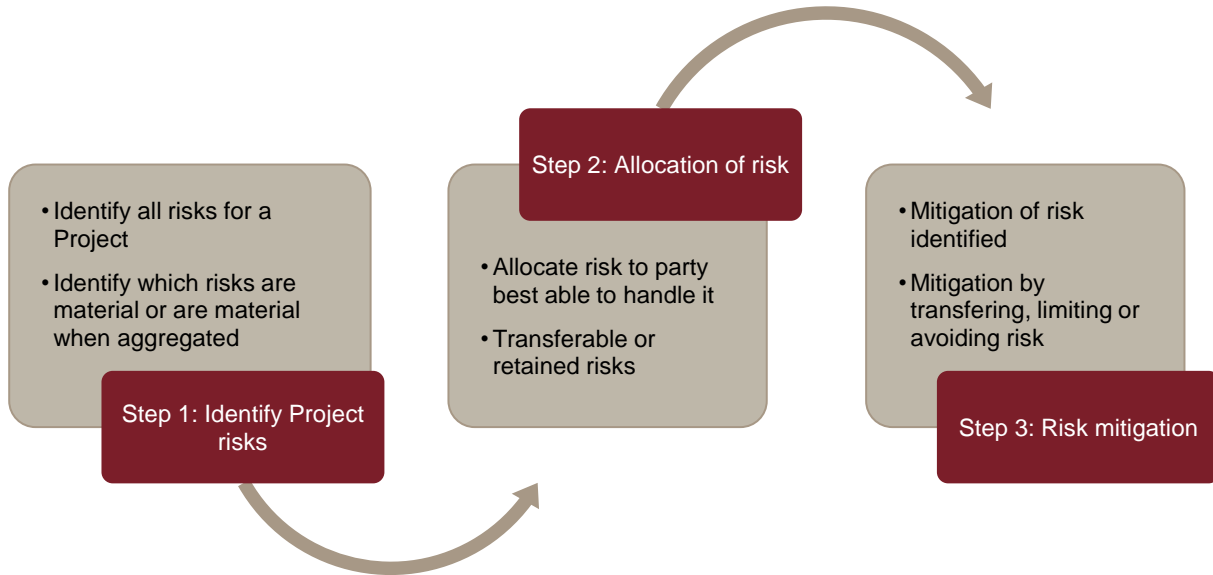
Introduction

Project risk management is an iterative process conducted throughout the project’s lifecycle and involves systematically considering possible outcomes before they happen and defining procedures to accept, avoid, or minimize the effect of risks on the project. The first necessary step is the identification and allocation of risks. Given that PPP projects involve complex project financial and contractual structures, risk identification

and allocation of risks to the appropriate contractual party is essential to successful implementation. The essential principle driving risk allocation is that management of risks should be allocated to the party best able to handle them.

Methodology of risk assessment

The risk assessment has been carried out through the following steps, which are detailed below -



- *Identify key risks for the Project and consequence of the risks* - Risks to the project’s success are generally low to moderate and are considered manageable. The risks of greatest concern relate to the ability to complete construction on a timely basis, to receive user charges without any exception, and to secure affordable finance in time by the ProjectCo.
- *Allocate the risks to the appropriate contractual party* - The risk allocation matrix outlines the allocation of the risk to the party which is best suited to handle and mitigate the risk. Risk allocation involves the analysis of the identified risks and determining whether the risk may be transferred to the ProjectCo or retained by the LGA. On the basis of the risk analysis, the important risk categories relevant to the project have been allocated to the contractual party best able to bear the risk, or alternatively, reduce the likelihood of the risk occurring and/or minimize the consequences of the risk.

Table 5.2: Risk allocation matrix

Risk	Description of risk	Risk assumed by
Site & approvals	Securing project approvals on a timely basis or site conditions do not allow for excavations and new construction	LGA
Construction	Events during construction prevent the completion of market facility	ProjectCo
Revenue	Insufficient revenue generation owing to leakage in revenue collection	ProjectCo
Performance	A sub-contractor engaged by the ProjectCo fails or delivers substandard work or maintenance costs are higher than expected because of poor design, materials or installation	ProjectCo
Financial	Inability to secure financing for the project	ProjectCo
Political	Changes in laws or regulations reduces the ProjectCo revenue/ increase costs or new policies reduce the importance attached to the development of municipal market and government support	LGA

Risk	Description of risk	Risk assumed by
Force Majeure	Performance targets are not met or project is terminated due to force majeure events	ProjectCo and LGA
Default	There can be default from either sides, government event of default and ProjectCo event of default	ProjectCo and LGA

Source: Consultant

5.5 Risk mitigation

Risk mitigation involves developing strategies and options on how to mitigate allocated risks. Below, we present the main risks categories, their impact, and mitigation measures.

Table 5.3: Risk mitigation matrix

Risk	Mitigation measures	Likelihood
Site & approvals	LGA should carry out geo-technical surveys to assess any issue prior to selection of ProjectCo. LGA should proactively assist in the necessary agencies and get their approvals on various aspects, such as land excavation, Project design, etc.	Medium
Construction	ProjectCo can sign fixed price construction contracts with the subcontractors and also maintain contingency provisions	Medium
Revenue	ProjectCo should ensure optimal usage of best of commercial facilities as higher usage will result in higher revenues	High
Performance	ProjectCo should ensure provision of services as per the service specifications in the contract	Medium
Financial	ProjectCo should assess the current market situation at which loans are being provided for commercial projects. It should also endeavor to arrange finances from multiple sources such as commercial banks, domestic financial institutions and multi-lateral agencies.	Low
Political	LGA should get appropriate legal advisors to validate the implications of changes in regulations on the project. It should compensate the ProjectCo for changes in laws. LGA should assess the impact of the public policies and assess the loss which would be borne by the ProjectCo.	Low
Force majeure	Obtain adequate insurance policies	Low
Default	Both ProjectCo and LGA have to manage the project with an eye to avoiding events of defaults triggering penalties and/or termination	Low

Source: Consultant

5.6 Input and output specifications

This section presents an illustrative set of input and output specifications that the ProjectCo will be expected to fulfill under the PPP agreement for the project. These specifications have been formulated in four parts to provide a clear understanding of the expectations from the ProjectCo of the Project.

- Overall scope of the Project facility-** The Buguruni Market, spread over an area of 6,394 sq m, will be redeveloped to cater to ~3,600 traders. It will be a modern market with a proper structure and designated spaces allotted to all the traders/vendors. The proposed three floors in the market building (including the ground floor) will accommodate the traders currently operating in and around the market. On average, ~40,000 customers are expected to visit the market per day. Parking lots will be provided for 42 cars to be parked on daily basis and 30 trucks to be parked on a daily basis.

- *Detailed output specifications of the Project*- The section covers the main output specifications of the Project, which define how the objectives will be attained. It covers both physical outputs such as building, parking, toilets etc. as well as services such as healthcare, security, hygiene, etc. which will ensure smooth operations of the modern Project facility.

Table 5.4: Output specifications of the project

Facility	Output specifications
Toilets	<ul style="list-style-type: none"> • Toilet facility to be provided for both traders and customers • Separate toilets for male and female traders and customers • Provision for toilets in each floor of market building • Toilet should have 24*7 water supply • Toilets should be clean, hygienic and well maintained • Toilets should have provisions for differently abled traders and customers • Standards for sanitary fittings should be complied as per Tanzanian standards
Showers	<ul style="list-style-type: none"> • Shower facility to be provided for traders • Separate shower facility for male and female traders • Showers should have 24*7 water supply • Showers should be clean, hygienic and well maintained
Water supply	<ul style="list-style-type: none"> • Potable drinking water to be provided to traders & customers as per per-capita norms • 24x7 water to be supplied to traders for washing and cleaning fruits and vegetables • 24x7 water to be supplied for cleaning of floors and other usage • Water storage facilities for emergency purposes such as water shortage, fire accidents, • Water supply guidelines needs to be complied as per Tanzanian standards
Parking area	<ul style="list-style-type: none"> • Provision for adequate space to meet parking requirement of customers and traders • Provision for adequate space to meet parking requirement of cargo trucks • Adequate internal movement space to be provided for entry and exit of cars and trucks • Sufficient and paved road at entry and exit points to avoid congestion • Smooth movement of vehicles to reduce waiting time.
Electricity	<ul style="list-style-type: none"> • Provision for 24*7 electricity supply including backup for load shedding • Adequate number of ceiling fans, lights and charging points to be provided for traders
Security	<ul style="list-style-type: none"> • Provision of security cabin to avoid unauthorized operations outside the market building • Adequate security staff to be provided to handle safety and security operations
Drainage	<ul style="list-style-type: none"> • Adequate drainage to be developed around the site • Drainage line needs to be connected with central drainage of the city

Facility	Output specifications
	<ul style="list-style-type: none"> • Drainage guidelines needs to be complied as per Tanzanian standards
Sewerage	<ul style="list-style-type: none"> • Provision of underground septic tank for collection of sewerage market • Periodic sludging of septic tank through de-sludging trucks • Sewerage guidelines needs to be complied as per Tanzanian standards
Solid waste management	<ul style="list-style-type: none"> • Solid waste collection units shall be placed strategically on each corner of the floor • Collection of solid waste to be carried out on a regular basis during the day • Spoilt food and vegetables to be collected from each trader • Discarded food or thrown away in the internal circulation pathways to be collected • Solid waste collected to be segregated in recyclable and non-recyclable waste • Garbage collection trucks to transport the solid waste to the landfill site • Solid waste management guidelines should be complied as per Tanzanians standards
Hardscape and landscaping	<ul style="list-style-type: none"> • Outdoor areas of the market to be smoothly hardscaped to facilitate easy movement • Paving's surface quality to ensure durability as well as resistance against wear
Maintenance and repair	<ul style="list-style-type: none"> • Floors, gates, fences and stalls should be kept in good state of repair. • Proper maintenance of refrigeration facilities to ensure product preservation • Other minor repair works need to be carried out
Hygienic practices	<ul style="list-style-type: none"> • Provision of daily cleaning, dusting & mopping of common areas, stalls and equipment • For disinfection of knives for meat, temperature of water to be maintained at 82 degree • Periodic removal of cobwebs, repair and cleaning of roof and wall finishes • Monitoring the water quality by examining harmful metals & microbiological contents • Pest control measures to be taken both outside and inside the market • Regular cleaning of toilets and usage of naphthalene balls to prevent entry of pests
Safety health and environment	<ul style="list-style-type: none"> • Provision of adequate fire extinguishers and above ground fire hydrants in the market • Smoke detection and alarm systems to be installed in the market building • Health of workers/ traders needs to be checked on routine basis • Management to comply with legislation relating to public health and safety • Installation of green building technologies (solar panels) to reduce carbon footprint • Provision of techniques for waste water-recycling and rain water harvesting • Adherence to environmental and social performance standards as per IFC

Source: Consultant

- *Minimum design specifications* – These are the minimum specifications which needs to be adhered to in order to provide adequate facilities for different stakeholders of the Project, as mentioned under:

Table 5.5: Minimum design specifications of the Project

Facilities	Design specifications
Stalls	<ul style="list-style-type: none"> • Stall sizes will be of two different types as per Project requirement • Minimum built-up area of small stalls -3 sqm, and large stalls -10 sqm • Minimum access space of 20% of built up area to be considered for each stall • Sufficient space for movement around the market and easy access to each stall
Car and Cargo parking	<ul style="list-style-type: none"> • Minimum equivalent car space (ECS) for cars -25 sqm • Minimum equivalent car space (ECS) for trucks -50 sqm
Toilets and showers	<ul style="list-style-type: none"> • Minimum area for each urinal -2 sqm • Minimum area for each water closet -4 sqm • Minimum area for each shower room -10 sqm

Source: Consultant

- *Detailed input specifications* - The plot area of 6,394 sq m shall be developed as:
 - a) 65% (4,156 sq m) of the land shall be earmarked for constructing a new market building that will accommodate small and large traders along with toilets on all three floors. An admin block and electrical room will be accommodated on the ground floor of the market building;
 - b) 16% (1,050 sq m) of the land will be reserved for parking;
 - c) 14% (915 sq m) would be allocated for internal movement;
 - d) ~1% solid waste collection unit will be created over an area of 61 sq m; and
 - e) 3% (212 sq m) shall be set aside for other necessary utilities.

Total development of 6,394 sq m will include built-up area of 14,706 sq m. The available area would be fully occupied by the three-floor market building along with parking, internal movement, garbage collection hut and other necessary utilities.

Table 5.6: Technical components and area statement

Development mix	% land area	Plot coverage (sq m)	Total built-up area (sq m)
Market main building	65%	4,156	12,468
Large shops	5.4%	333	1,000
Small stalls/ kiosks	52%	3,315	10,526
Toilet blocks	3%	218	653
Administration block	4%	253	253
Electrical room	0.6%	37	37
Ancillary facilities	35%	2,238	2,238
Parking facilities	16%	1,050	1,050
Internal movement	14%	915	915
Solid waste collection unit	1%	61	61
Other facilities/ utilities	3%	213	213
Total area	100%	6,394	14,706

Source: Consultant

- Market building** - It is planned as a three-storeyed building with a total built-up area of 14,706 sq m. As discussed with IMC officials, the ground floor of the building will have an electrical room, two bulk storage units, a service and maintenance room, and stalls of traders selling perishable goods. It aims at avoiding any damage to goods while carrying them to higher floors. The first floor of the building will have an administration office, two bulk storages, and stalls for traders selling both perishable and non-perishable goods. The second floor of the building will have small stalls of petty traders, other large stalls of non-perishable goods and two bulk storages. The design of the floors will be almost similar; it is proposed to create homogeneous sections on the three floors, with stalls/kiosks selling similar goods located adjacent to each other on the same floor. This will ensure that the locational disadvantage of one stall vis-à-vis another is minimized. We propose setting up of stalls / kiosks of two sizes to meet the need of existing traders as mentioned in minimum design specifications above.

 - Stalls** - It is assumed that 100 shops will consume 10 sq m area; the remaining ~3,500 units can be trading stalls of 3 sq m each. The larger stalls will be earmarked for big traders, who extensively trade in various kinds of fruits and vegetables. The smaller stalls will be reserved for small traders who deal in single type of fruits or vegetables. The access area is included in the super built-up area of 3 sq m, wherein we have assumed that 80% will be carpet area (2.4 sq m) and 20% will be access area (0.6 sq m) out of the total area of 3 sq m for small traders. Similar access space will be provided for large stalls as well. The redeveloped Buguruni market will accommodate ~3,600 traders.
 - Toilet blocks and showering facilities** - It is planned to have toilet-cum-showering facilities on three floors of the market building. We have assumed a 12-hour operational period over which 3,600 traders will be operational with each trader catering to minimum 20-30 customers. We have considered six peak hours (morning 8 am to 11 pm and afternoon 5 pm to 8 pm) and six non-peak hours (11 pm to 5 pm). Peak hours are those in which maximum customers/ traders use the toilets and non-peak hours are those in which the number of customers/traders using the toilets is relatively low. While we have



conservatively assumed that each trader will visit a toilet a couple of times in their working day, in reality, it might be higher (three or four times). While each trader will have 20-30 customers each day, we have conservatively assumed less than 10% of customers will use the toilets. However, in reality, it might be higher (15-20%). In the overall toilet configuration, we have considered both urinals and commodes so that both male and female travelers can use the toilets. Average time of urinal usage has been considered as three minutes and of commodes, six minutes. Based on an indicative total daily usage of ~13,000 times by traders, customers, porters and administration staff and considering each toilet fixture shall require 6 sq m space (as per the minimum design specifications), total area requirement of toilet fixtures works out to 254 sq m (including both urinals and commodes). In addition, porters who help traders in transporting goods from trucks to their respective spaces in the market, will also avail of the shower facility. A conservative estimate of only ~360 porters (10% of total number of traders) has been considered; the number could be far higher, close to 20-30%. Considering a shower room as per the minimum design requirement, total area requirement of shower rooms will be ~60 sq m.

Thus, total area required for toilets and showers will be ~310 sq m. However, a higher space of 653 sq m has been assumed in the project configuration, in case usage of toilets exceeds the base assumptions considered.

- *Administration block* - It is planned to have an administration block on the ground floor, measuring 253 sq m, equipped with seating arrangements for 20-25 persons. Space will be allocated for the market manager deputed by IMC and other staff appointed by Project Co, to collect daily user charges from small and big traders, washroom and shower users, as well as car parking and cargo entry charges. Telephone, office furniture, computers, photocopier, printers and office stationery items will be provided.
- *Bulk storage* - Bulk storage facilities will be provided to the traders to store their daily unsold goods. There will be two bulk storages on each floor. The area of the bulk storage will be about 15 m x 9 m each. The rationale of keeping two bulks storages is that, while the large traders will deal with high volume of goods, it might not possible for them to sell all the goods and supplies brought in a single day. This justifies the need for two bulk storages on each floor.
- *Electrical room and service lifts* - A small electrical room is planned on the ground floor, measuring 37 sqm. It will have an electric substation, powering lights, fans and water supply system across the three floors of the market during the operational hours. The market is proposed to be operational from 8 am to 8 pm. To facilitate the movement of goods to higher floors, the project includes the provision of two service lifts in the main building.
- *Stairs and ramps*- Apart from the service lifts to carry goods, all floors will have access through staircases and ramps for the public and traders. The ramps will help senior citizens/ handicapped people access the higher floors of the market and thereby make the municipal market more user friendly for aged, handicapped users.
- *Parking facilities and internal movement* - Internal access roads and parking slots for market users and delivery trucks will be needed. It is planned to have a parking facility for cars and cargo trucks adjacent to the market building. 16% (1,050 sq m) of the land area would be earmarked for parking. The parking facility would serve a dual purpose: early in the morning, cargo delivery trucks will use it for loading/off-loading purposes, while during market hours, it can be used for car parking and internal movement of vehicles and customers. 42 cars can be accommodated in the proposed parking space. It is important that the market should have a traffic control plan aimed at ensuring public safety and optimal use of pavement and parking areas.

Compliance with Tanzania's laws and regulations

ProjectCo will have a general obligation to ensure that all works comply with relevant Tanzanian legislation and standards and good industry practices in Tanzania. Installation plans will need to be approved before works commence and construction standards will need to be met prior to handover of the assets.

Conceptual designs and layout plans

The conceptual designs and layout plans of the Project have been provided in Section 20 and provide a broad overview of the project facility. These designs provide a base level understanding of the physical specifications of the market facility and its various components as mentioned above.

As per the conceptual designs/schematics, the ground floor plan will have dedicated stalls for traders selling perishable goods and butchery shops, an electrical room, service and maintenance room, and parking area for cars and cargo trucks outside the building. The first floor plan will have an administration office and small stalls for non-perishable goods. Similarly, the second floor will also have small stalls for non-perishable goods and a few large stalls/shops. There will also be provision of public toilets and access to ramps, stairs, service lifts, and bulk storage facility on each floor.

These designs and layouts are indicative and subject to change during the transaction advisory stage.

5.7 Recommended payment mechanism

We discern two options for the payment mechanism which are explained below:

- *LGA collects fees and pays the ProjectCo:* In this case, the LGA collects the fees from traders, washrooms and shower users, as well as cars and trucks. Fees collected are then transferred to the ProjectCo as per the contract. Another option could be to contractually agree on a level of payment, similar to an availability payment mechanism. However, in this case, the municipal council is not incentivized to maximize collecting these fees and enforce them on each trader, washroom or shower user, car and cargo truck. Further, this option might also be vulnerable to political pressure groups and lobbying aimed at fees exemption. These would result in revenue leakage and might trigger contractual penalties.
- *ProjectCo collects fees:* In this case, the ProjectCo collects the fees from all user groups as it is incentivized to maximize collection of revenues as it is its only source of income.

We recommend that the ProjectCo collects the fees from the traders, washroom and shower users, cars and trucks carrying cargo, as it is incentivized to maximize collection. The current revenue collection efficiency of the LGA is low, resulting in loss of revenue generated (for details refer to Section 14), which will not be the case if the ProjectCo collects the fees.

5.8 PPP contract term

Ideally, the concession period should preferably match the economic life of the underlying assets. Or, at a minimum, cover of the assets' depreciation period. However, the length of the concession period as per Tanzanian laws is only 15 years. A shorter period may result in the ProjectCo not being able to recoup the investments incurred. We recommend extending the concession period to, for instance, 25 years, as this enhances the financial viability. Though 15 years is the legally maximum allowed term, extension of the period is an overarching recommendation that could be considered by the Government of Tanzania.

5.9 Accountancy treatment

This section elaborates the accountancy treatment of the proposed PPP project in terms of ownership of assets and transfer of assets.

Financial reporting and accounting of PPP projects

Currently, there is no specific accounting guidance under the Tanzanian accounting standards for PPP arrangements. Generally, infrastructure companies account for the infrastructure as a part of their fixed assets at the construction cost and do not recognize any revenue during the construction period. Revenue is normally recognized for the amount recoverable from the public sector and/or the amount recovered from the customers for use of the infrastructure only after the construction is complete.

The International Accounting Standard Board (IASB) has issued an interpretation related to accounting treatment of service concession arrangements under IFRIC 12, such as the design-build-finance-operate-maintain models being proposed for the project. It can be effectively interpreted that even though the infrastructure assets are not recognized as the property, plant or equipment (PPE) of the ProjectCo, it can account for them in its books. Similarly, it can recognize the revenue as measured in accordance with IAS 11 (for construction or upgrade services) and/or IAS 18 (for operation services, where the ProjectCo operates and maintains the infrastructure).

Financial reporting by the public sector of risks and liabilities in PPP transactions is not mandatory in Tanzania. Globally best practices require governments to reflect most PPP assets and associated liabilities on the government's balance sheet. If they are not accounted for, then they are listed in the 'notes to account'.

Depreciation

The following provisions related to depreciation could apply:

- *Annual depreciation of immovable assets:* The standard depreciation rate of 5% as given in the Finance Act of Tanzania has been assumed for the market building and other civil works. The straight line method (SLM) has been used for depreciation of this class of assets. It is noted that though the physical ownership of the asset remains with the IMC, the operation and management of the assets and economic activities is transferred to the ProjectCo for the duration of the concession period. Hence, its depreciation costs are allowed to be considered in the ProjectCo's financial statements.
- *Annual depreciation of movable assets:* For plant, machinery and electrical works, a depreciation rate of 12.5% has been assumed. A diminishing value balance method has been used for this class of assets as given in the Finance Act. Additionally, a provision for accelerated depreciation for plant and machinery and 50% initial allowance (first year allowance), as allowed under the Act, have been considered.



6. Financial case

The main objective of a financial appraisal is to ascertain the project's financial pre-feasibility. The financial analysis determines financial metrics such as the project IRR and equity IRR and debt-service coverage ratio (DSCR). This chapter details the assumptions used to arrive at costs, revenues and other financial modelling assumptions related to opex, occupancy rates, project financing, depreciation and taxation. This chapter also analyzes the project's VfM, both qualitative and quantitative.

6.1 Market demand study

This section provided the results of the benchmarking study undertaken across four similar markets to assess the type of traders and user charges in similar markets. Details are included in the Section 10 and Section 11. All these markets are in a condition similar to the existing Buguruni Market in terms of infrastructure and hygiene. The average daily fee charged for table users is TZS 500/ day, while for the kiosks, it varies from TZS 500/day to TZS 1,500/ day depending on market and size of kiosks. Also, the average fee for using washroom is TZS 200.

Table 6.1: Benchmarking study

Market name	Traders	User charges
Ilala Market	Table	TZS 500/ day
	Kiosks	TZS 1,500/ day
	Toilets	TZS 250/ usage
	Butcher shops	TZS 2,500/ day
Sambusa Market	Table (Vizimba)	TZS 500/ day
	Kiosks	TZS 500/ day
	Toilets	TZS 200/ usage
	Butcher shops	Not available
Mchikichini Market	Table (Vizimba)	TZS 500/ day
	Kiosks	TZS 500/ day
	Toilets	TZS 200/ usage
	Butcher shops	Not available

Source: Consultant

6.2 Willingness to pay

This section provides insights into the trader's willingness to pay higher charges once the new market complex at Buguruni becomes operational.

The assessment undertaken by the market assessment team involved the market manager and about 70 traders who volunteered. The market has around 3,300 traders currently, of which ~2,800 have contract with the Municipal Council. Majority of the traders stated they were willing to pay a higher amount than what they

are currently paying, if they would be provided with proper facilities that include security, cleanliness, ventilation (through ceiling fans), hygiene facilities (toilets), water, and electricity.

Small stalls such as mabungo and mango sellers were willing to pay 1.5 times more fees (TZS 650-800) than what they were currently paying (TZS 500). Chicken slaughterers are willing to pay up to 1.2 times higher, i.e., TZS 6,000, compared with TZS 5,000/month now. Large stalls such as butcher shops and kiosks were willing to pay up to 2 times higher (i.e., TZS 90,000), compared with TZS 45,000/month at present, if provided with all the above mentioned facilities. Further details are included in Section 10.

6.3 Assumptions and methodology for financial analysis

This section provides an overview of the financial assumptions of the financial model for the Buguruni market. Key financial assumptions are with respect to depreciation rate, corporation tax rate, cost of capital and the inflation rate.

Depreciation

The standard depreciation rate of 5% as given in the Finance Act of Tanzania has been assumed for the market building and other civil works and SLM has been used for depreciation of this class of assets. For plant, machinery and electrical works, a depreciation rate of 12.5% has been taken and a written down value (WDV) method has been used for this class of assets as per the Finance Act.

Additionally, a provision for accelerated depreciation for the plant and machinery and 50% initial allowance (first year allowance), as allowed under the Act, have been considered. It is noted that though the physical ownership of the asset remains with the IMC, the operation and management of the assets and economic activities will be transferred to the ProjectCo for the duration of the concession period. Hence its depreciation costs are allowed to be included in the ProjectCo's financial statements.

Corporate income tax

Current corporation income tax in Tanzania stands at 30% and the same has been assumed in our financial model. Moreover, there is no limit on the carry-forward period for tax losses in Tanzania and hence, it has been used to setting off losses in the initial operating years.

Carry forward of losses

In Tanzania, there is no limit on the carry forward period of tax losses and has been considered in the financial model for this project. However, as per the latest Finance Act, an alternative minimum tax at the rate of 0.3% is imposed on the turnover of the third year of an entity with tax losses for three consecutive years.

Cost of capital

For the interest rate on long-term loans, based on market assessment, the bank lending rate in Tanzania is in the range of 14-16% p.a. Hence, for the purpose of this financial model, an interest rate of 16% p.a. (inclusive of the processing charges) has been assumed as the standard interest rate on long-term loans. Moreover, the cost of equity for Tanzania is in the range of 19-21% and has been assumed at 20% for the calculation of cost of capital. Considering a debt to equity ratio of 70:30, the post-tax weighted average cost of capital (WACC) works out to 13.8%.

$$\text{WACC (post-tax)} = g \times R_d \times (1 - t) + R_e (1 - g)$$

Where g is gearing; R_d is the cost of debt; R_e the post-tax cost of equity; and t is the corporation tax rate.

Tariff indexation and cost revision

Regarding the tariff indexation, it was agreed by the IMC that the tariffs/fees can be increased every three years. A rate of 25% was proposed and agreed upon. The assumed indexation has been considered only after

detailed discussions with the investment team committee members across LGAs and they have given their consensus for the same. However, they have also proposed that the indexation should be applied every three years, rather than annually, as changing the bylaws annually is cumbersome and not practicable. For the cost revision, an annual increase of 6% (equivalent to the average inflation in Tanzania over the past 5 years) has also been assumed. From the ProjectCo's perspective, it would have been reasonable to increase the user charges year-on-year, as the charges would then be linked to the country's inflation index. However, the LGAs asserted during discussions that increasing user charges year-on-year will not be amenable to majority of traders and further suggested that the increase should be done every three years. This way, ProjectCo also gains as the user charges would increase by 25%, rather than a compounded annual increase of 6%, which would have translated into a lower 19% increase at the end of the third year. The cumulative impact over the project period of 15 years would result in higher gains to the ProjectCo, in the case of the first option as compared to the second option.

Grace period and tenor

We have assumed that construction will take about two years. A grace period for the loan repayment for this project has therefore been considered to be two years and the repayment period has been considered to be 8 years (making the total loan tenor of 10 years). It should be noted that interest grace period is generally not available and the same is therefore not considered in the financial model.

Table 6.2: Financial assumptions

Variable	Value
Depreciation rate (buildings and other civil works)	5% p.a.
Depreciation rate (plant and machinery)	12.5% p.a. 50% (first year allowance)
Corporation tax rate	30%
Post-tax WACC (70% debt, 30% equity)	13.8%
Tariff indexation	25% (every three years)
Opex revision	6% p.a.
Principal grace period	2 years
Principal repayment period	8 years

Source: Consultant

6.4 Capital expenditure and O&M costs

This section provides an overview of the capex and opex involved in the redeveloping the Buguruni Market. It also gives an area statement detailing the proposed overall distribution of the total land area of the market.

Indicative cost of land

It is proposed that the plot area of 6,394 sq m be developed for construction of the municipal market. Based on discussions with the municipal valuers, it was estimated that the land prices in the area are around TZS 168,000- 210,000 per sqm (or USD 73- 91 per sqm). Hence, the total land value of land for development of municipal market ranges between TZS 1.1- 1.3 billion (or USD 467,000- 583,000).

Capex

Capex estimates for the proposed project are presented in the table below. We have assumed that the market building will have three floors (including the ground floor) and all these floors will be used to accommodate the traders currently operating in and around the Buguruni market.

Also, it has been assumed that no commercial development will be undertaken in the market structure as there are several real-estate properties in the vicinity of the Buguruni Market that are not fully occupied. Hence, the development of commercial component as part of this market has been revisited, and in the revised development mix, no commercial development is proposed. Given this development mix and a stall size of 10 sq m for large traders and 3 sq m for small traders, a total of 3,609 traders will be accommodated in the market. Total capex of the market, is set at USD 5.6 million (inclusive of VAT), which can be split into two years in the ratio of 30:70. The major cost contribution in the first year will be from land development and part construction. In the second year, the major cost contribution will be from civil cost, plant & machinery, and supporting infrastructure.

Table 6.3: Area statement and capex

Area statement	% of land	Land area (sq m)	Floors	Total built-up area (sq m)	Capex (USD)	% of total cost
Land development	Lump sum				10,008	0.2%
Civil cost						
Market building	65%	4,156	3	12,468	2,516,882	44.7%
Parking and internal movement	31%	1,965	1	1,965	148,378	2.6%
Other utility/support infrastructure	4%	273	1	273	610,284	10.9%
Plant and machinery	For estimates refer to Section 9				155,826	2.8%
Electrical works	For estimates refer to Section 9				417,931	7.4%
Common utilities	For estimates refer to Section 9				23,652	0.4%
E&S capacity building	@ 0.5% of capex				19,414	0.3%
Design/engineering studies	@ 12.5% of capex				485,370	8.6%
Contingency	@ 10% of capex				388,296	6.9%
VAT	@ 18% of capex				859,687	15.3%
Grand total					5,635,728	100.0%

Source: Consultant

In the above capex estimates, the cost for civil works also factors in the construction of barriers on the boundary wall for reduction in the dust and air pollution during the construction phase and reduction in noise pollution during the operation phase. Also, the cost for solid waste management includes not only the cost of waste collection trucks and construction of a 60 sq m solid waste collection units, but also the cost for separate waste collection bins at each floor of the market. Lastly, the environmental and social awareness and capacity building cost of 0.5% of capex which includes the costs related to Environment & Social awareness training and other activities for the project.

Opex

Adequate operation and maintenance of the market structure (as will be required and drafted in the PPP contract) is crucial to ensuring optimal operating conditions both to traders as well as to customers. Total opex of the project comprises salary expense, utilities cost, solid waste management charges, electricity expense and other annual maintenance expenses.

We have assumed 15 people will be employed in the market for administration work with a monthly salary of USD 200 each. An additional 10 workers have been considered for the cleaning and solid waste disposal. Also, considering the electricity charge of USD 0.11 per kilo-watt hour charged by TANESCO, the total electricity expense of the market in the first year of operation works out to USD 53,071. It has been considered

that a since majority of the traders are petty traders, it will be difficult to recover this expense from them and the entire cost will be borne by the ProjectCo for electricity consumption in the market building as well as the common area. Desludging cost has also been considered in the opex, the desludging of septic tanks of the market will be done every month.

In addition to the above mentioned opex items, a periodic repair and maintenance cost equivalent to 5% of the capex has been assumed at an interval of every 5 years. An annual cost escalation of 6% (equivalent to the average inflation in Tanzania over the past 5 years) has been assumed for the projection of these costs over the entire concession period.

Table 6.4: Opex of the market

Parameter	Calculation
Salary expense/ month	15 workers – USD 200 per month 10 workers – USD 100 per month
Utilities cost/ year	0.5% of capex p.a.
Annual maintenance cost	0.5% of capex p.a.
Electricity cost/ year	Usage of 482,464 kWh per year – USD 0.11 per kWh
Desludging Cost	USD 77/ trip every month
Periodic repair and maintenance cost	5% of capex every five years

Source: Consultant

6.5 Revenue sources

This section presents the identified revenue sources for Buguruni market:

Fees from traders

Fees will be charged from petty traders which include daily charges for use of space, i.e., shops/tables/stalls. Currently, the daily fees collected from the large stalls is USD 0.4 (TZS 1,000) and that from the small stalls is USD 0.2 (TZS 500). Based on the willingness-to-pay assessment undertaken by the Consultant, it was established that once the modern market with better facilities and improved hygiene conditions is developed, the fees can be increased to USD 1.1 (TZS 2,500) and USD 0.3 (TZS 750), respectively.

Fees increments were agreed upon by the IMC and justified considering the fact that currently, owing to lack of space, each trading table is small in size and is used by 2-4 traders, either together or in shifts. In the redeveloped market, dedicated spaces of 3 sq m or 10 sq m (which is higher than the currently available space) will be available for each trader and they will have the entire day available for trading. The occupancy of the stalls and shops have been considered 80% in the first year of operation and has been ramped up to 90% over the years.

Security, cleaning and water charges

Based on the stakeholder consultation undertaken by the Consultant, it was observed that majority of the traders pay a charge between USD 0.05 (TZS 100) and USD 0.1 (TZS 250) per day for cleaning and/or security. Also, water fee per bucket is charged at USD 0.05 (TZS 100). In the redeveloped market, these charges together have been assumed at USD 0.1 (TZS 300) per day given that the redeveloped market will provide enhanced level of security, cleanliness and supply of water.

Parking charges

The parking fee, which is currently charged at USD 0.4 (TZS 1, 000) per day for customers can be amended

to be charged on per-hour basis and the rate can be fixed at USD 0.2 (TZS 500) per hour to enable raising more revenue. This will match the prevailing rate charged by other public parking run by the National Parking System in Dar es Salaam. Moreover, since the Buguruni Market is located in a congested area with limited parking facility, we have assumed that the 42 car-parking slots will be 80% occupied in the first year of operation of the market. This has been ramped up to 90% over the next two years. Moreover, around 25 cargo trucks enter the market premises currently and a fee of USD 4.3 (TZS 10,000) per cargo truck per entry is proposed to be levied.

Washroom and shower fees

The washroom fees currently charged at various places in Dar es Salaam is ~USD 0.15 (TZS 300). The same has been maintained for the project. It has been assumed that each of the traders will use the washroom facility twice during the day. On average, three customers per two traders will use the washroom facility in a day. Moreover, additional facility of shower rooms have been proposed at a charge of USD 0.2 (TZS 500) per entry.

Advertisement fees

Currently, the market is in dilapidated condition and there are no billboards or any mode of advertisement present. Hence, no revenue is generated in form of the advertisement fees. The redeveloped market will have dedicated billboards of 12m*10m and as per the market assessment, a monthly rental of USD 2,174 (TZS 5 million) can be levied on the same. Four such billboards are proposed to be placed in the market premises that can be used for commercial advertisements.

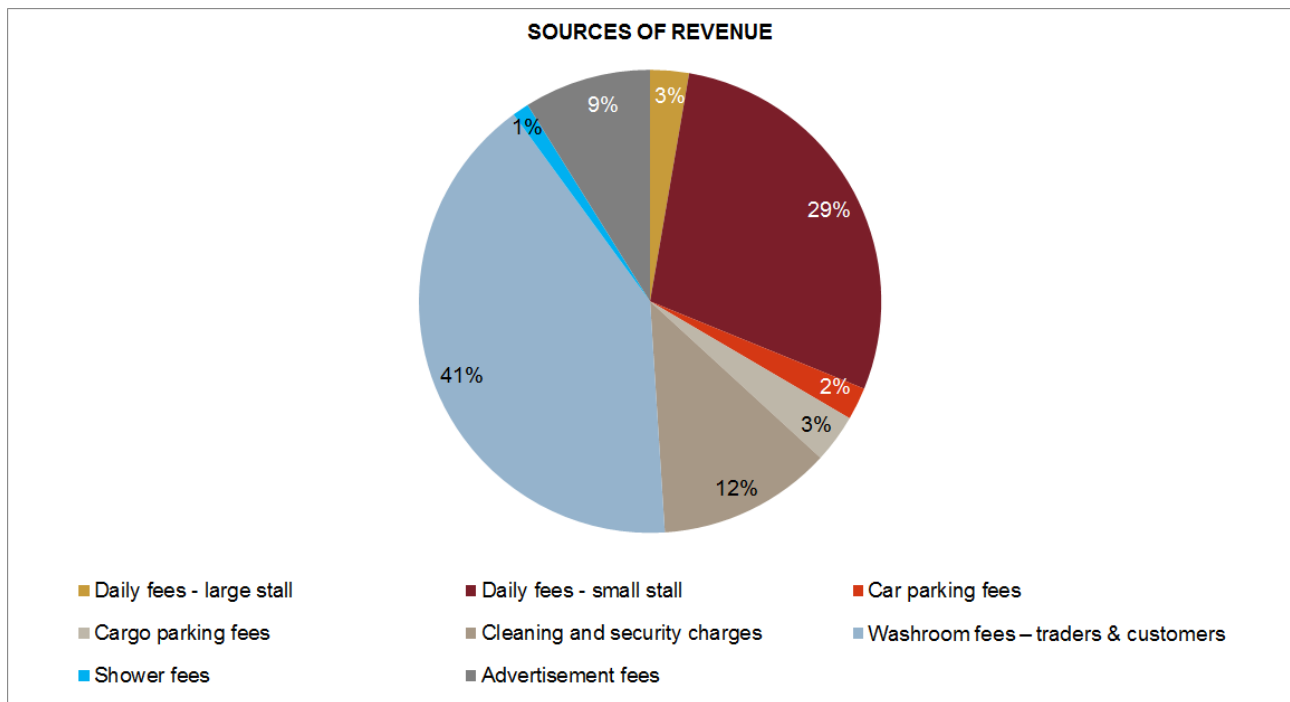
Table 6.5: Annual revenue statement

Annual revenue statement	Number	Daily fees (TZS)	Daily fees (USD)	Total first year revenue (USD)
Daily fees - large stall	100 traders	2,500	1.1	31,739
Daily fees - small stall	3,509 traders	750	0.3	334,118
Car parking fees	420 cars/ day	500	0.2	26,661
Cargo parking fees	25 trucks/ day	10,000	4.3	39,674
Cleaning and security charges	3,609 traders	300	0.1	137,456
Washroom fees – traders & customers	10,104 users/ day	300	0.1	481,038
Shower fees	288 users/ day	500	0.1	22,852
Annual revenue statement	Area (sq m)	Fees / sq m / month (TZS)	Fees / sq m / month (USD)	Total Revenue (USD)
Advertisement fees	480	41,667	18.1	104,348
Total annual revenue				1,177,886

Source: Consultant

From the above table, we can see that the revenue generated from washroom is the major revenue contributor for the market. It contributes 41% of the total revenue generated from the market. Other major sources of revenue are daily fees charged to small stalls (29%), cleaning & security fees (12%) and advertisement fees (9%). The minor sources of revenue includes daily fees from large stalls (3%), cargo parking (3%), car parking (2%) and shower fees (1%). The contribution from various sources of revenue can be depicted from the figure 6.1 below.

Figure 6.1: Contribution from various sources of revenue



Source: Consultant

6.6 Financial pre-feasibility

This section presents the equity and project IRR in the base case which shows the project feasibility.

Our financial analysis shows that the project is financially feasible and is expected to attract interest from private developers. The various financial assumptions considered in preparing the base case of this model include:

- Interest rate on long-term loan of 16%,
- Principal repayment grace period of 2 years,
- Repayment period of 8 years,
- Equity contribution of 30% of the project cost,
- CIT of 30%,
- Large stall size of 10 sq m and small stall size of 3 sq m, and
- Fees from small stalls of TZS 750 per day, fees from large stalls of TZS 2,500 per day.

Also, as per the current PPP Act 2010, a concession period of maximum 15 years is allowed for municipal PPP projects and the same has been considered for calculating the project's financial metrics. Since the useful life of the civil structures will exceed the 15-year concession period, a residual value equivalent to the inflation-adjusted value of the asset at the end of the concession period has been calculated. We have assumed this as an income accruing to the ProjectCo.

Our calculations result in a post-tax project IRR of 19%, a post-tax equity IRR of 20%, and an average DSCR of 1.7. These returns are acceptable to a ProjectCo as well as to financiers. Also, the maximum DSCR stands at 3.1. The minimum DSCR of the project is 0.9 during the initial years of operation, which shows that the

private party will need to arrange for additional working capital during this period in order to meet its debt obligation.

Table 6.6: Financial pre-feasibility assessment

Item	Metric outcome	Comparison with	Conclusion
Project IRR	19.1%	WACC of 13.8%	Project IRR higher than WACC, suggests that project is financially viable
Equity IRR	20.3%	Equity return of 20%	Equity IRR higher than or equal to equity rate of return suggests that project will be able to attract private players
DSCR	1.7	DSCR of 1.25	DSCR is higher than the minimum DSCR required in infrastructure projects to secure bank finance. It shows that the project will be able to service its debt obligation in time

Source: Consultant

6.7 Solar power assumptions

The rationale of including solar panels on the rooftops is to save electricity expenses for the ProjectCo, thereby decreasing its opex.

As discussed in earlier sections, of the total available 6,394 sq m land area, the market building is planned to be built on 4,156 sq m area. Also, as per the current development mix, there is no development proposed on the rooftop, which necessarily means that majority (assumed to be 85%) of the area of rooftop can be used for installation of solar panels. Based on market assessment and secondary research, the capex of the rooftop solar panel in Tanzania is in the range of USD 1.1 - 1.25 per watt-peak (Wp). For the purpose of this model, this cost has been assumed to be USD 1.15/Wp. Also, the space required to install 1 kilo-watt peak (kWp) capacity of solar power is considered as 10 sq m on an average. Using these assumptions, the capex for installing solar panels on 85% of roof-top area works out to ~USD 0.4 million.

Table 6.7: Capex calculation for roof-top solar

Parameter	Unit	Figure
Unit capex for solar panels	USD per Wp	1.15
Area required for solar panels	sq m per 1 kWp	10
Total area available on market rooftop	sq m available	3,533
Capacity installed	kWp	353.3
Total capex for rooftop solar	USD	406,259

Source: Consultant

Capex accounts for most of the project cost, as the opex are minimal in solar power projects. For calculation purpose, the annual opex for solar panels has been assumed to be 1.25% of the total capex. Moreover, it has been assumed that the capacity of the solar panels to generate electricity will diminish at the rate of 1% annually. Considering a load factor of the solar panels at 0.18, the total electricity that can be produced by the rooftop solar system will be 557,034 kWh per year in the first year of operation.

The Solar power's viability can be assessed in terms of savings in electricity cost of the market for the ProjectCo and/or revenue generation by selling the remainder of electricity. As discussed earlier, the entire electricity expense of the market building and common area will be borne by the ProjectCo. The electricity tariff charged

by TANESCO is TZS 263 (USD 0.11) per kWh. The total savings and/or revenue generation by the solar rooftop system thus works out to USD 61,274 per year in the first year of operation.

Table 6.8: Savings in electricity expense and returns from rooftop solar

Parameter	Unit	Figure
Load factor for solar panels	Ratio	0.18
Total electricity that can be generated	kWh per year	557,034
Cost of electricity by TANESCO	USD per kWh	0.11
Total savings in electricity cost	USD	61,274
Equity IRR of the Project (with solar power)	%	18%
Equity IRR of the Project (without solar power)	%	20%

Source: Consultant

Based on the above assumptions and calculations, it is evident if solar rooftop panels are used in the Project, then the equity IRR of the Project decreases by 2% compared with the base case scenario. It can also be observed that at the current tariff of USD 0.11 and for a concession period of 15 years, the savings in electricity expense and/or revenue generation from sale of electricity is not enough to generate sufficient returns to make the installation of rooftop solar panel viable, and therefore, it is not recommended. We can leave it to the ProjectCo's discretion to take this decision.

6.8 Sensitivity analysis

As discussed earlier in Section 6.4, in our estimates of the project's capex we have included a contingency of 10% as a buffer. However, in the case of an unforeseen event, if the capex and opex of the project increase beyond this buffer, or if the revenue generated or tariff revision rate has been overestimated, or interest rate on debt has been considered too low, the equity IRR of the project could decrease.

We have undertaken a sensitivity analysis to test the resilience of equity IRR under adverse scenarios. Here, capex, opex and revenue have been assumed to increase or decrease by 20%, while interest rate on debt has been checked at 18% p.a. and 14% p.a. and three-yearly tariff revision rate has been considered at 20% and 30% and the corresponding effects in the equity IRR (of the base case) are depicted in the table below:

Table 6.9: Sensitivity analysis

S. No.	Case	Equity IRR	Average DSCR
1	Base case	20%	1.7
2	20% increase in capex	15%	1.3
3	20% decrease in capex	28%	2.1
4	20% increase in opex	19%	1.6
5	20% decrease in opex	21%	1.7
6	20% increase in revenue	27%	2.0
7	20% decrease in revenue	14%	1.3
8	Debt interest rate @18% instead of 16%	19%	1.6
9	Debt interest rate @14% instead of 16%	22%	1.8
10	Three-yearly tariff revision rate @30%	22%	1.8
11	Three-yearly tariff revision rate @ 20%	19%	1.6

Source: Consultant

The above table shows that the project’s revenue and capex are the most sensitive factors. Under the unforeseen event, for instance if the project revenue may decrease by 20% or capex may increase by 20% as compared to the base case, the equity IRR of the project falls to 14% and 15%, respectively. These rate of return will not be acceptable to the equity providers as it is lower than the objective return on equity of 20%.

We infer that in the base case, the project is viable, but in certain cases, our assumed circumstances may differ and various sweeteners or financial enhancers may be required to make it remain viable. These sweeteners are further discussed in the section below.

6.9 Financial enhancers

Based on our analysis, we confirm the project’s financial pre-feasibility. In particular, with an equity IRR of 20%, the Project is likely to have a market interest. However, as discussed above, in case of 20% increase in capex or 20% decrease in revenue, the project’s financial pre-feasibility will decrease. In such cases, various sweeteners or financial enhancers may be required to bring it to a viable proposition. Various enhancers are listed below:

Upfront viability gap funding (VGF) from the government

The government could consider financing support for this project in the form of an upfront VGF. It has been assumed that the government will invest a certain proportion of the total project cost spread over the two-year construction period. A case of 10% VGF has been considered by the Consultant for pre-feasibility assessment. The debt and equity contribution is assumed as a proportion of the amount remaining after the VGF funding.

Development finance from multilateral institutions

Considering the project’s strong contribution as a public good, we have considered the possibility of securing development finance for this project to improve viability. In case of development finance from a multi-lateral institution such as the World Bank, African Development Bank, etc., interest rate on the USD-denominated loan has been considered to be much lower at 12% per annum. Moreover, the principal moratorium period has been considered to be higher at 3 years and the repayment period at 12 years, as opposed to the base case consideration.

Higher daily fees

This scenario considers higher daily fees paid by traders to improve viability. We propose higher fees for the larger trading area that will be available for the traders, better hygiene facilities and dedicated trading spaces allowing for a full-day trade, as follows: a) Daily fees from small stalls to be USD 0.4 (TZS 1,000) and daily fees from large stalls to be USD 1.3 (TZS 3,000).

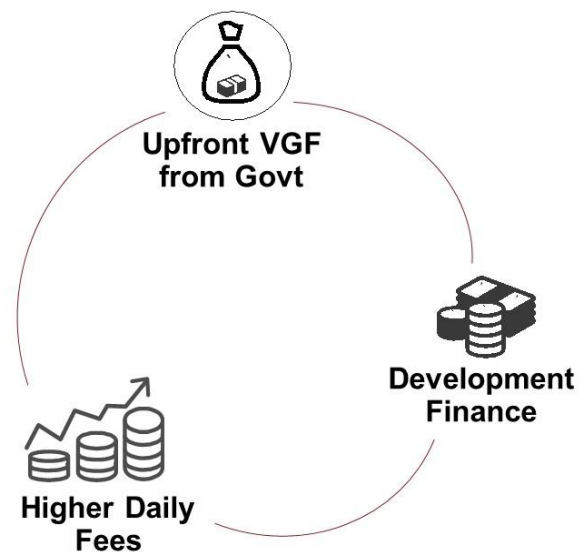


Table 6.10: Equity IRR under different scenarios

S. No.	Case	Base Case	VGF @10%	Development finance	Higher Fees
1	Base case	20%	24%	27%	24%
2	20% increase in capex	15%	18%	19%	17%
3	20% increase in opex	19%	21%	26%	24%
4	20% decrease in revenue	14%	17%	18%	NA
5	Debt Interest rate @18% pa instead of 16% pa	19%	23%	NA	22%
6	Three-yearly tariff revision @20% instead of 25%	19%	23%	25%	22%

Source: Consultant

Based on our analysis, we propose the following financial enhancement strategies to be applied in case the viability of the project comes into question on account of proposed project estimates being revisited. For instance, if capex increases by 20% or revenues decrease by 20%, we recommend that the government should provide an upfront VGF of 10-15% to make the project feasible.

6.10 Strong foundations

The civil cost (including the foundation cost) of the market building forms a major part of the Project cost. In the base case, the foundations for the market building have been considered for G+2 structure to cater to ~ 3,600 traders.

But as suggested by the LGA during the draft pre-feasibility discussions, an additional scenario for Project facility with stronger foundations has been considered, as the LGA expects higher demand in future, which would inevitably result in filling up the spaces (~100% occupancy) on all three floors. Thereby, the LGA wants to provide for higher additional floors in the future.

Keeping this future expansion in mind, the foundations need to be strengthened, which will lead to an increase in cost of the sub-structure, owing to additional amounts of base concrete and blinding concrete to be utilized for strengthening the foundations. Also, a higher number of reinforcement bars will be provided to add to the building strength, leading to a resultant cost increase by ~USD 0.5 million. This will push down the equity IRR from 20.3% to 18.1%, making the Project marginally unviable. So, in order to render the Project financially viable, the user charges for small stalls will have to be increased from TZS 750/day (under base case) to TZS 1,000/day.

Table 6.11: Change in project cost under this scenario

Particulars	Proposed	Revised (under this scenario)
Civil cost	USD 2.5 million	USD 2.8 million
Total Project capex	USD 5.6 million	USD 6.1 million
Equity IRR	20.3%	18.1%

6.11 Reduced stall size

Currently, the size of small stalls in the Buguruni market is 1.5-2 sq m. But based on the willingness to pay survey conducted by the consultant, it was found that the traders wanted a larger stall size of 3- 4 sq m. This is in the base case with G+2 building structure.

An additional scenario for Project facility with smaller stall sizes has been assessed. Under this scenario, a smaller stall size of 2 sq m has been assumed. It can be observed that with reduced stall size, the configuration

of market building can also be revised from three floor (G+2) to two floor (G+1) structure further decreasing the cost of the Project by ~30%. While the number of large traders in the proposed market remains the same (100 traders), the number of small traders which can be accommodated drops from 3,500 to 3,394. The overall market configuration change, cost, and number of traders, result in an increase in equity IRR from 20.3% to 30.6%.

Table 6.12: Change in Project configuration under this scenario

Particulars	Proposed	Revised (under this scenario)
Small stall size	3 sqm	2 sqm
Large stall size	10 sqm	10 sqm
Number of floors	3 (G+2)	2 (G+1)
Number of small traders	3,609	3,394
Number of large traders	100	100
Project capex	USD 5.6 million	USD 4.0 million
Equity IRR	20.3%	30.6%

Source: Financial model

The increase in Project returns gives us the margin to further decrease the user charges for different services. The daily fees of TZS 750 for small traders and TZS 2,500 for large traders can be pared down to TZS 200 and TZS 1,000, respectively.

We may conclude that though a smaller stall size will result in higher returns from the project and a lower daily fees being charged, it will not fulfill the actual requirement of the stakeholders. Based on the willingness to pay survey conducted by the consultant, it was found that the traders wanted a larger stall size of 3 - 4 sq m for their daily operation.

6.12 Lower occupancy of higher floors

The market occupancy depends on traders' demand. As per the market demand study conducted by the consultant, it was found that the market demand was high and we have assumed 80% occupancy under the base case scenario.

An additional scenario for Project facility with lower occupancy of higher floors has been considered. This might be the case if the traders are not willing to move to the higher floors of the market, resulting in lower occupancy levels in the initial years that increases with time.

Under this scenario, the occupancy of 1st and 2nd floors in the first year of operation can be considered at 50% (instead of 80%), which increases to 90% over the years. It can be observed that the change in the occupancy of the higher floors then reduces the equity IRR from 20.3% to 19%. However, this scenario is not recommended, as the demand for the Project services is robust. Also, segregating traders on each floor based on the type of goods they sell, will help in reducing traders' un-willingness to move to higher floors of the market building.

Table 6.13: Occupancy of floors under the scenario

Building Floor	Proposed occupancy			Revised Occupancy		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Ground floor	80%	85%	90%	80%	85%	90%
1 st & 2 nd floor	80%	85%	90%	50%	55%	60%

6.13 Value for money

This section assesses the project's VfM both on qualitative as well as quantitative aspects. The quantitative aspects include ascertaining the net difference in costs for the government in implementing the project using public procurement vis-a-vis PPP procurement. The qualitative aspects deals with public sector capability, timelines and the government's financing availability.

Quantitative assessment

Quantifying VfM hinges on comparing the total costs associated with a PPP procurement approach vis-a-vis the conventional public-sector comparator (PSC) procurement approach. The former is calculated as the NPV of the total amount invested by the public sector in the form of upfront VGF and/or annual payments made to the ProjectCo over the entire concession period, plus the portion of retained risk by public sector, i.e., total project risk less risk transferred to the SPV/private entity.

The PSC procurement total project cost is calculated as the sum of the present value (PV) of total costs (capex and opex), plus the risk retained by public sector. Since the PSC approach entails no SPV, the entire risk is borne by the government. As a means of quantifying the inherent notional project risks, the following categories of risks have been assessed:

- *Construction risks* - These are the risks that have a direct impact on the capex of the project. These include cost and time overrun risks as well as design risk, i.e., the possibility that post roll-out, infrastructure and technical specifications are misaligned to the functional requirements of the services offered.
- *Operational risks* - It includes factors that directly influence the opex of the project. This includes, inter alia, direct opex-overruns. Moreover, under a PPP procurement approach, an independent project management office (PMO) might be required to manage the contract and ensure that the project is executed effectively and efficiently as per the PPP agreement. The assessed need to bolster the personnel capacity of the PMO office may result in additional opex.
- *Financial risks* - It covers parameters that impact both the capital and operational components of the project. Specifically, interest rates and inflation rates that are higher than historical norms will result in higher cumulative costs over the Project concession period. Similarly, foreign-currency denominated costs will be negatively impacted by devaluation/depreciation of the Tanzanian shilling relative to the US dollar.
- *Revenue risks* - It covers the demand risk related to the project, which includes the possibility of potential revenue leakage. It also covers the aspect of marketing and administrative capability of the ProjectCo to attract more customers and traders that will lead to higher revenue.

The table below presents a high-level risk matrix, which encompasses the aforementioned risks. Four different scenarios, viz., worst case, pessimistic, most-likely, and optimistic have been considered and the allocation of risk probabilities and impacts worked out in each case to arrive at a weighted average risk factor. The quantification of the impact of each risk on the PV of opex, capex and project revenues is predicated on probabilistically weighted averages, as per the following formula:

$$\text{Impact on PV} = \text{weighted average risk factor} \times \text{PV}$$

Table 6.14: Weighted impact on PV¹

Risk category	Specific risk	Probabilistically weighted loss (%)	Weighted impact on PV (USD million)
Construction risk	Capex overrun	9%	0.4
	Time overrun	34%	1.6
	Design risk	9%	0.4
Operational risk	Opex overrun	16%	0.2
	PMO cost overrun	16%	0.2
Financial risk	Interest rate risk	12%	0.7
	Exchange rate risk	12%	0.7
	Inflation risk	12%	0.7
Revenue risk	Revenue risk	35%	3.1

Source: Consultant (based on past experience in PPP Projects)

Given that the main driver of PPP procurement approach is premised on effective transfer of risk to the ProjectCo, 90% of the total probabilistically weighted PV of risk is transferred, while 10% (USD 0.8 million) is retained by the government. This 10% risk accounts for the risks that have been assigned to the public sector and that the ProjectCo might exercise during the course of the project and includes: a) site risk b) construction risks beyond the ProjectCo's control (for instance, geotechnical faults that were unknown when the contract was signed), c) events of default of the public sector, d) compensation on termination due to public sector default, e) political risks and f) force majeure risk.

The net cost under the PPP procurement approach is thus the PV of the VGF investment and/or annuity payments made to ProjectCo plus the portion of retained risk minus the PV of the tax revenue to be collected from the ProjectCo on the profits that it generates from the project. The net cost of the PPP procurement approach for 15 year concession period works out to USD (-0.4) million, i.e., it generates a net revenue.

On the other hand, under the conventional public sector procurement framework, the total value of risk, i.e., USD 7.8 million is to be borne entirely by the government. The net cost for the public sector procurement has been obtained by adding the total PV of capex and opex and the entire retained risk and subtracting from it the PV of the project revenue. The net cost of this approach works out to USD 5.0 million. The table below summarizes these calculations.

An assessment period equal to the concession period of 15 years has been considered. Also, as per the monthly economic review, March 2018 by Bank of Tanzania, 10-year Treasury bond rate in February 2018 stood at 15%, Similarly, Treasury bond rates for 7-year, 5-year and 2-year stood at 13%, 12% and 9% respectively. So, we can see that the discount rate applicable will also depend on the tenor of loan that the government will avail. Thus, considering these factors we have assumed an average discount rate (for public procurement) of 12% for the calculation of VfM.

¹ Given the lack of empirical data in Tanzania, we had to make certain assumptions. The risk matrix assumption values in VfM analysis have been developed based on the consultant's experience in PPP Projects across sectors and across regions. We feel that we have been conservative in our assumptions.

Table 6.15: VfM calculation

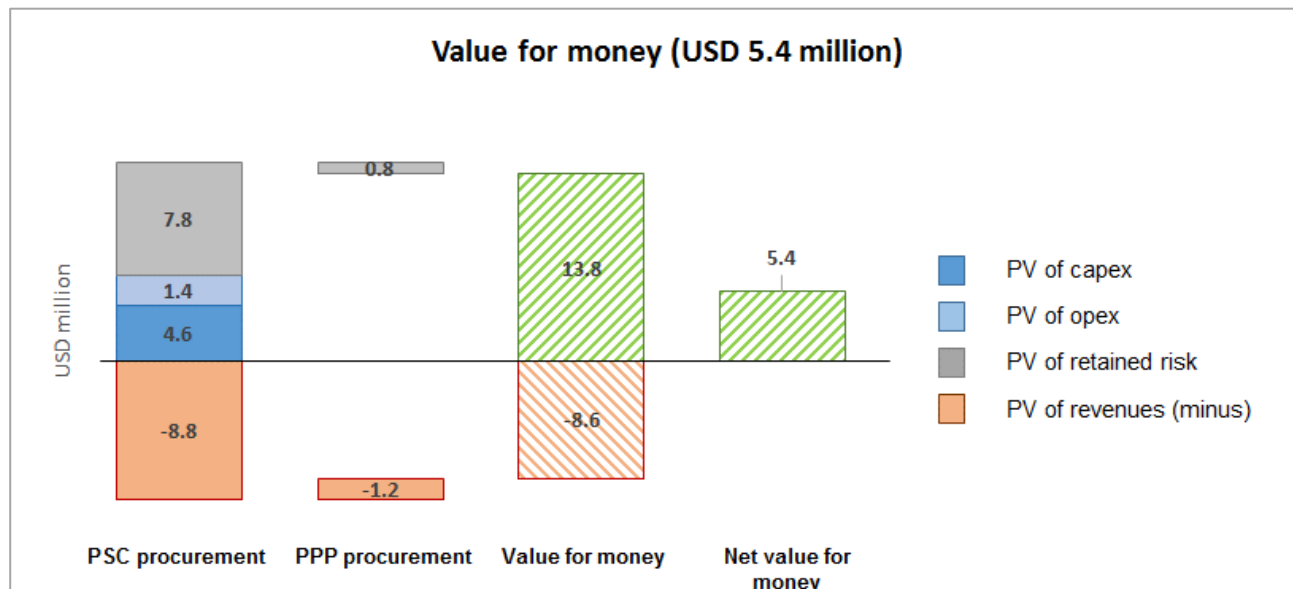
Variable	PSC procurement – net costs (USD million)	PPP procurement – net costs (USD million)
PV of revenue (minus)	8.8	1.2
PV of capex	4.6	-
PV of opex	1.4	-
PV of retained risks	7.8	0.8
Total PV of net costs	5.0	-0.4
Value for money	USD 5.4 million	

Source: Consultant

The table suggests that, from a public sector perspective, all project revenues in case of public procurement accrues to the government. Whereas in PPP procurement, the public sector will only be entitled to the revenue collected in the form of tax on profits. Also, in case of public procurement, capex as well as the opex are borne by the government, whereas in PPP procurement, the costs are borne by the ProjectCo and hence the costs to the government is nil.

The VfM in the table above has been obtained by comparing the net costs for both PPP and public sector procurement approaches. The risk-adjusted net cost for PPP approach (USD -0.4 million) is significantly lower than that of the public sector procurement approach (USD 5.0 million). In other words, it is USD 5.4 million cheaper for the government to carry out the project as a PPP. This is depicted in the figure below:

Figure 6.2: Value for Money



Source: Consultant

Qualitative assessment

The VfM aims at comparing the conventional public procurement and the PPP mode, in order to arrive at the better option. The pointers below provide additional understanding to this VfM from a qualitative standpoint:

- *Public sector capability and experience* - Though the IMC has developed several markets, it has limited experience in construction of a modern market as proposed. ProjectCo with experience in this sector can

use its expertise and modern construction technologies to develop the market and include features that the public sector might not have envisaged.

- *Time taken for project implementation* - Involving the private sector in various stages of project development such as design, construction, operation, and maintenance will ensure that the time-delays are minimized, as traditionally, the private sector is better incentivized, and hence, more equipped for timely completion of projects (as otherwise, it would affect profit margin).
- *Demand for project* - There are several similar markets in the Ilala district. The private sector, with its assumed high level of marketing skills and knowhow, can use this opportunity to not only attract more traders to operate from the market but also attract more customers to use this market and thus generate higher revenue.

Based on the above assessment from both quantitative and qualitative perspectives, we recommend undertaking this project using the PPP mode, as it offers significant advantages as compared with public procurement. To sum up, we recommend executing the project on a PPP mode, and in particular, using the DBFOMT modality.



7. Management case

This chapter sets out the institutional, legal, and regulatory aspects as well as the social and environmental aspects which are applicable to the proposed redevelopment of the Buguruni Municipal Market.

7.1 Institutional review

This section provides an overview of the applicable institutional structure, the approach undertaken for institutional review, and the IMC's responses with respect to current institutional capacity, preparedness for PPP Projects, and its capability to execute the PPP Projects in an efficient manner.

Approach for undertaking the institutional review

The Consultant has carried out a comprehensive assessment with the investment committee members of the municipal council. It prepared a detailed questionnaire with specific questions related to assessing the LGA's institutional capability. The frameworks and methodology provided in the World Bank Public-Private Partnerships Screening Tool were utilized to develop the questionnaire. The questions were divided into three major groups:

- *Institutional capacity*
- *Preparedness of the LGA for the PPP Projects; and*
- *Capability of the LGA to execute the Projects in an effective and efficient manner.*

The responses provided by the investment team members provided the inputs for preparing a diagnostic report on the institutional capacity of municipal council. This would determine its ability to manage the proposed PPP Projects during the implementation and operational phases.

Table 7.1: Project under the Jurisdiction of IMC

Name of the municipal council	Projects under their jurisdiction
Ilala Municipal Council	Ilala Municipal Market Buguruni Municipal Market Chanika Daladala Terminal Vingunguti Abattoir

Source: Consultant

Institutional capacity of the IMC

- *Composition of the PPP team:* The IMC has a nine-member investment committee, with six of the nine forming the core PPP team. However, with the investment committee members having their separate full-time responsibilities, membership of the investment committee and PPP team are additional responsibilities. The PPP team does not have a technical expert / engineer and procurement officer.
- *Academic qualifications and training in PPPs:* The members have basic qualifications such as bachelor's or master's degree relevant to their job roles. Thus, it can be said they possess the ability to understand the basics of PPPs. It is understood the LGA, in the past, has not executed any major contracts with the private sector. As such, the team does not have any significant experience or expertise in PPPs. Only one

of the six members in the PPP team has undergone any formal PPP training. Therefore, the team will require substantial training in various aspects of PPP Project preparation as the Projects moves forward.

- *Budget constraints:* The IMC's budget has shown a deficit over the previous five years. Therefore, it is reasonable to assume the LGA will not have the budgetary flexibility to ensure adequate funding for a robust PPP Project preparation exercise.

Preparedness of LGAs for PPP Projects

- *Moderate commitment:* The IMC is moderately committed to seeing these Projects implemented. The municipal council has not set aside indicative budgets for some of the activities, such as improvement of drainage systems and access roads.
- *Need for Project planning:* The IMC currently does not have well-defined plans to deal with Project management, stakeholder consultations, and implementing external connectivity for the Project. No specific timelines for the same have been identified.
- *Need for technical assistance:* The IMC will require considerable technical assistance and hand-holding to successfully implement the Project preparation processes. The IMC does not envisage any constraints delaying the Project implementation. It has already consulted the existing traders operating at that site and they are willing to relocate.

Capability of LGA to execute the Project in an effective and efficient manner

- *Need for dedicated personnel within the LGA:* There should be at least one dedicated person deployed in the LGA, who should be the primary contact point between the PPP and central Project management support teams. This person would be responsible for steering the Project from the LGAs side and look into the overall progress and monitoring of the Project with respect to timelines.
- *Support from central government to fund hiring of transaction advisors:* The LGA has a current deficit and will not be able to contract transaction advisors on a full-time basis with respect to the Project. Thus, it should estimate the overall budget depending on the amount of work and time required for the transaction advisor and put in a requisition of funds to the central government.

Key recommendations

Based on the survey and discussions with the LGA officials, the Consultant suggests the following actions to strengthen the institutional capacity of the LGA with respect to implementing the PPP Project:

- *Central Project management support (PMS) team:* The LGA needs to be handheld in various aspects of Project preparation. Therefore, we suggest having a central pool of technical, financial, legal, and E&S experts that can be sourced on a part-time basis to meet the specific needs of individual PPP Projects. The central PMS team could report to the PPP Node and could be utilized for assisting all the LGAs on the eight PPP Projects, including those of Ilala.
- *Hiring of transaction advisors:* Given public procurement for small Projects takes close to six months, we envisage procurement on a PPP basis will take longer at one year or more. This is owing to the intricacies and negotiations involved in the PPP procurement process. The central PMS team could provide handholding support to the LGA in terms of drafting agreements
- *Focused training and knowledge sharing:* The PPP team in the LGA would require continued and focused training on Project preparation, procurement and contract management as the PPP Project progresses. The staff should be acquainted with knowledge of the best practices and tools being developed in the World Bank group, so they could benefit from the global repository of knowledge being created by the Bank. It would also help them to exchange ideas and experiences through a knowledge-sharing platform that could be created by the PPP Node for all the LGAs preparing PPPs in Tanzania and in the region.

- *Ensuring continuity of the LGA staff in the PPP unit:* Given the Project preparation and procurement process will be spread over two to three years, it would be beneficial if the LGA staff getting trained continues with the PPP unit for the duration. Frequent staff changes could disrupt the capacity development process.
- *Strengthening the PPP team:* Depending upon the development of a PPP pipeline in the LGA, it is suggested full-time staff or consultants are recruited to be placed in the LGA's PPP team to address technical, financial and Project management issues.
- *Use of tools and applications:* It would be beneficial for the LGA to institute systems and processes to embed the tools and applications developed by the Bank and other development partners, to streamline the PPP lifecycle process relevant for the contracting agencies. For details refer to Section 17.

7.2 Regulatory and legal due diligence

The main findings of our legal due diligence are presented below:

Assets (fixed assets and land)

- *Land title deed* - According to the IMC officials, the project land is completely owned by the Council by virtue of the Government Notice No. 13 of 2000. Previously, LGAs were not required to have certificate of title for land allocated to them for various projects. Therefore, the IMC did not have a title for the Buguruni Municipal Market. However, owing to increased trespassing and land disputes in areas with no titles, all LGAs are now required to survey and obtain certificates of title for all land they own. The IMC had already initiated the process of obtaining a title and have requested the Commissioner of Lands at the Ministry of Land (the Commissioner) to process the Buguruni Municipal Market title (IMC title).
- *Right to acquire land* - Generally, LGAs have the right to acquire land or a right to use any land within or outside its jurisdiction for the purpose of any of its functions given in Section 118 of the Local Government (District Authorities) Act, 1982 (LGDA Act). Specifically in relation to PPPs, Section 12 of the PPP Act 2010 provides that where a PPP project requires acquisition of land for its implementation, it shall be carried out in accordance with the Land Act, Village Land Act, Land Use Planning Act, the Land Acquisition Act, and any other relevant laws.
- *Lease of land* - The Land Act states that, non-citizens shall not be allocated or granted land unless it is for investment purposes under the Tanzania Investment Act (Section 20 of the Land Act). Section 20(4) of the Land Act further states that, a body corporate whose majority shareholders or owners are non-citizens shall be deemed to be a foreign company. A foreign company will not be able to own land in Tanzania under a Granted Right of Occupancy (GRO), which is the highest form of title, but it can hold land through the Tanzania Investment Centre (TIC) granting the foreign company a derivative right for investment purposes. However, a foreign company can rent out land without holding title for a specified period in a lease/sub-lease agreement. According to Section 61(a) of the LGUA Act, LGAs may sell, exchange, let, mortgage, or charge any land or premises in its ownership or disposition, with the approval of the Minister in the President's Office-Regional Administration and Local Government.

With this mandate, the LGA, as the contracting authority for the purpose of a PPP, may sell or lease any land or premises it owns to a private party in order to carry out a PPP project. However the process of transferring title in Tanzania may be cumbersome as this is government property and any disposition must adhere to the procurement laws under the Public Procurement Act. It may also prove costly as it entails payment of capital gains tax by the buyer, which is 10% of the purchase price for a resident and 20% of the purchase price for a non-resident person. It would, therefore, be advisable for the IMC to lease the land to the ProjectCo for a specified period, rather than transfer the IMC title to the latter. The provisions of the lease under the PPP agreement should include the ProjectCo's obligations to build, operate, and maintain the municipal market for 15 years. There is no minimum required value for the lease; the parties will have to decide on this during the negotiations. On the expiry of this period, and in the absence of an extension, IMC will resume the operation and management of the market. Thus the ownership of the IMC

title will remain with the IMC, whilst the operation and management of the assets and economic activities will be transferred to the ProjectCo for the duration of the project.

- *Land as security* - Land owned by the LGA can be used as security for loan. According to Section 119(a) of the LGDA Act, with the approval of the Minister in the President's Office-Regional Administration and Local Government, LGAs may sell, exchange, let, mortgage, or charge any land or premises in its ownership or disposition. With this mandate, the IMC may use the land of the Buguruni Municipal Market to secure a loan from a lender.

As the ProjectCo will only lease in land from the IMC and not possess the title, it cannot use the title as security. Moreover, Section 8(2) (b) of the PPP Act 2010 provides that the ProjectCo is responsible for mobilizing resources. Thus the ProjectCo will be required to secure funding without relying on the IMC title.

Moreover, Regulation 74 of the PPP Regulations 2015 provides that the contracting authority and the Ministry of Finance must approve any proposed refinancing of the debt extended by lenders to the project. If the ProjectCo wants to secure a loan by using the land owned by the IMC in order to develop the Buguruni Municipal Market, it must seek the approval of the IMC and the Ministry of Finance. Any liabilities on the IMC and the ProjectCo must be clearly provided for in the PPP agreement in order to ensure the IMC does not lose the land in case of default. Additionally, the loan provided should not exceed the duration of the project. The loan can only be for a maximum of 20 years (in the case the PPP agreement has been extended).

However, in practice, the IMC will be reluctant to allow the IMC title to be used as security for a loan. It will expect the ProjectCo to finance the project without relying on the title as security for a mortgage.

PPP implementation

- *Eligibility for PPP* - The following is a non-exhaustive list of Projects in productive and social sectors that are eligible for PPP in Tanzania (Section 4(4) of the PPP Act 2010): agriculture, infrastructure, industry and manufacturing, exploration and mining, education, health, environment and waste management, information and communication technology, trade and marketing, sports, entertainment and recreation, natural resources, tourism, and energy. The Buguruni Municipal Market Project falls under the trade and marketing category and thus qualifies to be developed under a PPP arrangement. Further, the maximum limit for PPP projects to be carried out by an LGA is USD 70 million (Regulation 76(2) (a) of the PPP Regulations 2015). Thus, the project amount of USD 5.6 million falls well within the scope for an LGA, in this case the IMC, to carry out a PPP project.
- *Transfer of assets* - According to Section 11(3) of the PPP Act 2010, a contracting authority and the ProjectCo may enter into an agreement which, among other things, provides that the ProjectCo would return any asset belonging to the contracting authority at the end of the agreement. Further, Section 11(4) of the PPP Act 2010 provides additional conditions to be included in the PPP agreement to ensure that the ProjectCo undertakes to perform the functions of the contracting authority on the latter's behalf for a specified period and will be liable for any risks arising from the performance of its functions.

Pursuant to the provisions mentioned above, the IMC may transfer any assets within the Buguruni Municipal Market to the ProjectCo for the duration of the PPP agreement. These assets may include facilities such as retail outlets, washrooms, parking, etc., which the ProjectCo will build operate and manage. The ProjectCo can perform functions on the IMC's behalf for a specified period of time which shall not exceed 15 years (being the duration for small-scale PPP Projects as provided for under Regulation 76(2) (b) of the PPP Regulations 2015). However, the duration may be extended for a maximum of five years in case of delay or interruptions unforeseen by both parties, project suspension not caused by the ProjectCo or an unforeseen increase in costs arising from the contracting authority (Regulation 84 of the PPP Regulations 2015).

At the end of the PPP agreement, the ProjectCo will be required to hand back the assets to the IMC. The procedure and requirements for handing back assets have been provided under Regulation 97 of the PPP

Regulations 2015, including the description of assets to be handed over, maintenance requirements, and the right of the contracting authority to inspect the assets before hand-back.

- *Right to collect user charge* - LGAs have been mandated to charge rent or fees in respect to the occupation use or hire of land or premises (Section 61(b) of the LGUA Act). Further, Section 66(1) of the LGUA Act provides that LGAs may charge fees for any service or facility provided by it or for any license or permit issued by the LGA. Thus IMC may charge rent, fees or tariffs to businesses or persons occupying or using the facilities in the Buguruni Municipal Market according to the by-laws. Under the PPP agreement, the contracting authority and the ProjectCo may stipulate what the contracting authority will pay the ProjectCo by way of compensation from a revenue fund of charges or fees collected by the ProjectCo from users or customers the service provided by it.

Accordingly, the PPP agreement between the IMC and the ProjectCo may provide (among other things) for lease and collection of rent from the tenants (traders/merchants) occupying the buildings developed under the PPP. The transfer of these rights will be for the stated period in the PPP agreement, which should not exceed 20 years even in the case of an extension.

In terms of revenue derived from the user rights, the PPP agreement should indicate how the revenue will be split between the LGA and ProjectCo. As ProjectCo is able to charge any user charges such as parking fees, shop rental fees, use of facilities, ProjectCo may set up an account where such funds will be deposited. However, applicable taxes chargeable to the users will be paid to the Tanzania Revenue Authority (TRA).

In conclusion, the Buguruni Municipal Market Project can be carried as a PPP. Once the tendering process has been carried out, the IMC and the ProjectCo will enter into a PPP agreement stipulating the terms for carrying out the project. The duration of the PPP agreement should not exceed 15 years, unless an extension which shall not exceed five years has been granted.

With regard to the land title, IMC has to ensure that it obtains the Buguruni Municipal Market title prior to initiating the Buguruni Municipal Market Project. Failure to obtain the land title on time may cause a delay in the commencement of the Project. The PPP agreement between the IMC and the ProjectCo will provide for, among other things, the IMC to lease out the land and its assets to the ProjectCo.

Therefore there will be no need for a separate lease agreement, as this will be sufficiently covered under the PPP agreement. We also recommend that the IMC should not permit the Buguruni Municipal Market title to be used as security for the ProjectCo to obtain funding. The buildings constructed on the land will remain under the ownership of IMC. This is an important constraint in the PPP structuring, as it prevents the use of the buildings as security for loan.

7.3 Social and environment aspects

Social and environmental challenges

The Buguruni Municipal Market Project involves both social and environmental challenges. These challenges will differ from one phase to another (from the construction to the operation period). Potential environmental challenges include demolition, construction waste and dust, noise nuisance, traffic congestion, air pollution, soil and water pollution. Potential social challenges include the risk of disease outbreaks, workers' safety and rights and the temporary relocation of existing traders. The magnitude, extent and duration of these risks will be helpful in determining their severity and will help in the appropriate prioritizing of challenges. Lastly, appropriate mitigation strategies have been proposed to overcome these challenges and mitigate their impact. Further details are included in Section 13.

Project categorization

According to the IFC categorization scheme, the proposed Buguruni Municipal Market Project in Dar es Salaam, Tanzania, qualifies as a category B project. Projects in this category entail business activities with limited potential adverse environmental or social risks and/or impact that are few in number, generally site-

specific, largely reversible, and readily addressed through mitigation measures. However, according to Tanzania EIA and Audit Regulations (2005), the proposed Buguruni Municipal Market Project falls in the mandatory list, which entails a full-fledged environmental and social impact assessment.

IFC performance standards

The IFC performance standards (PS) that are relevant or will be triggered by the proposed development of Buguruni Municipal Market Project include PS1, PS2, PS3 and PS4.

- *Performance standard 1 (PS1)* - covers the assessment and management of environmental and social risks and impact, which requires a thorough environmental and social assessment, including the undertaking of adequate stakeholder engagement and full disclosure of project information.
- *Performance standard 2 (PS2)* - covers labour and working conditions, recognizing that the pursuit of economic growth through employment creation and income generation should be accompanied by protection of the fundamental rights of workers.
- *Performance standard 3 (PS3)* - deals with resource efficiency and pollution prevention, recognizing that increased economic activity and urbanization often generate increased levels of pollution that may threaten people and the environment at the local, regional and global levels. At the same time, more efficient and effective resource use, pollution prevention and GHG emission avoidance and mitigation technologies and practices have become more accessible and achievable in virtually every part of the world.
- *Performance standard 4 (PS4)* - covers community health, safety and security and recognizes that Project activities, equipment and infrastructure can increase community exposure to risks and impact. These IFC-PS are covered in detail in Section 13.

Relocation strategy

Currently, the Ilala Municipal Council owns about 1.5 acres of land at the project site which is sufficient for the development of a proposed municipal market. Following guidance from the LGA and the project needs, having have considered the existing 1.5 acres of land for development under the current project, Relocation Action Plan (RAP) would be required since the existing traders would be relocated to other sites, namely, Tabata market and Vingunguti market.

More than 98% of traders are willing to relocate. Their only concerns are the availability of basic facilities like water supply and electricity in the relocation area and the assurance of acquiring spaces after the redevelopment of the market. They would only be willing to relocate when they are provided with assurance that they will get their space back after construction.

Based on the above, we do not discern any environmental or social impediments to the implementation of this project.

7.4 Social due diligence undertaken by World Bank

Based on the study conducted by the World Bank Safeguard Team, the construction of the Buguruni Market will cause the following impacts:

- *Loss of livelihood:* Temporary loss of business and livelihoods for 3,300 traders following temporary relocation of traders to pave way for construction
- *Social tensions amongst stakeholders:* Potential conflict between traders and IMC if thorough consultations on temporary relocation and subsequent return and slot allocation process is not done
- *Influx of traders in destination markets:* Influx of traders in destination markets proposed for relocation of traders from Buguruni market
- *Conflicts between traders of Buguruni and host market:* Potential conflict between the traders from

Buguruni and those in host markets

The World Bank Safeguard Team suggests that IMC should put in place the following plans before the commencement of the construction of Buguruni market -

- *Stakeholder Consultations and Engagement Plan (SCEP)*: Prepare SCEP and communicate it to the Bank. The SCEP is very important, especially for informing people about the Project.
- *Relocation Action Plan (RAP)*: Prepare a RAP, and as part it conduct a social economic baseline survey that generates baseline data for all traders at Ilala market. The baseline data should geo-reference traders with existing trading space, personal information, and the types of businesses they are engaged in. This data should be gathered based on business categories. The process of temporary relocation and compensation for the temporary loss of income due to relocation should be detailed, registering all the traders that are interested in returning to the market following the completion of the upgrade and assigning the designated slots to the traders.
- *Detailed assessment of host market*: Carry out a detailed assessment to ascertain the current capacity of all proposed markets where traders from Buguruni Market are expected to be temporarily hosted and share the report with the World Bank. In choosing host market, traders are to be consulted.
- *Assurance to traders*: Assure traders that they will be given placement in the newly constructed market on priority basis and following the registration information included in the data base.
- *Sensitization meetings*: Conduct meetings for both Buguruni market traders and host markets on how to relate. This is to go hand in hand with the preparation of code of conduct, which will guide working relations in host markets.

The detailed social due diligence undertaken independently by World Bank can be referred to in Section 18 of the final pre-feasibility report.



8. Next steps

This chapter ties together the conclusions from the previous chapters. It also explains the Project implementation and procurement plans, including the recommended bidding variables and procurement strategy. It deepens our understanding of how the Project's milestones can be achieved within the given timeframe.

8.1 Conclusions

Based on the current findings, the proposed PPP is economically, commercially and financially viable, in addition to providing VfM to the IMC. The proposed Project meets all the requirements set out in local laws and regulations, and the PPP law in particular.

Strategic case

We observe strong demand for the Project's services from both traders and consumers. We confirm that the Project is strategically aligned with the various national development plans of Tanzania and will help improve its economic conditions and contribute to social welfare.

Economic case

The Project results in an economic IRR of 18% and an economic NPV of USD 3.6 million over 30 years. Even in the worst-case scenario (namely a 20% increase in Project capex), the Project gives an economic IRR of 16.1% and economic NPV of USD 2.8 million over 30 years. Hence, we can conclude that the Project is economically viable.

Commercial case

We recommend a DBFOMT contract with a concession period of 15 years. Based on the PPP structure, the various risks involved in the project have been allocated to each contract party. We propose a three floor structure which will accommodate ~3,609 traders on all the floors. It will also have a bulk storage area, public toilets on each floor and parking space for vehicles, both for visitors and trucks. Our recommended payment mechanism clearly points to the ProjectCo collecting the fees as this ensures the right incentive structures. A revenue sharing percentage between ProjectCo and the LGA might be considered. This section also covers the details of the procurement procedure and its accountancy treatment.

Financial case

A VfM analysis pointed out that doing the Project on a PPP basis is USD 5.4 million cheaper than taking public procurement route. Also, based on the financial model prepared, we found that the Project is financially viable with a Project IRR of 19% and an equity IRR of 20% for the concession period of 15 years.

Our Project estimates can be revisited in following phases of Project development. If capex or opex is higher or revenue is lower than financial enhancement strategies might be required. For instance, if capex increases by 20% or revenue estimates decrease by 20%, we recommend that the government provide an upfront VGF of 15-20% in order to make the project viable.

Management case

Capex is estimated at USD 5.6 million, within the maximum limit of USD 70 million which renders the Project eligible for the PPP mode. The PPP agreement signed will be for a maximum of 15 years. The ownership of

the land remains with IMC which would lease out the land to the ProjectCo during the concession period. The IMC should not allow the land title to be used as security for the ProjectCo to obtain financing. From a social and environmental perspective, the Buguruni Market Project can be categorised as category B of IFC categorisation scheme. Various IFC performance standards which will be triggered due to the Project have been identified and mitigation strategies for the same formulated.

8.2 Procurement strategy and plan

This section covers the Project's procurement strategy, including the type of procurement process to be used, the bidding criteria for evaluation of the bids, along with the detailed plan to be used to execute this procurement strategy and select the preferred bidder.

Procurement strategy

The proposed procurement strategy aims for an international competitive bidding process, in accordance with the Tanzanian PPP policy, law and regulations. It would be a two-phase procurement process in which the first phase is the prequalification stage and the second the proposal stage. We propose a two envelope system with separate technical and financial proposals. We recommend a pass/fail evaluation for the technical proposal and a scoring evaluation for the financial proposal.

As financial bidding variables, we list the proposed end-user fees (the lower the better), required VGF (the lower the better) or a revenue sharing percentage (the higher the better). This decision will be addressed in the feasibility phase.

Finally, in the procurement process, we recommend paying attention to the structure of the consortium combine, including, for example, a developer, EPC contractor and O&M contractor. It is crucial that the ProjectCo have adequate experience in all the PPP components, i.e. the DBFOMT components, in addition to a sound financial position. Bid bonds or similar arrangements requiring bidders to commit to the terms of their bids should be considered.

The potential bidders will be provided guidance during the procurement process in order to improve participation by providing briefing sessions to potential bidders on what is involved in a PPP. Also, template financial models and draft PPP agreement will be shared with the bidders.

An online data room will be established to provide background information with potential bidders. This will include standard building design plans, which bidders will be allowed to refine through the bidding process. The data room will also include a stock-take of total number of traders, types of traders, the daily or monthly fees currently being paid by them, the current location and connectivity to the proposed Project site.

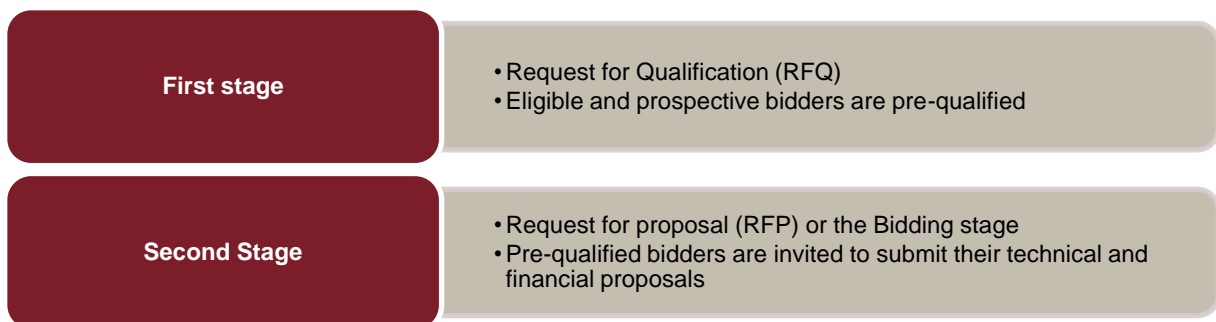
Project procurement plan

The plan consists of the following main stages:

- *Stage 1 - Appointment of transaction advisor* - Post submission and approval of the final pre-feasibility report prepared by the technical and financial consultants, the PPP node will float a request for qualification (RFQ). RFQs submitted will be evaluated and RFP floated to select a transaction advisor on a quality cost-based selection (QCBS) basis. In the QCBS method, a transaction advisor is selected, based on technical and financial qualifications, to carry out the transaction advisory services for the Project.
- *Stage 2 - Feasibility study and final procurement plan* - The transaction advisor selected would be responsible for carrying out a detailed feasibility study, including a social and environmental study. Post the approval of the same by the LGA and PPP node, the transaction advisor, in conjunction with the Project procurement team of Ilala municipal council, would select the Project Co for construction, operation and maintenance of the municipal market.

- *Stage 3 - Pre-qualification stage* - In this phase, the bidding documents, including the RFQ, RFP and draft PPP agreement, will be prepared. The procurement will be conducted in accordance with the PPP Policy, 2009, PPP Act 2010 and PPP Regulations 2011. According to the PPP Act 2010, a two-stage open tender process needs to be adopted. In line with the PPP Policy 2009, and the PPP Act 2010, RFQ will be issued as an advertisement for the pre-qualification stage and the shortlisting of qualified bidders.
- *Stage 4 - Bidding phase* - The shortlisted bidders will be issued RFPs which shall mention bidding details and presentation of the financial and technical bid. Preferably, a draft PPP agreement will also be issued in the bidding phase and bidders asked to seek clarifications on the same so that the PPP agreement can be finalized and final negotiations with the preferred bidder are minimal.

A bidders' conference should preferably be organized in which the shortlisted bidders can raise questions. We recommend a two envelope system separating the financial and technical bids. The technical proposals should preferably be assessed on pass/fail basis. Only those bidders whose technical proposals pass will have their financial proposals opened.



- *Stage 5 - Signing of PPP agreement* - IMC will be the contracting authority. ProjectCo and the IMC will be the signatories to the PPP agreement. The IMC will be responsible for:
 - a) Measuring outputs of the PPP agreement;
 - b) Monitoring implementation of PPP agreement and performance of ProjectCo;
 - c) Overseeing day-to-day management of the PPP agreement;
 - d) Reporting on the PPP agreement in the contracting authority's annual report.

For any material amendments in the PPP agreement, approval of the PPP Node under PO-RALG will be required. The PPP node shall provide a variation only if it is satisfied that the PPP agreement, after the amendments, will continue to provide VfM, affordability, and substantial technical, operational and financial risk transfer to the ProjectCo. Strict handover conditions will be set in the PPP agreement to ensure that the asset is handed over in a well maintained, workable condition.

- *Stage 6 - Monitoring during the construction period* - During the construction period, the IMC may appoint an owners' engineer with the required experience to review the designs prepared by the ProjectCo, provide recommendations for approval of the design and supervise the construction work to ensure that the facilities developed meet the standards and specifications provided for in the PPP agreement. The owners' engineer shall provide periodic reports and updates to the municipal council regarding the progress of the construction, till the commissioning of the facilities.

The LGA will accommodate both authorized and unauthorized traders in the market building, proactively restrict traders from operating in the streets adjoining the municipal market, and prevent daladala operators from stopping randomly on nearby roads, so as to avoid user charges. The LGA's failure to commit to these actions will affect the Project's revenue potential. Hence, the same should be included in the PPP agreement as part of the roles and responsibilities of the LGA since the ProjectCo is unlikely to assume this risk.

Preliminary procurement schedule

The tentative procurement schedule outlines the main tasks of procuring a transaction advisor, issuing a request for qualifications from interested bidders, shortlisting potential applicants and securing approval from higher authority, bidding phase during which the request for quote is issued to the potential applicants. The bids are evaluated and the preferred bidder selected and notified. After this, the preferred bidder is invited for final contract negotiations and the Project agreement executed. The tentative procurement milestones are depicted in the figure below:

Table 8.1: Procurement plan

Tasks	Q1			Q2			Q3			Q4			Q5			
	M1	M2	M3	M4	M5	M6	M7	M8	M9	M10	M11	M12	M13	M14	M15	
Transaction Advisory	█															
Request for Qualification							█									
Shortlisting and Getting Approval									█							
Bidding Phase										█						
Evaluation of Bids													█			
Selection of Preferred Bidder														█		
Final Contract Negotiation														█		
Executing Project Agreement															█	

Source: Consultant

8.3 Project implementation plan

Clear definitions and procedures of the various tasks and administrative approvals from competent authorities at different stages of Project implementation process are necessary in running a successful PPP programme. Presented below are the main activities to be carried out by the IMC.

Proof of land ownership

The municipal council is currently in the process of obtaining the title deed for the designated land-parcel, payment for which has been made. However, further approval from Commissioner of Lands is still pending. Hence, the land title deed for the same has not been provided to the consultant yet.

Revision of fees

Underpinning the Project’s viability is the essentiality of increasing the fees charged currently for providing space to petty traders, retail shops, and towards clean washroom and shower facilities, as well as car and cargo parking. Currently, small shops are charged TZS 500 and large shops (kiosks) TZS 1,000 daily. Once the modern market is developed and better facilities are provided, the fees can be increased to TZS 2,500 for larger shops and TZS 750 for smaller shops. Further, the daily current car parking fee is TZS 1,000, which should be revised to TZS 500 per hour. The municipal council will need to amend the by-laws to reflect the proposed rates.

Future increment in fees

Fees to be raised by the municipal council every three years; the increment being linked to the inflation rate, thus implying that at current rates, the tariffs can be revised to the tune of 25% every three years. The municipal council will need to modify the by-laws to reflect the future increment in rates and disseminate the outcome of the same to the petty traders.

Enforcement of authorized operations

Currently, there are close to 3,300 petty traders operating in and around the Buguruni market, leading to congestion and lessening of the available space on the Uhuru street. This inconveniences other street users and results in challenges for the municipal council in maintaining cleanliness in the areas in which they operate. One of the reasons the Buguruni municipal market is being redeveloped is to provide adequate dedicated space to each trader currently operating there, thereby reducing the high congestion levels and freeing up space on the Uhuru street, which has been partly occupied by petty traders. Once the Project is operational, the municipal council should take strict measures to ensure that each and every trader operates from his/her dedicated space in the market, while discouraging traders from operating on the streets with the imposition of strict penalties.

Resettlement of petty traders

The 3,300 existing petty traders will need to be relocated temporarily during the construction period of the market, with the responsibility for ensuring that the resettlement is completed in an organized manner falling on the municipal council. Currently, the municipal market is highly congested and traders will be relocated to other sites, namely, Tabata market and Vingunguti market. Given the Project construction would take over two years, traders should be assured in writing that they will get their space back in the modern market, once completed, and should be provided with alternative structures and basic services like water, toilets and electricity in the relocation area. The municipal council would be required to make provisions for the above mentioned amenities at the relocation site, if these amenities are not already available.

Supporting infrastructure

Currently, the access roads leading to the Buguruni market are dilapidated and in poor condition and after redevelopment of the market, heavy traffic can be anticipated, which would lead to further deterioration of the existing roads. Further, there is no proper storm drainage connectivity for the municipal market and storm water remains stagnant on the nearby ground as well as inside the market, on account of leaking sheds. Therefore, the municipal council should provide support for development of supporting infrastructure, such as improving the condition of the existing access roads, widening the connecting access roads and improving storm water drainage connectivity.

Stakeholder consultations

There are close to 2,800 traders who operate in the market and around 500 others who conduct trading activities outside the market. The municipal council would be required to conduct stakeholder consultations and take their views on the proposed development of the market and relocation and resettlement for the next two-three years, till the complete construction of the new, fully-functional modern market. The municipal council should also consult the petty traders with respect to the facilities they would require in the relocated area and seek their consensus on the same.

Table 8.2: Implementation plan

Tasks	Selection of Transaction Advisor	Bidding Phase	Construction Phase	Operation Phase
	(0-0.5 Year)	(0.5- 1 Year)	(1- 3 Years)	(3-15 Years)
Proof of land ownership	█			
Stakeholder Consultation	█	█		
Resettlement of traders			█	
Supporting Infrastructure			█	
Revision of fees				█
Enforcement of authorized operations				█
Increment of fees				█

Source: Consultant

9. Annexure 1: Bill of Quantities (BOQ)



The bill of quantities (BOQ) has been prepared using a bottom-up approach. If required, the same can be shared. The technical team has calculated the individual cost of development of market building, admin block, public toilets, plant & machinery, lifts, electrical room, etc. in order to arrive at the overall cost. Total capex for Buguruni municipal market has been estimated to be TZS 12,962 million (USD 5.63 million) for a total built up area of 14,706 sqm. Hence, the cost/sqm of built up area has been derived as TZS 0.88 million (USD 382). Civil works denotes the major share of the capex i.e. 58.3% whereas the electrical works indicates the second highest share of the capex i.e. 7.5%. Consultancy fees and contingencies share 8.5% and 6.9% of the capex respectively. Below is a table presenting the estimated capex to be incurred for the proposed Project.

Table 9.1: Project capex

S/No.	Particular of the work	Amount (in TZS Million)	Amount (in USD Million)	Percentage share of total Project cost
1	Site development	23	0.010	0.1%
2	Civil works	7,534	3.28	58.3%
3	Plant and Machinery	358	0.16	2.8%
4	Electrical works	961	0.42	7.5%
5	Common utilities	54	0.02	0.4%
6	E&S capacity building cost @0.5%	45	0.02	0.4%
7	Consultancy fee @12.5%	1,116	0.48	8.5%
8	Contingency @10%	893	0.39	6.9%
	Grand total	10,966	4.77	-
9	VAT tax @18% of grand total	1,977	0.86	15.3%
	Total Project capex	12,962	5.63	100.0%

Source: Consultant

Table 9.2: Detailed area statement of the Project

Area Statement	Total built-up area (sqm)
Market building - low cost rental space, retail shops, admin block, toilets	12,468
Total built-up area of the toilets in market building	653
Total built-up area of the admin block	252
Total built-up area of the electrical room	36
Total built-up area available for stalls for traders (lower floors)	11,525
Land area for parking	1,050
Land area for internal movement	914
Land area for garbage collection hut	60
Land area available for other utilities/facilities	212
Total	14,706
Total Project capex (in TZS in Million)	12,962

Area Statement	Total built-up area (sqm)
Total Project capex (in USD in Million)	5.63
Cost per sqm of built up area (in TZS in Million)	0.88
Cost per sqm of built up area (in USD)	382

Source: Consultant

Table 9.3: Bill of Quantities (BOQ)

S/ No.	Particular of the work	Amount (in TZS Million)	Amount (in USD Million)
1	Site development		
1.1	Land development, drainage, miscellaneous services etc.	23	0.010
2	Civil works		
2.1	Preliminary Item	488	0.21
a	Definition and terms	0	0.00
b	General requirements and provisions	0	0.00
c	Contractor's establishment on site and general obligation	177	0.08
d	Engineer's accommodation and attendance upon engineer and his site personnel	275	0.12
e	Environmental protection and waste disposal	36	0.02
2.2	Sub-Structures	1,640	0.71
a	Site preparation	19	0.01
b	Excavation and disposal	39	0.02
c	disposal of water and planking and strutting	2	0.00
d	Hardcore or the like	65	0.03
e	Anti-termite treatment	19	0.01
f	Insitu concrete (plain and reinforced)	677	0.29
g	Reinforcement	213	0.09
h	Formwork to insitu concrete	352	0.15
i	Block work	134	0.06
j	Damp proof courses	9	0.00
k	Insitu finishing	56	0.02
l	Three coats weather guard paint	56	0.02
2.3	Frames (Beams and Columns)	2,190	0.95
a	Insitu concrete, reinforced	1,009	0.44
b	Reinforcement	1,181	0.51
2.4	Walling and Fence	391	0.17
a	Blockwork	250	0.11
b	Building fence	67	0.03
c	Decorating fence	74	0.03
2.5	Roofing	209	0.09
a	Roof covering	138	0.06
b	Structural timber	71	0.03

S/ No.	Particular of the work	Amount (in TZS Million)	Amount (in USD Million)
c	<i>Carpentry sundries</i>	0	0.00
d	<i>Carpenters metal work</i>	0	0.00
2.6	Doors	196	0.09
a	<i>Wood work</i>	153	0.07
b	<i>Iron Mongery</i>	43	0.02
2.7	Windows	76	0.03
a	<i>Aluminum windows</i>	76	0.03
2.8	Finishing	476	0.21
a	<i>Floor finishing (tile, slab or block finishing and skirting)</i>	334	0.15
b	<i>Wall finishing (insitu finishing)</i>	141	0.06
2.9	Painting and decorations	123	0.05
a	<i>Internal (plastering)</i>	116	0.05
b	<i>External</i>	7	0.00
2.10	Solid waste management	0	0.00
	Garbage collection hut	7	0.003
	Trucks for collection of garbage	115	0.05
2.11	Water and drainage		
	Plumbing and drainage	1,158	0.50
	Overhead Tanks	120	0.05
2.12	Parking space	182	0.08
	Internal roads	159	0.07
3	Plant & Machinery		
3.1	2 No. Service lifts/Pulley system	358	0.16
4	Electrical works		
4.1	Panel boards, electric cables, fittings, street lights	868	0.38
4.2	DG set	93	0.04
5	Common utilities		
5.1	Toilet tools for hygiene	5	0.002
5.2	Firefighting system	46	0.02
5.3	Telephone, office furniture, personal computer, photocopier, fax, printer etc.	3	0.00
6	E&S capacity building cost @0.5%	45	0.02
7	Consultancy fee @12.5%	1,116	0.48
8	Contingency @10%	893	0.39
9	Vat tax @18%	1,977	0.86
Total Project capex		12,962	5.63

Source: Consultant



10. Annexure 2: Willingness to pay

Here is a summary of the findings of the market assessment team, with respect to acceptance of the redevelopment of Buguruni market Project.

Participants of Survey

The assessment involved the market manager and approximately 70 traders who volunteered. The market has approximately 3,300 traders currently, whereby around 900 traders have a contract with the municipal council.

Services expected

- *Market facilities* - Provision of toilets on each floor, customer waiting area with ceiling fans, provision of water and electricity for each of the traders, cross-ventilation for the market building.
- *Segregation of traders* - Segregation of traders dealing in one trade on one floor.
- *Parking and security* - Parking area should be close to attract customers, the market should have indoor premises within the building to enhance security and access roads leading to the market should be improved.

Willingness to pay

The key findings of the willingness to pay undertaken at the Buguruni market are as mentioned under:

Table 10.1: Market details as per the market manager

S/N	Item	Comments/ Views
i.	Current Fee from washroom and toilets	This is currently not part of the market revenue and the revenue is collected directly by the municipal council. However they charge TZS 200 and TZS 500 for using toilet and for showering respectively.
ii.	Number of trader operate in the Market	<p>There are:</p> <ul style="list-style-type: none"> • 890- registered traders • 300- Conduct trading activities outside the market and are paying the daily levies • Approx. a total of 2800- traders using/ operate in and surrounding the market <p>Please Note: the number of premises available within the market do not compare with the total approximated number of traders (i.e. 2800 traders) due to the following reasons:</p> <ul style="list-style-type: none"> • One table might have more than 3 users however only one is registered and paying the daily levies • One premise owned by a group of traders e.g Chicken Slaughtering Shed comprise a total of 30 traders who together paying a monthly rent of TZS 150,000 hence each contribute TZS 5,000 monthly • Some traders selling their commodities in trucks; (There is space for trucks within market), • There are traders who sale season fruits.
iii.	Issues Facing by traders	<ul style="list-style-type: none"> • The Market appears to have poor facilities, • There appears no administration office, • There appears no parking space for customers and traders, • There appears no fence hence cause challenges to control and collect, levies from vehicles and tri cycles entering the market,

Source: Consultant

Table 10.2: Willingness to pay as per trader -Selling Fruits (Mabungo)

S/N	Item	Comments/ Views
i.	Currently daily income	Min. of TZS 2,000 and Max of TZS 5,000
ii.	Currently daily fees	TZS 500
iii.	Currently Area occupying	1sqm
iv.	The required space	3-4 sqm
v.	For providing better space additional(50% additional, better facilities which might results in 30% or 50% rise in income how much will you be willing to pay	The trader's income if doubled he may be willing to pay TZS 750 daily from the current TZS 500 daily.
vi.	Willingness to be relocated during the Project redevelopment period	Traders may be willing only with assurance to get his space back after construction

Source: Consultant

Table 10.3: Willingness to pay as per trader- Selling fruits (Mango)

S/N	Item	Comments/ Views
i.	Currently daily income	Min. of TZS 2,000 and Max of TZS 15,000
ii.	Currently daily fees	TZS 500
iii.	Currently Area occupying	2sqm
iv.	The required space	3-4 sqm
v.	For providing better space additional(50% additional, better facilities which might results in 30% or 50% rise in income how much will you be willing to pay	The trader's income if doubled he may be willing to pay TZS 600 daily from the current TZS 500 daily.
vi.	Willingness to be relocated during the Project redevelopment period	He may be willing only with assurance to get his space back after construction

Source: Consultant

Table 10.4: Willingness to pay as per trader- Selling Chicken who represent 34 traders

S/N	Item	Comments/ Views
i.	Currently daily income	Min. of TZS 250,000 and Max of TZS 800,000 (the maximum income is mostly obtained during holidays)
ii.	Currently monthly fees	TZS 30,000
iii.	Currently Area occupying	The huts measured (1.8*1.5*1.5)m ³
iv.	The required space	The current size appears enough
v.	For providing better space additional(50% additional, better facilities which might results in 30% or 50% rise in income how much will you be willing to pay	The TZS 30,000 is on higher side as they expected to pay TZS 15,000 hence they are not willing to pay more
vi.	Willingness to be relocated during the Project redevelopment period	They may be willing only with assurance to get his space back after construction

Source: Consultant

Table 10.5: Willingness to pay as per trader- Slaughtering Chicken who represents 30 traders

S/N	Item	Comments/ Views
i.	Currently daily income	Min. of TZS 8,000 and Max of TZS 16,000,
ii.	Currently monthly fees	TZS 150,000 for the room hence each trader contribute TZS 5000 monthly,
iii.	Currently Area occupying	The room measured approximately 18 sqm and it currently used by 30 traders,
iv.	The required space	They require at least 3 times the current size i.e. 54 sqm,
v.	For providing better space additional(50% additional, better facilities which might results in 30% or 50% rise in income how much will you be willing to pay	The trader's income if doubled he may be willing to pay up to TZS 6,000 monthly from the current TZS 5,000 monthly,
vi.	Willingness to be relocated during the Project redevelopment period	They may be willing only with assurance to get their space back after construction

Source: Consultant

Table 10.6: Willingness to pay as per Butcher

S/N	Item	Comments/ Views
i.	Currently daily income	Min. of TZS 10,000 and Max of TZS 50,000
ii.	Currently monthly fees	TZS 45,000
iii.	Currently Area occupying	4.5sqm
iv.	The required space	12 sqm
v.	For providing better space additional(50% additional, better facilities which might results in 30% or 50% rise in income how much will you be willing to pay	The trader's income if doubled he may be willing to pay TZS 90,000 monthly from TZS 45,000 monthly

Source: Consultant

Willingness to be relocated

Currently, the Ilala Municipal Council owns about 1.5 acres of land at the Project site which is sufficient for the development of a proposed municipal market. Following guidance from the LGA and the Project needs, having have considered the existing 1.5 acres of land for development under the current Project, Relocation Action Plan (RAP) would be required since the existing traders would be relocated to other sites, namely, Tabata market and Vingunguti market.

More than 98% of traders are willing to relocate. Their only concerns are the availability of basic facilities like water supply and electricity in the relocation area and the assurance of acquiring spaces after the redevelopment of the market. They would only be willing to relocate when they are provided with assurance that they will get their space back after construction.

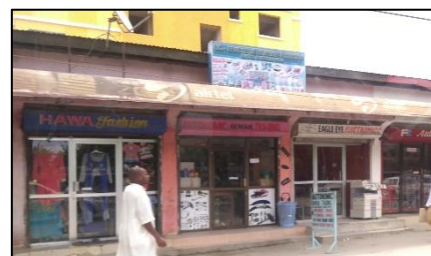


11. Annexure 3: Demand study

This section provides a background of the current market rates for commercial and retail development in and around the Project area. It outlines the current revenue configuration of the Project and also proposes the various revenue sources that can be looked at to enhance the overall revenue.

Property rates assessment

As per the National Census data, the population of Ilala district doubled from 0.6 million people in 2002 to 1.2 million people in 2012. Buguruni ward had a population of 70,585 in 2012. Buguruni ward is dominated by small-scale trading activities, which include retail and wholesale traders who operate in both small shops in buildings as well as in pavement outlets. There are also multi-floor retail buildings along Uhuru Street with retail outlets measuring between 16 - 25 sq m area (shown in the adjoining picture). The monthly rents for these retail outlets range between USD 3.9 (TZS 9,000) and USD 5.2 (TZS 12,000) per sq m. (Exchange rate USD 1 = TZS 2,300).



Current revenue configuration

The Buguruni Market was designed to be a wholesale market; however, it currently accommodates both wholesale and retail traders who operate on a mix of full- and half-day basis. It is currently fully occupied, which has led to many traders operating outside the market. The commodities sold in the market include both perishable and non-perishable goods. The table below lists the available premises and the current charges:

Table 11.1: Current revenue configuration

S.N.	Types of premises	Quantity (units or traders)	Fees per day per unit/traders (TZS)	Fees per month per unit/shed (TZS)
1.	Kiosk type 1 (5.9 sq m)	12	NA	15,000
2.	Kiosk type 2 (9.3 sq m)	26	NA	30,000
3.	Kiosk type 1 (13.4 sq m)	113	NA	45,000
4.	Pharmacy	1	NA	75,000
5.	Grain section A	9	NA	30,000
6.	Grain section B	5	NA	15,000
7.	Trading shed A	250	500	NA
8.	Trading shed B	284	500	NA
9.	Chicken hutches	33	NA	30,000
10.	Chicken slaughter shed	1	NA	150,000
11.	Food vendors	17	500	NA
12.	Entry fees for cargo trucks		5,000	NA
13.	Car parking fees		500	NA

Source: Consultant



12. Annexure 4: Legal due diligence

This section outlines the additional laws which would be applicable for the implementation of proposed Project.

Use and user rights

Buguruni Market is used as a market and some of the land uses are identified under the Land Use Regulation, include Use Group D and Use Group L which are shops and wholesale and storage warehouses, respectively. However, since we have not obtained the IMC title, we are unable to provide all the uses attached to the land as this is usually provided for in the title.

Some user rights in Buguruni Market include social services/amenities such as public toilets, parking as well as the rent and levies paid to IMC by vendors or suppliers in the market. The ProjectCo may set up an account where such funds will be deposited. However, applicable taxes chargeable to the users will be paid to the TRA and will not be remitted to the ProjectCo.

Section 11(4) of the PPP Act 2010 provides additional conditions to be included in the PPP agreement to ensure that the ProjectCo undertakes the performance of the functions of the contracting authority, on the latter's behalf, for a specified period, and is liable for any risks arising from the performance of its functions. Whereas the government facilities, equipment or any other state resources required for the Project are transferred or made available to the ProjectCo in a timely manner and that the public and private assets are clearly specified.

The PPP agreement between the IMC and the ProjectCo may provide (among other things) the leasing and collection of rent from the tenants (traders/merchants) occupying the buildings developed under the PPP.

Relevant environmental law and heritage rights, if applicable

In operating a market, the IMC will have requirements such as: waste management, solid waste management, urban upgrading through drainage canals construction, street lighting, ground water, and infrastructure, maintenance of hygiene and food safety, among others. The requirements are provided for under Sections 106, 113, 114, 120 and 123 of the EMA. Further provisions in relation to food safety and hygiene are provided for under the TFDC Act.

Below are some relevant licenses which the IMC should obtain in order for the ProjectCo to operate the refurbished Buguruni Market:

Table 12.1: Relevant licenses

Permit/Consent/License	Issuing authority	Legislation	Duration
Workplace registration certificate	OSHA	Section 16 of the Occupational Safety and Health Act, Act No. 5 of 2003	The certificate is valid specifically for the workplace and occupier of the workplace for the whole lifecycle of the Project.
Compliance certificate	OSHA	Section 17 (3) of the Occupational Safety and Health Act, Act No. 5 of 2003	The certificate is valid for one year and subject to inspection and renewal.
Fire safety certificate	FRF	Section 6 of the Fire and Rescue Act, Act No. 14 of 2007, the Fire and Rescue Force (Safety Inspections and Certificates) Regulations, GN No. 106 of 2008	The certificate is valid for the whole lifecycle of the Project and specific to the workplace, or premises. The certificate also subjects the holder to inspections.
Water discharge permit	Basin Water Board	Section 63 of the Water Resources Management Act, Act No. 11 of 2009 , The Water Resources (Water Abstraction, Use and Discharge) Regulations, GN No. 190 of 2010;	The permit is valid for the period specified in the permit issued to the occupier.

Tax legislation

- *Main tax / revenue laws in Tanzania*- These include the East African Community Customs Management Act, 2004, Income Tax Act, 2004, Stamp Duty Act, Cap. 189, Tax Administration Act, 2015 and Value Added Tax Act, 2014;
- *Main tax / revenue law administered by LGAs*- LGFA which imposes obligations on how LGAs charge fees on various services within their jurisdiction.
- *TRA Tax Legislation imposes the following taxes / charges on all types of businesses*- Corporate Tax of 30%, Withholding Tax on service fees of 5%; and Value Added Tax of 18%.

Labour legislations

The main labour legislations that govern employees and labour matters in Tanzania are the ELR Act, ELR Rules made thereunder, Labour Institutions legislation and the Wage Order. The ELR Act and ELR Rules provide for the rights and obligations of employees and employers, the employment contract, wages, types of leave, holiday, probation, trade unions and termination procedure, among other things. It is important to offer employees contracts which comply with the provisions of the ELR Act such as employee particulars, place of recruitment, job description, duration of the contract, probation, annual leave, notice of termination, employee benefits i.e. social security contributions, among others.

Notably, there are two types of employment contracts in Tanzania, namely contractual employment as a traditional 'employee' and employment for service as an independent contractor, respectively. In the former, the employee enters into an employment contract with the employer, working solely for the employer, and the employer does not become a client of the employee. Whereas in the latter, the employer becomes a customer of the employee and the employee/contractor's services extend not only to the employer but to others as well. The former is governed under the ELR Act whereas the latter is outside the typical employment regime.

With regard to the Wage Order, it provides for the minimum wages (hourly, daily, weekly, fortnightly and monthly) to be paid to employees working in various sectors, including domestic workers, small scale contractors, drivers, and those working in the trade, industry and commerce sectors. The ProjectCo will be

required to adhere to the relevant employment legislation in relation to the employees it may intend to hire to carry out the operation and management of the Buguruni Market.

It is worth noting that if the ProjectCo intends to hire foreigners for the construction, operation and management of the Buguruni Market, such foreign workers must obtain the relevant work and resident permits from the labour ministry and immigration department, respectively. Any engineers and contractors must be registered with the Engineers Registration Board (ERB) and Contractors Registration Board (CRB), respectively.

Recent legislative changes have provided a shift towards promoting local content in Tanzania, thus the ProjectCo may be required to outsource most of the goods and services from within Tanzania. Exceptions may be made where the level of expertise of the technology required cannot be sourced locally.

Foreign exchange legislation

The law with respect to making payments in foreign currencies for goods and services in Tanzania is quite unclear. On one hand, Section 26 of the BOT Act provides that the legal tender in Tanzania is Tanzania Shillings (**TZS**) in the form of bank notes and/or coins. On the other hand, Section 5(b) of the Foreign Exchange Act provides that any person, whether resident or non-resident in Tanzania, may hold any amount of foreign currency in Tanzania. Further, section 5(d) of the Foreign Exchange Act authorizes a person, whether resident or non-resident, to open a foreign currency account with any authorized bank.

Thus, a wide interpretation of sections 5(b) and 5(d) of the Foreign Exchange Act may be read as allowing for foreign currency to be used in Tanzania. However, in December 2017, the finance minister, Philip Mpango, stated that the law needs to be amended to the effect that Tanzanian residents should not have to pay in foreign currencies for goods and services in-country.

The Tanzanian finance ministry also issued a public statement on its website declaring that it is not prohibited to make price quotations using foreign currencies, as stated under Section 5 of the Foreign Exchange Act. Nonetheless, these applications should mainly target clients who are foreigners.

Conversely, what may be prohibited is refusing to accept payment in TZS which is the legal tender in Tanzania, as provided under section 26 of the BOT Act. Thus, although one can request for payment in foreign currency such as USD, refusal to accept the equivalent payment in TZS could be construed as contravening section 26 of the BOT Act.

Competition legislation

The Fair Competition Act, 2003, prohibits anti-competitive agreements which are unenforceable if the object, effect or likely effect of the agreement is to appreciably prevent, restrict or distort competition. The Fair Competition Act covers markets as well, if the underlying agreements could be deemed to be anti-competitive.

Building and fire codes, as applicable

For the ProjectCo to conduct its business in Tanzania, it would require the following licenses and permits:

- Certificate of incorporation issues by the Business Registration and Licensing Agency (**BRELA**);
- Business license from the Ministry of Trade and Industry;
- Tax Identification Number (**TIN**) certificate issued by TRA;
- Value added tax (**VAT**) certificate issued by TRA;
- Workers Compensation Fund Certificate by Workers Compensation Fund;
- Social Security Registration;
- Workplace Registration Certificate - Occupational Safety and Health Authority (**OSHA**);

- Compliance Certificate issued by OSHA;
- Fire Safety Certificate issued by Tanzania Fire and Rescue Force; ;
- Building Permit from IMC;
- CRB Registration; and
- ERB Registration.

Compliance with the land usage regulations

The regulations have been as mentioned under:

- *Use Group D- Shops* - Buildings for retail trade or retail services, but excluding cafés or restaurants, bars (licensed or unlicensed for the sale of intoxicating liquor), hairdressers, cleaners and dyers, shops for the sale of uncooked meats, fish or fried fish, retail markets and petrol service stations; and
- *Use Group L- Wholesale and storage warehouses* - Wholesale warehouses designed both for storage of goods and transaction of business (other than retail business) relating to such goods; storage and transit warehouses and godowns (not including storage of offensive goods or materials); furniture repositories; wholesale markets where no retail trade is carried on; including, in every case, necessary offices.

Moreover, Section 38 of the LGUA Act provides that each planning authority shall determine planning space standards, density of buildings on land, height, design and appearance and sitting of buildings, manner of access to land and buildings in its area of jurisdiction, in accordance with a set of national standards.

Dispute settlement mechanism and legal jurisdiction

The PPP Act 2010 and PPP Regulations 2015 provide that disputes shall be resolved through negotiation, mediation or arbitration. In addition, the PPP agreements shall be governed by Tanzanian law. This infers that any arbitration proposed under a PPP agreement would have to be done pursuant to the Tanzanian arbitration laws, as opposed to international arbitration.

13. Annexure 5: Social and environmental aspects



This section outlines various social and environmental challenges that the Project will face during different phases and how the ProjectCo will overcome these challenges. It also covers the International Finance Corporation's (IFC) Performance Standards triggered by this Project. ProjectCo will undertake ESIA and obtain environment certificate as per Tanzanian guidelines. The LGA needs to continuously monitor the same by maintaining environmental and social management system (ESMS).

Environmental and social challenges during construction phase

- **Construction demolition debris and other solid waste** – Construction debris will be generated from site clearance as a result of demolition of existing stalls and structures. Some of the materials can be salvaged by stall owners. Other solid wastes related to construction that will also be generated include spoil materials, used cement bags, wood and metal cuttings etc. Mitigation measures could include providing – (i) wind breakers of appropriate height (~10 m); (ii) covering all loose soil or sand or construction or demolition waste or any other construction material that causes dust; (iii) regular water sprinkling on the exposed surfaces to reduce dust emissions, (iv) adequate waste receptacles and (v) regular waste collection.
- **Noise pollution** – High noise pitch arising from construction equipment and machinery can be a cause of complaints from neighbouring residents. This is because the site is within a high density residential area. However, the major source of noise will be from trucks bringing materials or supplies to the construction site. Mitigation measures could include - (i) controlling the duration of construction works, especially at night; (ii) providing noise dampening gadgets; and (iii) ensuring regular maintenance of vehicles and machinery.
- **Traffic management problems** – The Buguruni Market is located at a strategic position with respect to traffic management. There is a nearby daladala stand or turning point. The site is also very near the junction (traffic lights) of the Uhuru Road and Nelson Mandela Express Road. Any jam at the site will quickly be felt on the Nelson Mandela Road – and this will cause backflow impact to major roads in the area. Mitigation measures for the traffic impact include improving traffic management around the market. For this case, it will involve the provisioning of a four-lane access road for the purpose of blending with both Uhuru Road and the Nelson Mandela Road.

Mitigation measures for the traffic impact during construction phase include (i) managing the movement of construction equipment and construction-related vehicles during peak traffic hours, especially on the Uhuru Street, (ii) traffic supervision during peak traffic hours on the streets surrounding the Project site, (iii) smoothening the circulation roads around the market area to be one-way (except for Uhuru Street), (iv) not creating any direct entrance or exit from the Uhuru Street rather having entry and exit from side / circulating streets around the market, and (v) creation of construction vehicle parking space within the Project area.

- **Soil and water pollution** – Construction vehicles will generate hydrocarbon discharges (from a limited working area) that will pollute the soil around it. Storm runoff will carry the freshly deposited oil and grease pollutants and transfer it to the Indian Ocean, through the Msimbazi valley. To address this concern, key mitigation measures would include – (i) ensuring regular maintenance of construction vehicles and machinery, and (ii) ensuring that the contractor keeps on hand appropriate equipment, supplies, and materials for containment and clean-up of chemicals in the event of a spill. These materials could include: commercially available spill kits for construction equipment, sorbents for containment and quick pick up of

spilled liquids, shovels and backhoes for excavation of contaminated materials, drums, barrels, temporary storage bags for containment and transportation, absorbent pads, oil booms, mats, or equivalent, washable, reusable rags for cleaning up small lubricant leaks onto machinery.

- *Risk of diseases* – The presence of large-scale construction activities and several construction workers can lead to the potential risk of communicable diseases. Mitigation measures include: (i) As the Project proposes to deploy local workers at the construction site during working hours who will return to their residential accommodation at the end of the day, it is expected that this Project will not result in a significant increase in interactions or cause unwanted interactions with local communities. In most cases, such interactions lead to conflicts due to negative social behaviour such as theft, harassment and even spread of diseases such as STDs, especially HIV/AIDS. Therefore, cases of sexual interactions among workers and local communities, unplanned pregnancies and divorce among families are also expected to be low in the absence of worker camps and any influx of an outside labour force. (ii) There will also be adequate information provided to workers to prevent communicable diseases and ensure maintenance of proper hygiene and health standards. (iii) In addition, the Project will provide for proper drinking water and sanitation facilities for the workers, and adequate waste collection to properly manage hygiene and sanitation during the construction phase.
- *Worker safety and rights* – Work accidents and remuneration issues can demoralise the working staff, leading to many social problems. Mitigation measures could include - (i) Formulation and implementation of safety, health and environmental (SHE) guidelines, (ii) training of workers, (iii) provide personal protection equipment to workers, and (iv) ensuring all workers are given work contracts, besides registering them with the workers compensation scheme. As it will not be practical to create any worker camps on the sites, it is suggested that (v) the contractor employs local workers or provides for temporary worker accommodation away from the site. (vi) in addition to on-site facilities, temporary facilities could include catering services for food and refreshments, facilities for clean drinking water, temporary toilets for male and female workers, medical first-aid care and health facilities.
- *Temporary relocation of traders* – There are two concerns related to temporary relocation of traders to other sites, namely, Tabata market and Vingunguti market. Firstly, the traders might not agree to shift. Feedback from initial market consultations suggests that the traders are likely to shift if they get a temporary relocation place and an assurance that they will be provided permanent stalls in the new market. To meet these requirements, the city council is proposing to temporarily relocate the vendors. In addition, the construction plan for the new market provides for accommodation for all vendors. Therefore, this issue can be resolved through further consultations with the vendors and communicating the related plans to provide the necessary assurances. Secondly, there is a concern that while these traders opt for temporary relocation, some new traders might illegally set up their stalls or undesignated market points near the present market and continue to serve the Ilala residents. This could erode the potential market for traders that opt for temporary relocation. To address this concern, the council shall discourage emergence of undesignated micro-markets during construction phase through regular inspections and full enforcement, and create awareness amongst Buguruni residents to support the Project.

Environmental and social challenges during operation phase

- *Market solid waste generation and haulage challenges* – Markets generates huge masses of organic waste. The major sources are rotting goods (like fruits, fish, cereals, potatoes, etc.); packaging materials (mostly plants leaves or boxes); food leftovers (from restaurants), sweepings etc. Most of these are highly biodegradable in nature and would cause foul smells. In addition, fish and fruit wastes attract flies and other insects. Moreover, in Dar es Salaam, there are solid waste haulage problems that are being experienced by many municipalities. Though markets are among the facilities on a priority list for solid waste haulage by the Ilala Municipal Council, the resource capacity does not guarantee daily, and therefore adequate, market waste haulage. It is thus normal to collect market wastes, at many times improperly stored at site. Apart from becoming an eyesore, the uncollected waste heaps are potential

sources of food contamination and disease transmission, including dysentery and diarrhoea. Principal mitigation measures include (i) provision of adequate waste receptacles and (ii) ensuring regular solid waste collection. The Project cost also includes creation of a waste aggregation system, including garbage disposal truck for the market.

- *Noise pollution* – Though in general market activities could be a source of noise (especially during peak hours and holidays), this may not be a concern in this case, since the market has been in existence in the area for many years. Mitigation measures could include (i) controlling the duration of market operations, especially at night; (ii) providing noise barriers such as boundary wall, fences and natural green barriers; and (iii) ensuring regular maintenance of vehicles and machinery within the market compounds.
- *Traffic management problems* - Improved physical infrastructure in the market will attract many customers that may cause traffic concern. The main road serving the market is Uhuru Road, which seems inadequate for even the existing traffic density. Mitigation measures for the traffic impact include improving traffic management around the market. These could include, one or a combination of – (i) plan for widening of access road connecting to Uhuru Road, (ii) smoothening the circulation roads around the market area to be one-way (except for Uhuru Road), (iv) not creating any direct entrance or exit from the Uhuru Road rather having entry and exit from side / circulating streets around the market, and (v) creation of parking space within the market area.
- *Effluents and hygiene*– This is a major concern. Generally, all markets in Dar es Salaam city are characterised by poor effluent (sewage) disposal facilities and hygiene practices. This exposes the traders and customers to great public health risks. Toilets are not sufficient and generally poorly maintained. Many a time, no flowing water and effluent overflows are the norm. This situation can cause both groundwater and surface water pollution (Msimbazi River). Mitigation measures include: (i) provision of adequate drainage around the site; (ii) installation of adequate toilets and sanitation facilities in the Project site, (iii) management of sewage discharge to Dar es Salaam central sewer, (iv) provision of efficient cleaning, sanitation and waste management services in the Project, and (v) training and advocacy for good hygiene practices for both market goods and toilets.
- *Risk of diseases* –Pulling people together in a market environment can be a source of communicable diseases. Much risk is associated with poor functioning of inadequate sanitary systems (public toilets and other wash points). Poor waste collection can aggravate the human health risks. Principal mitigation measures could include – (i) maintenance of good hygiene and sanitation in the market facility, and (ii) improved effluent and waste management, as mentioned previously.
- *Energy consumption* – Creation of a modern market could result in higher energy consumption. This could be minimised through use of cost effective and technically and financially feasible measures to reduce energy consumption through energy-efficient design of the building and use of low-energy consumption equipment. The Project could also examine cost-effective options for rain-water harvesting.

IFC performance standards

The IFC performance standards (PS) that are relevant or will be triggered by the proposed Buguruni Market Project include PS1, PS2, PS3 and PS4.

- *Performance standard 1 (PS1)*: Assessment and management of environmental and social risks and impact. This requires a through environmental and social assessment that includes undertaking adequate stakeholder engagement and disclosure of Project information. The PS1 is consistent with the national legal requirement in Tanzania that requires all Projects to pass through an environmental impact assessment process. According to the Environmental Management Act of 2004 (Cap. 191), it is mandatory to conduct environmental and social impact assessment (ESIA) for all development Projects to be implemented in Tanzania. The law also establishes system for environmental and social impact assessment system and administration that includes screening of Projects, guidelines to conduct ESIA; review, monitoring etc. The law gives mandate to the National Environment Management Council (NEMC)

to oversee ESIA process administration and certify and provide relevant conditions for Project implementation.

Thus, the potential investor for the proposed Buguruni market will be required to undertake ESIA in line with Tanzania guidelines and obtain the environmental certificate before Project implementation.

- *Performance standard 2 (PS2): Labour and working conditions:* The PS2 recognises that the pursuit of economic growth through employment creation and income generation should be accompanied by protection of the fundamental rights of workers. IFC believes that for any business, the workforce is a valuable asset, and a sound worker-management relationship is a key ingredient in the sustainability of a company. Failure to establish and foster a sound worker-management relationship can undermine worker commitment and retention, and jeopardise the Project. The applicability of PS2 is established during the environmental and social risks and impacts identification process in PS1. According to IFC, the implementation of the actions necessary to meet the requirements of PS2 is managed through the client's ESMS.

In Tanzania, there are three principal legislations that address the issues of labour and work conditions, these are; (i) Occupation Safety and Health Act (2003) (ii) Employment and Labor Relations Act No. 6 of 2004; and (iii) Workers Compensation Scheme Act. The legislation ensure that the workers are treated well and their rights protected, including the right to work in a healthy environment. It also includes other issues pertaining to working hours, remuneration schemes, prohibition of child labor etc. All these issues will be addressed in the ESIA report.

- *Performance standard 3 (PS3): Resource efficiency and pollution prevention:* IFC recognizes that increased economic activity and urbanisation often generate increased levels of pollution to air, water, and land, and consume finite resources in a manner that may threaten people and the environment at the local, regional, and global levels. There is also a growing global consensus that the current and Projected atmospheric concentration of greenhouse gases (GHG) threatens the public health and welfare of current and future generations. At the same time, more efficient and effective resource use, and pollution prevention and GHG emission avoidance and mitigation technologies and practices have become more accessible and achievable in virtually every part of the world. These are often implemented through continuous improvement methodologies, similar to those used to enhance quality or productivity, which are generally well known to most industrial, agricultural, and service sector companies. The applicability of PS3 is established during the environmental and social risks and impacts identification process in PS1. According to IFC, the implementation of the actions necessary to meet the requirements of PS3 is managed through the client's Environmental and Social Management System (ESMS).

In Tanzania, there are several pieces of legislation which address the issues of resource use efficiency and pollution prevention. These include;

- a) The Environmental Management Act of 2004 – Carrying out ESIA, dealing with pollution issues; waste management, environmental standards etc.
- b) The Water Resources Management Act No. 11 of 2009 – addresses the issues of water quality and sanitation
- c) Public Health Act 2009 – issues of control of communicable diseases and ensuring hygienic handling of food in market places
- d) The Environmental Management (Air Quality Standards) Regulations, 2007
- e) The Environmental Management (Water Quality Standards) Regulations, 2007
- f) Solid waste Management Regulation, 2009 GN. NO. 263- addresses issues of solid waste management
- g) The Environmental Management Act (Hazardous Waste Control), 2009

The ESIA for the proposed Buguruni Market shall respond to the requirements of these legislations. In addition, Tanzania is a signatory to several international treaties and conventions, including climate change. The ESIA shall also respond to relevant international aspects of the Project, with respect to environmental and social sustainability.

- *Performance standard 4 (PS4):* Community health, safety, and security. The PS4 recognizes that Project activities, equipment, and infrastructure can increase community exposure to risks and impact. In addition, communities that are already subjected to impact from climate change may also experience an acceleration and/or intensification of impact due to Project activities. While acknowledging the public authorities' role in promoting the health, safety, and security of the public, PS4 addresses the investor's responsibility to avoid or minimise the risks and impact to community health, safety, and security that may arise from Project-related activities, with particular attention to vulnerable groups. The implementation of the actions necessary to meet the requirements of PS4 is managed through the client's Environmental and Social Management System (ESMS).

In Tanzania, the EIA and Audit Regulations (2005), will require the investor for Buguruni Market to take appropriate actions and mitigation measures to ensure that the Project is safe for workers and the surrounding communities during mobilisation, construction and operation phases of the Project. In addition, the PS4 will be complied with by adhering to the requirements of other relevant legislation such as;

- a) The HIV and AIDS (Prevention and Control) Act of 2008- control of HIV/AIDS spread in Tanzania
- b) Public Health Act 2009 – issues of control of communicable diseases and ensuring hygienic handling of food in market places
- c) Occupation Safety and Health Act (2003)- health and safety during construction and operation phases
- ⇨ National Gender Policy (2002)

Proposed mitigation measures

In order to offset the environmental and social changes that have been identified during this evaluation, mitigation measures have been suggested and are summarized as under:

Table 13.1: Social and environmental mitigation measures

No.	Impact indicator	Project activity	Potential impact	Impact qualifier			Mitigation	Monitoring
				Magnitude	Extent	Duration		
Construction phase								
1	Livelihood of existing traders	Temporary relocation of existing traders	Loss of livelihood;	M	SS	ST	Provide temporary market site; assist traders in the new location	Number of affected persons and relocated traders
2	Air quality	Demolition of existing structures; foundation works; construction activities	Generation of debris, dust, PM10	M	SS	ST	Application of good construction practices and air quality management procedures, such as: (i) wind breakers of appropriate height (~10 m); (ii) covering all loose soil or sand or construction or demolition waste or any other construction material that causes dust; (iii) regular water sprinkling on the exposed surfaces to reduce dust emissions, (iv) adequate waste receptacles and (v) regular waste collection.	Dust generation, PM10
3	Noise quality	Demolition of existing structures; foundation works; construction activities	Noise and vibrations issues	S	SS	ST	Application of good construction practices and noise quality management procedures, such as: (i) Controlling the duration of construction works, especially during the night time; (ii) providing noise dampening gadgets; and (iii) ensuring regular maintenance of vehicles and machinery.	Noise levels
4	Solid waste generation	Demolition of existing structures; excavation of foundation	Generation of loose soil, waste material	M	SS	ST	Provide concurrent system for spoil materials collection; reuse the loose soil	Amount of soil and demolition waste generated

No.	Impact indicator	Project activity	Potential impact	Impact qualifier			Mitigation	Monitoring
				M	SS	ST		
5	Worker safety and health	Demolition and construction works	Worker safety	M	SS	ST	Formulation and implementation of SHE guidelines, including (i) training of workers, (ii) provision of personal protection equipment for workers, and (iii) ensuring all workers are given work contracts and registered with the Workers Compensation Scheme. As it will not be practical to create any worker camps on the sites, it is suggested that (iv) the contractor employs local workers or provides for temporary worker accommodation away from the site. (v) In addition, the on-site, temporary facilities could include catering services for food and refreshments, facilities for clean drinking water, temporary toilets for men and women workers, medical first-aid care and health facility.	Number of worker safety accidents on site; Number of trained workers; Use of PPEs; Health awareness programmes
6	Traffic accidents and delays	Movement of construction vehicles and materials transportation	Road safety issues	S	R	ST	Traffic management measures, such as (i) managing the movement of construction equipment and construction related vehicles during peak traffic hours, especially on the Uhuru Road, (ii) smoothing the circulation roads around the market area to be one-way (except for Uhuru Road), (iii) not creating any direct entrance or exit from the Uhuru Road rather having an entry and exit from side / circulating streets around the market, and (iv) creation of construction vehicle parking space within the Project area.	Implement traffic management plan; Number of traffic accidents
7	Soil and water contamination	Movement of construction vehicles, materials and construction activities	Pollution due to chemicals, oil and grease in soil and storm-water run off to water bodies and Indian Ocean	M	R	ST	(i) Ensuring regular maintenance of construction vehicles and machinery, and (ii) ensuring that the contractor keeps on-hand appropriate equipment, supplies, and materials for containment and clean-up of chemicals in the event of a spill. These materials could include: commercially available spill kits for construction equipment; sorbents for containment and quick pick up of spilled liquids; shovels and backhoes for excavation of contaminated materials; drums,	Spillage from site

No.	Impact indicator	Project activity	Potential impact	Impact qualifier			Mitigation	Monitoring
							barrels, temporary storage bags for containment and transportation; absorbent pads, oil booms, mats, or equivalent; washable, reusable rags for cleaning up small lubricant leaks onto machinery.	
Operation phase								
1	Traffic accidents and delays	Transportation of goods and passengers to the market	Road safety issues	S	R	LT	Traffic management measures, including– (i) plan for widening of Uhuru Street, (ii) smoothening the circulation roads around the market area to be one-way (except for Uhuru Street), (iii) not creating any direct entrance or exit from the Uhuru Street rather having an entry and exit from side / circulating streets around the market, and (iv) creation of parking space within the market area.	Number of traffic accidents
2	Solid waste and air quality	Goods storage and selling	Solid waste generation and risks of foul smell	L	SS	LT	Implementation of a solid waste management system, including (i) provision of adequate waste receptacles, (ii) ensuring regular solid waste collection, (iii) creation of a waste aggregation system, and (iv) use of garbage disposal truck for the market	Amount of waste generated; daily waste disposal via market's truck; Ambient air quality
3	Effluents and hygiene issues, risk of diseases	Goods storage and selling	Health hazards and diseases	L	R	LT	Implementation of sanitation and effluent management systems (public toilets and other wash points), including– (i) provision of adequate drainage around the site; (ii) installation of adequate toilets and sanitation facilities in the Project site, (iii) management of sewage discharge to Dar es Salaam central sewer, (iv) provision of efficient cleaning, sanitation and waste management services in the Project, and (v) training and advocacy for good hygienic practices for both market goods and toilets.	Functioning public toilets; Sewage discharge; Epidemics eruption and number of casualties
4	Noise quality	Goods storage and selling	Noise levels due to market operations	S	SS	LT	Implementation of noise control measures, including (i) controlling the duration of market operations, especially at night; (ii) providing noise barriers such as boundary walls, fences and natural green barriers;	Noise levels

No.	Impact indicator	Project activity	Potential impact	Impact qualifier			Mitigation	Monitoring
							and (iii) ensuring regular maintenance of vehicles and machinery operating within the market compounds	
5	Energy efficiency	Goods storage and selling	Energy consumption	M	SS	LT	This could be minimized through use of cost-effective and technically and financially feasible measures to reduce energy consumption through the energy-efficient design of the building and use of low energy consumption equipment. The Project could also examine cost-effective options for rain-water harvesting.	Energy savings

Impact Qualifier: Magnitude (Mt): Small (S), Medium (M), and Large (L); Extent: Site Specific (SS), regional (R), National (N), and Trans-boundary (TB); Duration: Short term (ST), Medium term (MT), and Long term (LT).

Note:

1. The cost of temporary relocation of traders to the temporary relocation site and related facilities to be provided thereon shall be estimated and borne by the local council, as per their temporary resettlement plan. It is anticipated that there is no requirement for involuntary resettlement and compensation.
2. The costs related to preparing and implementing the Environmental and Social Management Plan shall be borne by the ProjectCo and will be part of the bill of quantities and the Project cost.
3. The costs related to monitoring of the implementation of the ESMP have been included in the design and supervision costs and aggregated under the total Project cost estimates.



14. Annexure 6: Revenue Collection

Based on the revenue collection assessment conducted by market assessment team, we can observe that the monthly revenue collected over last one year has averaged to 66% of the estimated revenue collection which can be assessed in the table below. Thereby, we conclude that currently approx. 34% of revenue is being leaked every year, which attributes to loss of revenue due to inefficiency in collection of revenue by the officials. Once the ProjectCo takes charge of the operations of the redeveloped market, it is envisaged that no revenue leakage will be there as ProjectCo is incentivized to maximize revenue and collection of fees is its only source of income from the Project.

Table 14.1: Revenue Collection of Buguruni market (Apr 17- Mar 18)

Year	Month	Revenue Collected (TZS)	Revenue Collected (USD)	Estimated Revenue Collection (TZS)	Estimated Revenue Collection (USD)	% of Estimated Revenue
2017	APR	29,324,410	12,750	50,000,000	21,739	59
	MAY	37,479,900	16,296	50,000,000	21,739	75
	JUNE	36,669,000	15,943	50,000,000	21,739	73
	JULY	24,206,100	10,524	51,000,000	22,174	47
	AUGUST	29,579,500	12,861	51,000,000	22,174	58
	SEPT	31,041,700	13,496	51,000,000	22,174	61
	OCT	31,874,000	13,858	51,000,000	22,174	62
	NOV	31,477,400	13,686	51,000,000	22,174	62
	DEC	33,900,000	14,474	51,000,000	22,174	66
2018	JAN	39,789,900	17,300	51,000,000	22,174	78
	FEB	37,538,500	16,321	51,000,000	22,174	74
	MARCH	36,189,500	15,735	51,000,000	22,174	71
Average revenue collection from Apr 17- Mar 18 (in %)						66

Source: Consultant

15. Annexure 7: City infrastructure assessment



This section deals with the socio-economic profile, demographic status and key economic drivers of the IMC along with the infrastructure levels across roads, water, solid waste management, education, markets and healthcare.

Socio-economic profile of Ilala Municipal Council

- *Demographics* - Ilala municipality in Dar es Salaam covers 210 sq km and is bordered by the Indian Ocean to the east, Temeke and Kigamboni municipalities in the south, Kisarawe district in the west, and Kinondoni and Ubungo municipalities in the north. It has good connectivity with the rest of the city and country. The municipality is divided into 36 wards and 159 sub-wards. As per the 2012 census, the municipality had a population of 1.22 million. The population in 2016 was estimated at 1.5 million, which is a growth rate of 5.6% per annum. Male population in 2016 was ~0.8 million and female population, ~0.7 million. Population density in the municipality over the period rose from 5,810 people per sq km to ~7,539 people per sq km. In 2016, the municipality had 300,674 households, with an average of 5 persons per household.
- *Economic drivers* - The main economic activities in the Ilala Municipal Council are retailing, which includes small and medium shops, hotels, bars and restaurants, transportation services, clearing and forwarding, agro business, medical business, handcraft business, banking, and construction. These activities employ ~45% of the municipality's population. Agriculture and livestock is another important economic activity, employing 13% of the population. The Ilala Municipal Council also has several industries, with medium-scale food, beverage and textile industries comprising the largest share. Others include small-scale industries comprising milling and fruit processing.

Benchmarking of infrastructure metrics

The following section outlines the infrastructure status, demand and deficit across roads, water supply, solid waste management, education, municipal markets and healthcare. The World Bank and World Health Organization (WHO) standards, or norms applicable in comparable developing countries have been considered.

Table 15.1: Status of infrastructure in Ilala Municipal Council

LGA	Roads			Water supply		Solid waste management						
	Tarmac/ gravel/ dirt	Condition	No. of lanes	% coverage	Per capita supply of water	Generation	Collection					
Ilala	Total road length - 805 km Tarmac: 80 km (10%) Gravel: 79 km (10%) Dirt: 647 km (80%)	Good condition: 75% Fair condition: 15% Poor condition: 10%	All are single lane	30.63 million liters provided by DAWASA. 61.25 million liters provided by bore wells 24% connected to water supply grid 76% depend on shallow and deep wells	75 lpcd	1,088 tons	550 tons					
LGA	Schools						Municipal markets		Healthcare			
	No. of primary schools	No. of students enrolled	Average capacity of schools	No. of secondary schools	No. of students enrolled	Average capacity of schools	No. of municipal markets	Average area of municipal markets	No. of hospitals	Average no. of beds per hospital	No. of health centers	Average no. of beds per health center
Ilala	225	26,334	70,875	98	19,236	12,120	36	6,000 sq m	10	250	10	51

Source: Discussions held with LGAs

Current infrastructure demand and deficit

- **Roads:** The council has a total road length of 805 km, all of which are single lane. Around 80% are dirt roads, and 20% are either tarmac or gravel roads. Further, 10% of the roads are in poor condition, with the remainder 90% either in good or fair condition. Development of the roads sector can be assessed by two factors:
 - Comparison with national-level norms
 - Redevelopment of roads that are in poor condition and need to be renovated.

As per the Africa Development Indicators, published by the World Bank, average road density, in terms of road km per 100 sq km of land area in Tanzania, was 9.6. Given the total road length of 805 km over an area of 210 sq km, total road density in the Ilala Municipal Council is more than the country average by a significant margin, i.e., 383 km per 100 sq km (land area of Ilala municipality is 210 sq km). Total road length that needs to be reconstructed is ~100 km (10% of the roads), which are in poor condition. Two-lane roads are necessary to manage the heavy traffic near administrative offices.

- **Water supply:** DAWASA supplies about 30.63 million liters of water per day, and 61.25 million liters of water is drawn from bore wells per day. Thus, total daily water supply is approximately 92 million liters. Given the total population of the municipal council is 1,220,611, the total water supplied per capita per day is 75 liters only. 24% of the households are connected to the water supply grid, with close to 76% sourcing water from bore wells. As per the norms followed by comparable developing countries, the water should be 100 to 150 liters per day per capita (lpcd). Hence, there is a deficit of approximately 25 to 75 lpcd.
- **Solid waste:** Total solid waste generated per day is 1,088 tons, but only 50%, i.e., 550 tons per day, is collected. The municipal council has 36 trucks for collecting solid waste, each with a capacity of 10 tons. Each truck makes two trips per day. Hence, to collect the total solid waste generated in the council, additional 36 trucks would be required or the current trucks need to make four trips daily, which seems more reasonable as the distance between Pugu and Ilala is just 7 km.
- **Education:** The council has 225 primary schools (government and private) with a capacity of 70,875 students. However, the enrolment ratio is a mere 37% with only 26,334 students enrolled. However, the total number of children between 7 and 13 years (eligible for primary education) is 157,367, resulting in a massive deficit of schools for the remaining children, i.e., 86,492. Assuming every primary school caters to 315 students, additional 274 schools will be required to meet the demand gap.

There are 98 secondary schools (government and private) that have a capacity of 12,120 students. 19,236 students are enrolled, resulting in a reasonable enrolment ratio of 158.7%. Details of the total number of children of 14-19 years (eligible for secondary education) are not available. Given the secondary schools in the municipal council are running at more than capacity, construction of new secondary schools are envisaged. Assuming every secondary school caters to 123 students, additional 58 schools will be required to meet the demand gap.

- **Markets:** The total number of municipal markets in the council is 36, with an average area of around 4,000 sq m. This translates into retail space of 0.12 sq m per capita, which is on the lower side when compared with other comparable developing countries, which have a retail space of 0.19 sq m per capita. Thus, there is a deficit of 0.07 sq m per capita. Assuming that the average municipal market size is around 4,000 sq m, additional 22 markets will be required to match the standards of comparable developing countries.
- **Healthcare:** The WHO recommended standards mention having at least 5 beds per 1,000 population. Given that Ilala has a population of 1,220,611, total 6,103 beds are required. However, there are only 10 hospitals each with 250 beds and 10 health centers each with 51 beds. Thereby, only 3,010 beds are available within the municipal council. Thus, there is a deficit of 3,093 beds, which is around 51% of the total requirement.

Table 15.2: Summary of infrastructure status, demand and deficit

Ilala Municipal Council	Status	Demand	Deficit
Roads	Total road length: 805 km 20% tarmac or gravel 80% dirt	Redevelopment of roads that are in poor condition and need to be renovated	100 km of roads need to be reconstructed
Water	Per capita supply: 75 lpcd Connection: 24% DAWASA, 76% bore wells	Per capita supply: 125 lpcd Coverage: 100% DAWASA	Per capita supply: 50 lpcd Coverage: 76% DAWASA
Solid waste management	Collection/ generation ratio - 50% No. of trucks – 36 No. of trips - 2 per day	Collection/ generation ratio - 100%	Collection/ generation ratio - 50% Additional no. of trucks – 36 or No. of trips per day - 4
Education	Primary schools Capacity: 70,875 students Eligibility: 157,367 students Secondary schools Capacity: 12,120 students Enrolment: 19,236 students	Primary and secondary schools should be enough to provide education to all children in the council	Additional 274 primary schools and 58 secondary schools are required
Municipal markets	Total markets - 34 Retail space - 0.12 sq m per capita	Retail space - 0.19 sq m per capita	Retail space - 0.07 sq m per capita Additional markets – 23
Healthcare	3,010 beds across 10 hospitals and 10 health centers	6,103 beds as per WHO norms	Additional 3,010 beds required

Source: Discussions held with LGAs

Conclusions:

- **Roads:** Only 20% of the roads are tarmac roads. Most of the roads are gravel or dirt roads, which become unusable during the rainy season. Investments need to be made for the redevelopment of roads.
- **Solid waste management:** About 50% of the waste collected from the municipal council is landfilled at Pugu Kinyamwezi. The collection capability of the LGA is constrained due to lack of sufficient truck loaders, compactors and skip loaders.
- **Water supply:** Only 24% of the total households are connected to the water supply network. Close to 76% of the population depends on bore wells and other sources such as public water taps. Investments are required in the water supply sector in terms of connecting households with investments in water pumping sets and water supply pipelines.
- **Education:** Government-funded primary schools face a significant deficit in terms of number of student capacity. As a result, classes often have more than 45 students in primary schools. The situation is worse in the case of government-funded secondary schools where class size is often more than 40 students. Thus, the number of students per class in both government primary and secondary schools is about double the norms. Investments are required in setting up both primary and secondary schools to ensure that class sizes and occupancy rates comply with the norms.

- *Municipal markets:* The retail space per capita in the municipal council is 0.12, whereas in comparable developing countries, this stands at 0.19. Investments are needed to increase market area per capita to create better shopping opportunities and reduce the congestion in existing markets.
- *Healthcare:* The WHO norms delineate 5 beds for every 1,000 persons. However, the municipal council has only 2,357 beds across hospitals and health centers. Thus, there is a deficit of 3,746 beds. Investments are required to increase beds in hospitals and health centers.

Potential PPP sectors

We have identified infrastructure sectors where Public Private Partnership (PPP) Projects could be implemented in the coming years.

Table 15.3: Potential infrastructure sectors and areas for future PPP Projects

Infrastructure sector	Sub-segment	Type of Project
Housing	Residential houses	Housing near the prime areas of the LGA
Education	Students	University and vocational training center
	Teachers	Training colleges
Municipal markets	Municipal markets	13 small markets
Waterfront development	Fisheries	Fisheries development near beachfronts
Water	Sanitation	Toilet facilities
Healthcare	Hospitals	Health centers and dispensaries for treatment of malaria treatment, HIV/AIDS and tuberculosis

Source: Discussions held with LGAs

16. Annexure 8: Municipal finance assessment



This section provides an overview of the key revenue sources and major expenditure heads across the municipal council, and the inferences drawn from the provided information. Revenue and expenditure Projections for the next five years have been calculated by extrapolating historical trends over the past five years.

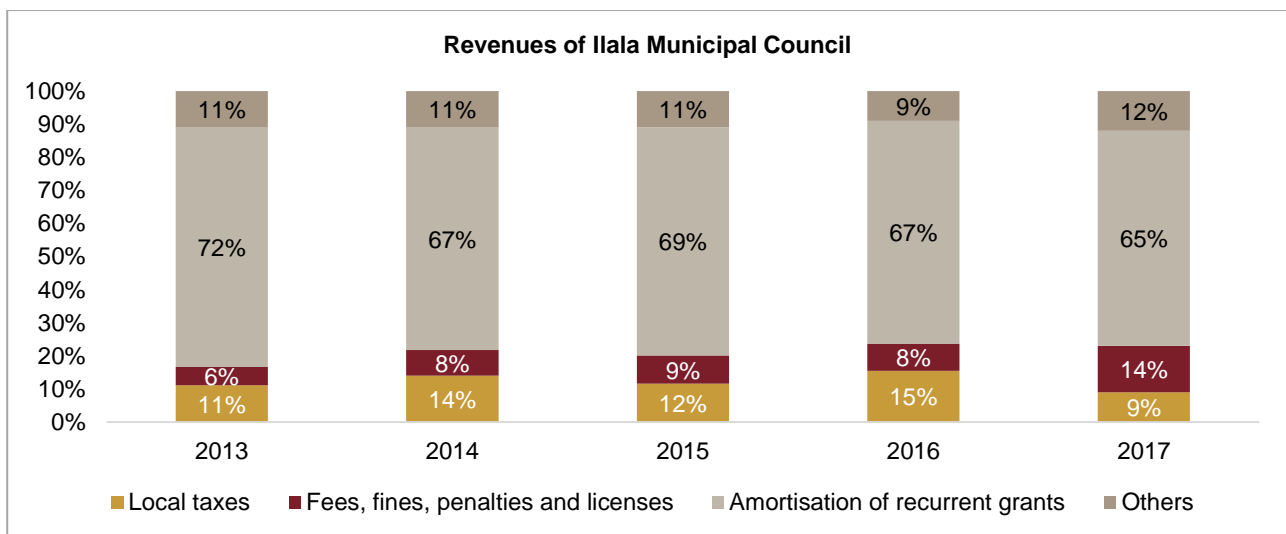
Revenue trend

Revenue of the Ilala Municipal Council has shown an increasing trend from TZS 95 billion in 2013 to TZS 172 million in 2017. Revenue majorly comprises local taxes, fees, fines, penalties, and licenses, revenue generated from exchange transactions, amortization of recurrent and capital grants, and interest income.

Over the past five years, the recurrent grant and development grant components averaged ~68% and ~7%, respectively, of the total revenue of the council. Local taxes represented ~12%; fees, fines, penalties and licenses, 9%; and the remaining came from other sources. The council has been able to increase its share of fees, fines, penalties and licenses to total revenue from 6% to 14%. The percentage of revenue from recurrent grants declined from 72% to 65%.

The property tax component contributes to 10-14% of the tax revenue component, which, in turn, is merely 15% of the total revenue generated. Thus, the property tax component comprises a negligible 2-3% of the overall revenue. Further, the Local Government Act amended in 2017, mandates the Tanzania Revenue Authority to collect property tax in all districts, instead of municipal authorities. This action taken by the central government further limits the ability of municipal councils to generate revenue from the increasing residential and commercial settlements across Dar es Salaam. Currently, property tax is levied at 0.15% on residential properties and 0.20% on commercial properties for the Dar es Salaam region.

Figure 16.1: Revenue categories 2013-2017 (as % of total revenue)



Source: Discussions held with LGAs

Table 16.1: Summary of revenue over the last 5 years

Year	Revenue (TZS bn)
2013	95
2014	109
2015	125
2016	156
2017	173

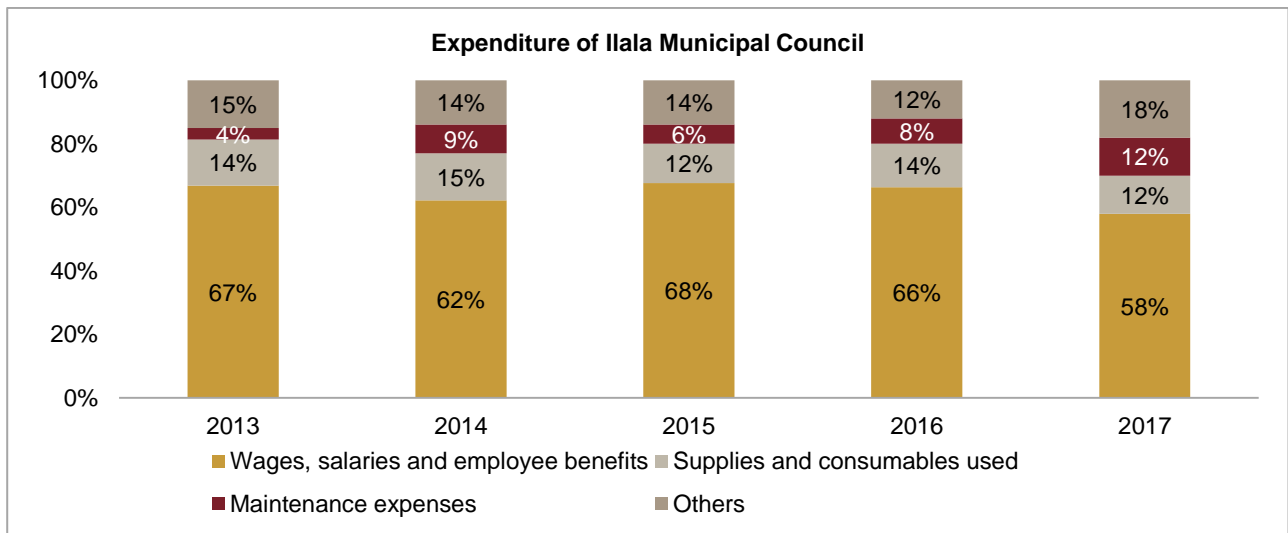
Source: Discussions held with LGAs

Expenditure trend

The expenditure of the council too, increased on-year from 2013 to 2017. This can be attributed to increase in wage, salaries, and employee benefits on account of an increase in the number of staff, which has correspondingly resulted in higher supplies and consumables used and there has been a dip in expenses in 2017 on account of lower spending on wages, salaries and employment benefits. Maintenance expenses increased 7 times from TZS 3 billion to TZS 22 billion.

Over the past five years, wages, salaries and employee benefits averaged around 66% of expenses; supplies and consumables, around 14%; depreciation of property, plant and equipment, around 10%; and maintenance expenses, around 8%. The average deficit was 3% of the revenue. It has, however, been increasing over the past five years (TZS 0.9 billion in 2013, TZS 2.5 billion in 2014, TZS 2.8 billion in 2015, TZS 3.3 billion in 2016, and TZS 9.4 billion in 2017).

Figure 16.2: Expenditure categories 2013-2017 (as % of total expenditure)



Source: Discussions held with LGAs

Table 16.2: Summary of expenses over the last 5 years

Year	Expenses (TZS bn)
2013	96
2014	112
2015	128

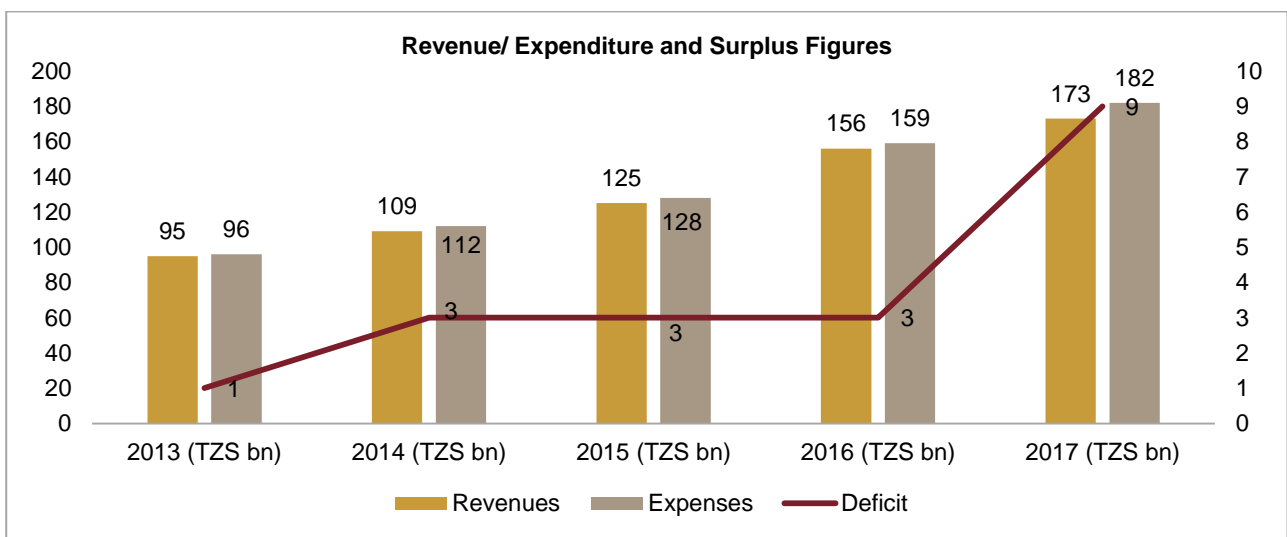
Year	Expenses (TZS bn)
2016	159
2017	182

Source: Discussions held with LGAs

Conclusions

Ilala Municipal Council has current deficits as per the recent income statements. The deficit is around 3% of the revenue. Thus, the financial capability of the municipal council to provide any funding support, in case of any PPP Projects, is highly constrained, and the central government would be required to step in to provide viability gap funding, if required.

Figure 16.3: Revenue, expenditure and deficit figures for last 5 years



Source: Discussions held with LGAs

Table 16.3: Summary of revenues, expenses and surplus/deficit over last 5 years

Year	Revenue (TZS bn)	Expenses (TZS bn)	Deficit (TZS bn)
2013	95	96	1
2014	109	112	3
2015	125	128	3
2016	156	159	3
2017	173	182	9

Source: Discussions held with LGAs

Financial Projections

This section presents Projections for revenue and expenditure as well as the surplus/deficit trends for the next five years. The compounded annual growth rate (CAGR) for the last five years have been considered for future Projections.

- *Revenue, expenditure and surplus Projections* - The revenue and expenditure Projections for next five years has been calculated by extrapolating the revenue and expenditure trends for last five years of the

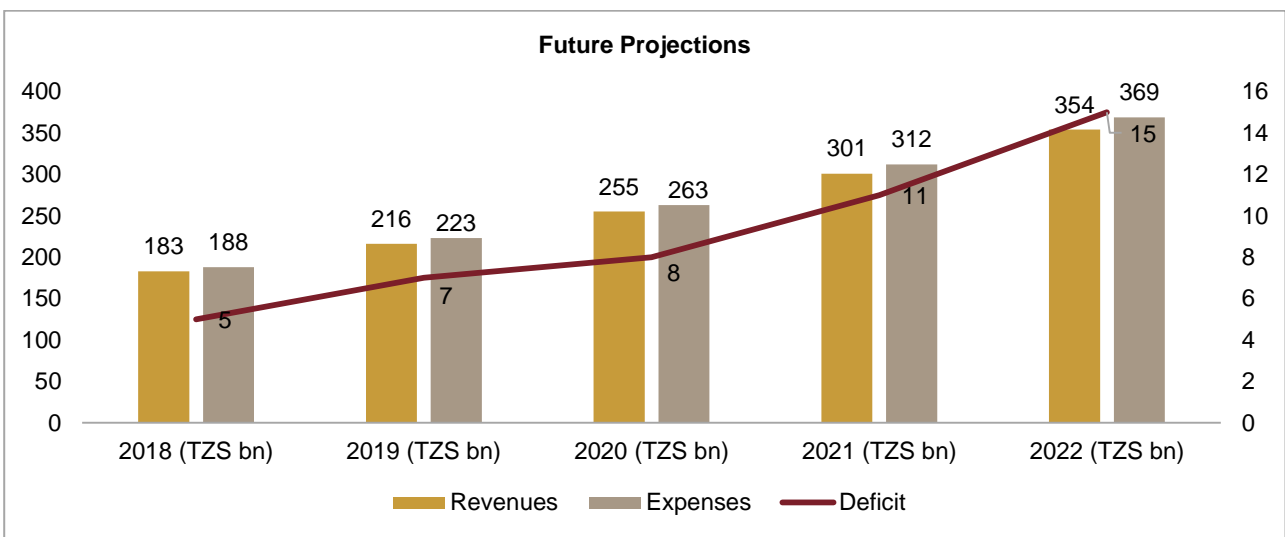
respective LGAs. The surplus/ deficit trends for next five years have been calculated by subtracting the future expenses from the future revenues.

Table 16.4: Future revenue, expense and surplus Projections

LGA	Past CAGR (%)	2018 (TZS bn)	2019 (TZS bn)	2020 (TZS bn)	2021 (TZS bn)	2022 (TZS bn)
Revenue	17.89	183	216	255	301	354
Expense	18.34	188	223	263	312	369
Deficit		5	7	8	11	15

Source: Discussions held with LGAs

Figure 16.4: Future revenue, expense and deficit Projections



Source: Discussions held with LGAs

17. Annexure 9: Institutional review of the IMC



This section provides an overview of the applicable institutional structure, the approach undertaken for institutional review, and the IMC's responses with respect to current institutional capacity, preparedness for PPP Projects, and its capability to execute the PPP Projects in an efficient manner.

Approach for undertaking the institutional review

The Consultant has carried out a comprehensive assessment with the investment committee members of the municipal council. It prepared a detailed questionnaire with specific questions related to assessing the LGA's institutional capability. The frameworks and methodology provided in the World Bank Public-Private Partnerships Screening Tool were utilized to develop the questionnaire. The questions were divided into three major groups:

- *Institutional capacity*
- *Preparedness of the LGA for the PPP Projects; and*
- *Capability of the LGA to execute the Projects in an effective and efficient manner*

The responses provided by the investment team members provided the inputs for preparing a diagnostic report on the institutional capacity of municipal council. This would determine its ability to manage the proposed PPP Projects during the implementation and operational phases.

Table 17.1: Projects under Jurisdiction of IMC

Name of municipal council	Projects under their jurisdiction
Ilala Municipal Council	Ilala municipal market Buguruni municipal market Chanika daladala terminal Vingunguti abattoir

Source: Consultant

Institutional capacity of the IMC

The responses provided by the investment committee members with respect to the institutional capacity are:

Table 17.2: Survey responses with respect to the current institutional capacity

Questions	Response	Consultant comments
PPP focal point within the LGA	Yes	There is a PPP focal point with the IMC
Investment committee within the LGA	Yes	There is an investment committee with the IMC
No of members in the investment committee	Nine	The total number of members = 9
No of members having undertaken past PPP training	One	Members having undergone past training =1
Full time or deputation (part time)	Full time	The team is deployed full time in IMC. However, they have additional responsibilities too

Questions	Response	Consultant comments
Experience of contracting with private sector	No	The LGA does not have past major experience with large and complex procurements
LGA personnel have past experience	No	The past experience is not sufficient to handle larger PPP Projects
Access to transaction advisors and/ or consultants for Project preparation and procurement	No	Don't have budgets or ability to procure consultants/ transaction advisors on their own

Source: Discussions held with LGAs

• **Key findings**

- *Composition of the PPP team:* The IMC has a nine-member investment committee, with six of the nine forming the core PPP team. However, with the investment committee members having their separate full-time responsibilities, membership of the investment committee and PPP team are additional responsibilities. The PPP team does not have a technical expert / engineer and procurement officer.
- *Academic qualifications and training in PPPs:* The members have basic qualifications such as bachelor's or master's degree relevant to their job roles. Thus, it can be said they possess the ability to understand the basics of PPPs. It is understood the LGA, in the past, has not executed any major contracts with the private sector. As such, the team does not have any significant experience or expertise in PPPs. Only one of the six members in the PPP team has undergone any formal PPP training. Therefore, the team will require substantial training in various aspects of PPP Project preparation as the Projects moves forward.
- *Budget constraints:* The IMC's budget has shown a deficit over the previous five years. Therefore, it is reasonable to assume the LGA will not have the budgetary flexibility to ensure adequate funding for a robust PPP Project preparation exercise.

Preparedness of LGAs for PPP Projects

The responses provided by the investment committee members with respect to the preparedness of LGAs for PPP Projects are:

Table 17.3: Survey responses with respect to the current level of preparedness

Questions	Response	Consultant comments
Project plan for PPP Projects with deadlines	No	Currently, they have not identified any specific deadlines. They will be required to create a detailed Project plan for the proposed PPP Projects along with deadlines, which will help them monitor the progress of Projects and seek assistance from the PPP Node when required.
Standard terms of reference for consultants	Yes	Although they mention the availability of generic TORs, they would be required to draft specific functional TORs for transaction advisors, environmental and social, monitoring and evaluation, and contract management.
Undertaken social consultations	Yes	A level of consultations with traders has been undertaken. However, more extensive and formal consultations would be needed to generate consensus on the temporary relocation plan and, thereafter, into the Project plan.

Questions	Response	Consultant comments
Plan to undertake social consultations	NA	The IMC will require assistance in preparing a Project-specific social consultation plan. The municipal council will also require E&S management assistance.
Identified the requirement of connecting infrastructure and utilities	Yes	Through the present study, the LGA has benefited from discussions with Bank staff and consultants. This has led to a better understanding of the infrastructure linkages required for the Projects. However, the LGA has not budgeted for funds for this market which could be used to provide support utilities. Specific planning, preparation and budgeting for all the requirements are needed.
Require land acquisition	No	Since the Project involves redevelopment of existing traders and the temporary relocation site has been identified, the Projects does not require additional land acquisition as we understand. However, there might be some right-of-way requirement for strengthening the road infrastructure and connecting utilities. The LGA would need to plan this separately.
Require resettlement plan	Yes	An outline of the temporary relocation strategy has been prepared. This would need to be transformed into a more detailed temporary resettlement action plan and the LGA will require external technical support.
Cost to be incurred by LGA for Project preparation and engineering studies	No	As mentioned previously, budgets have not been prepared. Hence, it is unlikely they would be made available through LGAs funds as of now.
LGA has budgeted the funds for the same	No	As above
Internal and external stakeholders been identified	Yes	As mentioned previously, an early identification of stakeholders has been undertaken. However, this has been mostly limited to existing traders. There is a need to identify and engage with other key stakeholders such as the residents and other establishments in the surrounding area; government entities dealing with water supply, sewerage, electricity, road improvement, and traffic management; maritime authorities; and other statutory agencies.
Plan to engage with stakeholders	Yes	The LGA manifests a good intent in interacting with the stakeholders. However, a comprehensive and time-bound engagement plan is required.
Any constraints delaying Project implementation	No	While a municipal market PPP has not been undertaken in Tanzania, there are private sector players active in the building construction industry in the country. Private sector players are also active in constructing abattoirs and bus terminals. Thereby, the proposed consortium needs to have construction experience and as well as experience in constructing and operating the market, which will be helpful in managing the Projects
Project management plan to address the issues	No	This would be required moving forward.

Source: Discussions held with LGA

- **Key findings:**

- **Moderate commitment.** The IMC is moderately committed to seeing these Projects implemented. The municipal council has not set aside indicative budgets for some of the activities, such as improvement of drainage systems and access roads.

- *Need for Project planning:* The IMC currently does not have well-defined plans to deal with Project management, stakeholder consultations, and implementing external connectivity for the Project. No specific timelines for the same have been identified.
- *Need for technical assistance:* The IMC will require considerable technical assistance and hand-holding to successfully implement the Project preparation processes. The IMC does not envisage any constraints delaying the Project implementation. It has already consulted the existing traders operating at that site and they are willing to relocate.

Capability of the LGA to execute the Project in an effective and efficient manner

The responses provided by the investment committee members with respect to the capacity of the LGA to execute the PPP Projects in an effective and efficient manner are:

Table 17.4: Survey responses with respect to current capability of executing PPP Projects

Questions	Response	Consultant comments
Average time for procurement	6 months	This is likely to be true for smaller public procurement and not for PPP Projects.
Problems faced in procurement	Yes	Lengthy procurement process and political challenges at time of approval
Past experience of implementing PPP Projects	No	The IMC has no past experience in PPP procurement.
Effective in managing contractual risks	NA	The IMC has no awareness of managing contractual risks owing to a lack of experience in PPP procurement.
Has Project management capability	No	Given lack of experience in implementing large-scale Projects, the Project management capability is limited.
Develop a dedicated Project management unit	Yes	This would be required for both steering the Project preparation process as well as contract management.
Awareness of key contractual risks in the implementation of a PPP	No	Given the lack of experienced personnel in the PPP team, the IMC is unaware of the typical contractual risks which need to be taken care of during implementation of PPPs.
Help of independent consultants for engineering and procurement required	No	The IMC has shown an increasing deficit over the preceding five years as compared with the other LGAs. Thereby, it has not sought the help of independent consultants for engineering and procurement when needed owing to financial constraints.
Hire independent engineers or consultants	No	The IMC's budgetary deficit has increased over the preceding five years as compared with the other LGAs. Thus, it has not hired independent consultants for engineering and procurement when needed on account of financial constraints. The central government should provide for budgetary transfers as operational grants so that the IMC can hire some reputed, recognized consultants for this purpose.
Help of independent consultants for Project management and monitoring required	No	The IMC has not sought the help of independent consultants for management and monitoring when needed as either activities are done in-house. Project management and monitoring is not conducted on a regular basis, which leads to further delays in the completion of Projects.

Questions	Response	Consultant comments
Hire independent consultants to periodically assess Project performance	No	The IMC does not have experience in hiring independent consultants for periodic assessment of Project performance. The central government should provide for budgetary transfers as operational grants so the IMC can hire some reputed, recognized consultants for this purpose.

Source: Discussions held with LGA

- **Key findings:**
 - *Need for dedicated personnel within the LGA:* There should be at least one dedicated person deployed in the LGA, who should be the primary contact point between the PPP and central Project management support teams. This person would be responsible for steering the Project from the LGAs side and look into the overall progress and monitoring of the Project with respect to timelines.
 - *Support from central government to fund hiring of transaction advisors:* The LGA has a current deficit and will not be able to contract transaction advisors on a full-time basis with respect to the Project. Thus, it should estimate the overall budget depending on the amount of work and time required for the transaction advisor and put in a requisition of funds to the central government.

Key recommendations

Based on the survey and discussions with the LGA officials, the Consultant suggests the following actions to strengthen the institutional capacity of the LGA with respect to implementing the PPP Project:

- *Central Project management support (PMS) team:* The LGA needs to be handheld in various aspects of Project preparation. Therefore, we suggest having a central pool of technical, financial, legal, and E&S experts that can be sourced on a part-time basis to meet the specific needs of individual PPP Projects. The central PMS team could report to the PPP Node and could be utilized for assisting all the LGAs on the eight PPP Projects, including those of Ilala.
- *Hiring of transaction advisors:* Given public procurement for small Projects takes close to six months, we envisage procurement on a PPP basis will take longer at one year or more. This is owing to the intricacies and negotiations involved in the PPP procurement process. The central PMS team could provide handholding support to the LGA in terms of drafting agreements
- *Focused training and knowledge sharing:* The PPP team in the LGA would require continued and focused training on Project preparation, procurement and contract management as the PPP Project progresses. The staff should be acquainted with knowledge of the best practices and tools being developed in the World Bank group, so they could benefit from the global repository of knowledge being created by the Bank. It would also help them to exchange ideas and experiences through a knowledge-sharing platform that could be created by the PPP Node for all the LGAs preparing PPPs in Tanzania and in the region.
- *Ensuring continuity of the LGA staff in the PPP unit:* Given the Project preparation and procurement process will be spread over two to three years, it would be beneficial if the LGA staff getting trained continues with the PPP unit for the duration. Frequent staff changes could disrupt the capacity development process.
- *Strengthening the PPP team:* Depending upon the development of a PPP pipeline in the LGA, it is suggested full-time staff or consultants are recruited to be placed in the LGA's PPP team to address technical, financial and Project management issues.
- *Use of tools and applications:* It would be beneficial for the LGA to institute systems and processes to embed the tools and applications developed by the Bank and other development partners, to streamline the PPP lifecycle process relevant for the contracting agencies.

Overall findings:

During the PPP training workshop, it was found the LGAs could not formally describe issues related to technical and financial pre-feasibility of the Projects, such as IRR, DSCR, and WACC. However, they were able to outline the Project needs, revenue and cost profiles in relation to the Project. This indicated there is a heightened awareness of the PPP approach and a general intent to adopt/ explore it. Still, the staff lacks systematic utilisation of the basic concepts of a PPP feasibility. It is likely that similar issues might surge during procurement and contract management activities.

18. Annexure 10: Social due diligence by World Bank



Buguruni market is an old market, like the Ilala market. It is located in Buguruni ward, Ilala municipal council, in Dar es Salaam. The market, owned by the IMC, is spread over 1.58 acres. According to the IMC investment team coordinator, the council is processing the acquisition of a title deed after completing the survey. As per current estimates, the market serves about 3,500 traders, 500 to 800 of whom operate outside the market.

The Buguruni market is organized into 23 categories (units), based on the type of commodities sold. The commodities sold include vegetables, coconuts, bananas, meat, chicken, cassava, different types of cereal grains, watermelons, etc. Also, the market is surrounded by shops selling a variety of home groceries, butchers, pharmacies, etc.

In terms of administration, there are two parallel administration units at Buguruni market that work together and represent different interests. The first administration unit represents the IMC and constitutes the market manager, market environmental officer, accountant, security guards and revenue collectors. The second administration unit constitutes leaders representing all the traders in the market and includes the market chairperson, deputy market chairperson, market secretary, deputy market secretary and market treasurer. Also, the Buguruni Market has a board formed by five people.

A field visit revealed that the Buguruni market is in poor condition. The market faces a number of challenges such as a lack of working space and poor sanitation, parking space, storage facilities, fence, market infrastructure and offices. This compromises the daily functioning of the market, let alone revenue generation. During the site visit, a substantial number of traders were seen selling commodities on the floor, both inside and outside the market area. Also, a large quantity of fruits and other perishable goods were discarded due to a lack of cold rooms and good storage facilities.

The upcoming market Project proposes the construction of trading spaces, retails shops, parking spaces, and market supporting facilities (storage spaces, common toilets, electric sub-station, drainage network, solid waste collection huts, etc.) These structures will be confined to the existing market land and hence, no land expansion is required. According to the Ilala municipal engineer, the construction will take 18 months and necessitate the temporary relocation of traders. Such a situation will lead to the loss of business and livelihoods of around 3,500 traders who are currently using the market. In addition, the Project will affect 43 privately-owned structures within and outside the market area which will require compensation.

The Buguruni market traders largely support the modernization effort and agree that the market is in poor condition. However, they have concerns on what would happen during and after the construction period as their livelihoods depended on market activities- from paying childrens' schools fees to servicing outstanding loans.

The IMC investment coordinator reported that the same arrangement used in the case of Ilala Market will be used to accommodate affected traders in Buguruni market. During the construction period, these traders will be temporarily shifted to the Tabata, Kinyerezi, Kigogo Fresh, Mchikichini, and Kilwa markets. Also, current users will receive first priority in space allocation in Buguruni market once construction is completed.

In order to check the current conditions of some proposed markets where traders would be temporarily relocated, three markets, namely Kinyerezi, Zimbili, and Kibaga markets in Kinyerezi ward were visited. The field visit revealed that all three sites had abundant space. The Kinyerezi market is occasionally used as an auction site, while Zimbili and Kibaga are greenfields earmarked for markets.

It should be noted that while this arrangement by IMC is desirable and will work for the majority of traders, it will not accommodate some business. Such businesses include pharmacies and butchers which might need different arrangements. Also, traders at Buguruni market preferred being relocated temporarily to the relatively closer SUKITA area.

Potential impact

The construction of the Buguruni market will have the following impact:

- *Temporary relocation of existing traders:* Temporary loss of business and livelihood of around 3,300 traders following temporary relocation to pave the way for construction
- *Possible conflict between IMC and relocated traders:* Potential for conflict between traders and IMC in the absence of thorough consultations on temporary relocations, the subsequent return of traders to Buguruni market and the slot allocation process
- *Other traders occupying the space of relocated traders:* Influx of traders in destination markets that would be proposed for relocation of traders from Buguruni market.
- *Possible conflict between existing traders in host markets and relocated traders:* Potential conflict between the traders from Buguruni market and traders in host markets

Recommendations

The client will need to put the following in place before the commencement of construction:

- *Prepare stakeholder consultations and engagement plan (SCEP):* Prepare an SCEP and communicate it to the bank. The SCEP is very important, especially to inform people about the Project
- *Prepare a resettlement action plan (RAP):* As part of the RAP, conduct a social economic baseline survey and generate baseline data for all traders at Buguruni market. The baseline data can be used to geo-reference traders with existing trading spaces, personal information, and the type of business a trader is engaged in. This data should be gathered based on business categories. Detail the process of temporary relocation and compensation for traders for the temporary loss of income due to relocation, register all the traders interested in returning to the market following the upgrade, and assign designated slots to these traders
- *Assess the current capacity of near, proposed markets:* Carry out a detailed assessment of the current capacity of all the proposed markets where traders from Buguruni market are expected to be temporarily hosted, and share the report with the bank. In choosing host markets, traders to be consulted.
- *Provide traders with written assurances:* Traders to receive written assurances regarding placement in the newly-constructed market on a priority basis, following the registration information included in the data base
- *Conduct sensitization meetings:* Undertake sensitization meetings for traders from Buguruni market and host markets. This will go hand in hand with the preparation of a code of conduct to guide working relations in host markets



19. Annexure 11: Project screening tool values

The Project screening tool (PST) is an Excel-based tool that screens Projects to determine their potential suitability for PPP procurement. It has been developed by the World Bank Group Infrastructure, Public-Private Partnerships and Guarantees (IPG), in partnership with the Global Infrastructure Hub (GIH). The PST evaluates a Project on six parameters viz. strategic suitability, preliminary feasibility, risk assessment, PPP suitability, fiscal affordability and institutional capacity. The PST contains structured questions detailing each of the parameters. The tool helps to identify the deficiencies in the Project, suggest areas for improvement and reach an overall conclusion on the suitability of the Project for PPP.

Buguruni municipal market scores 3.5 on a maximum score of 5.0 on the six parameters presented in the PST, driven by the following factors The municipal market has a strong case for its strategic suitability and preliminary feasibility, with high demand from traders driving high occupancy levels of market stalls within the market. The market facility's multiple revenue sources like daily fees from traders, washroom fees, parking fees, advertisement revenue, etc. will make the Project viable as user charges are adequate to cover capex and opex. However, the Project involves a temporary relocation of ~3,300 traders for three years, and faces slightly higher risks in terms of Project execution and implementation, resulting in a low level of PPP suitability. The institutional capability is also limited as IMC has yet to execute any PPP Project.

Table 19.1: PST score based on various parameters

Name of Project	Strategic Suitability (10%)	Preliminary Feasibility (30%)	Risk Assessment (20%)	PPP Suitability (20%)	Fiscal Affordability (10%)	Institutional Capability (10%)	Total Score (100%)
Buguruni municipal market	5.0	4.7	2.5	2.0	5.0	2.0	3.5

Table 19.2: PST evaluation based on various parameters

Parameters	Questions	Final pre-feasibility
Strategic Suitability	Is there a consensus on users' and stakeholders' expectations from the Project?	Yes
	Does the technical solution clearly address the service need in a cost-effective and affordable manner?	Yes
	Is the user base identified for the Project in terms users, geography, growth trends etc.?	Yes
Preliminary Feasibility	Are the life cycle costs for major components of the Project - reasonable and affordable?	Yes
	Will the completed Project likely to be carbon neutral or net carbon negative, in terms of GHG emissions?	No
	Is there a reliable initial social analysis related to the Project?	Yes
	Is the Project likely to be socially sustainable or have manageable social impacts?	Yes
	Is there support for the Project from affected communities and key stakeholders?	Yes
	Will the identified social management strategy, or its related approvals, result in uncertainties or delays that could impede the Project implementation?	Yes
	Is the Economic Rate of Return likely to be higher than the threshold ERR requirements of the government?	Yes
	Is there a preliminary financial analysis based on assessment of net present value or internal rate of return of Project's cash flows?	Yes
	Are the demand or volume Projections backed by surveys or demand forecasting models using reliable historical data?	Yes
	Are the financing assumptions comparable to similar Projects? Such as, the debt-to-equity ratio, interest rate and tenure of debt, and cost of equity.	Yes
Risk Assessment	Have similar PPP Projects achieved financial close in the country or region?	No
	Are there financiers who will be, or have expressed interest in the PPP?	Skip
	Will there be independent reviews of designs, monitoring of construction progress and oversight during testing and commissioning phases?	Yes
	Will the PPP have a ready baseline of demand or offtake that has been well established either through historical data or through firm off-take commitments or through an exclusivity of service area?	Yes

Parameters	Questions	Final pre-feasibility
	Are costs of mitigating the environmental and social impacts of the Project considered in the PPP?	No
PPP Suitability	Are the modeling assumptions backed by historical or empirical data?	Yes
	Is the VFM for the Project greater than the threshold VFM requirement?	Yes
	Will the VFM for the Project remain greater than the threshold rate in case of stress (or low) case scenario?	Yes
	Is there a favourable response expected from the private sector towards the Project? For example, as gauged by the contracting agency through preliminary market consultations or similar investor interactions.	Skip
	Have similar PPP Projects been successfully implemented in the past in the country or in the region?	No
	Is the Project eligible for government funding support?	No
	Is the Project eligible for funding/ guarantees from multilateral/ donor agencies?	No
Institutional Capability	Does the proposal have a Project plan on the next stages of the Project with identified deadlines and responsibilities allocated?	No
	Has the contracting agency budgeted funds, or does it have access to funds, to complete Project preparation? This includes the costs of preparing required studies, securing land, resettlement costs, and environmental and social impact cost mitigation.	No
	Does the Project plan incorporate a strategic communications plan to engage with internal and external stakeholders of the Project during the next stages of the Project?	No
	Has the contracting agency been effective in managing key contractual risks and monitoring performance of PPP Projects during their operations phase?	Skip
	Will the contracting agency insist on Project level disclosure to the public in relation to Project's performance and in meeting contractual obligations from time to time?	Skip



20. Annexure 12: Conceptual drawings of the market

Figure 20.1: 3D view of the proposed Buguruni market

The picture underneath presents the 3D view of the proposed Buguruni Municipal market in the Ilala ward. The Project building would be a three storied structure with large and small stalls for traders, bulk storage units, an administration office and washroom facility for both traders and customers. There will be dedicated parking area for cars at front and cargo trucks at rear of the building. The market facility will be surrounded by the compound wall.

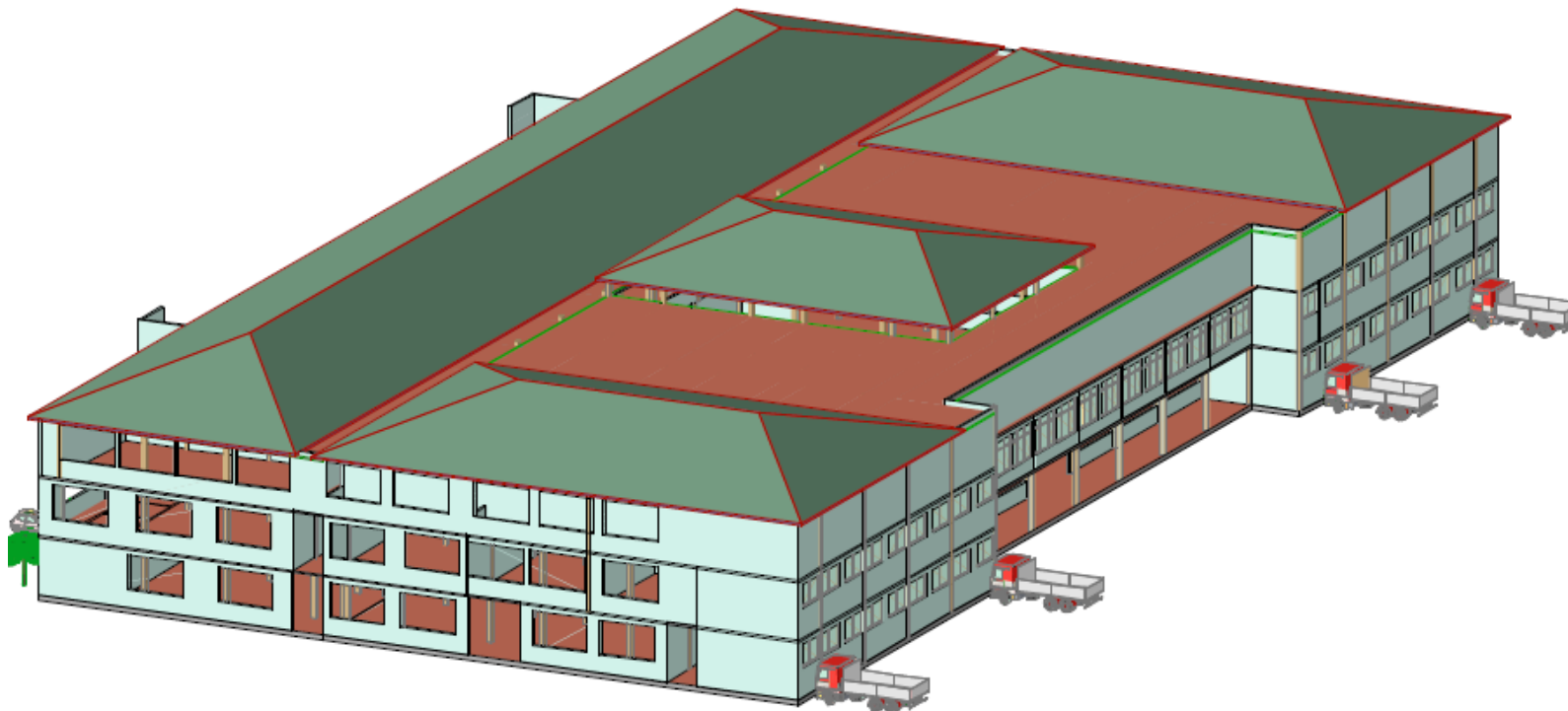
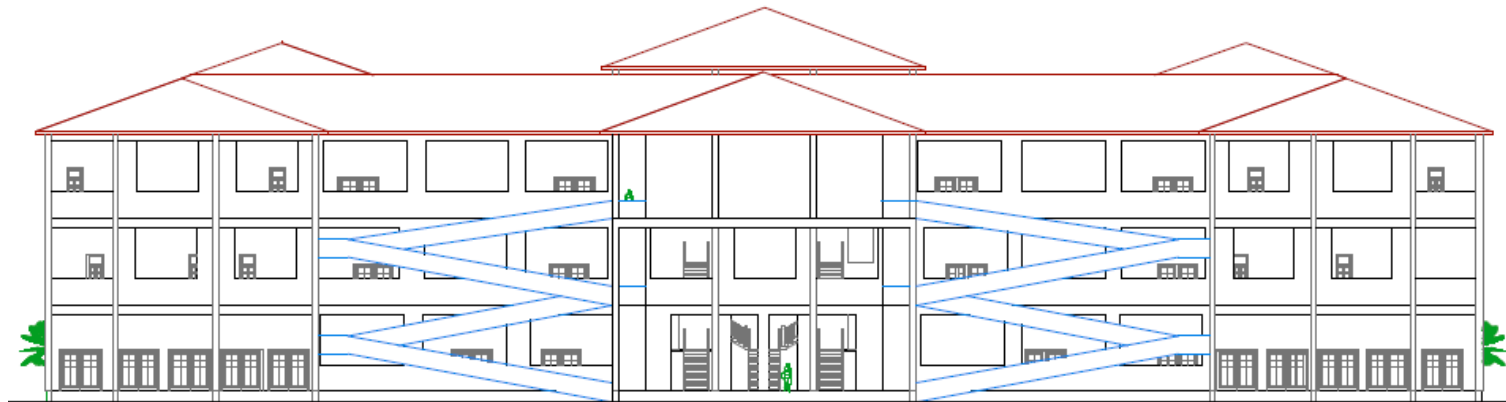


Figure 20.2: Front and rear elevation of the proposed market

The picture underneath showcases the front and rear elevation of the proposed Project facility. It will be a three floor market (ground floor, first floor and second floor). There would be provision of stairs, ramps and service lifts for the traders to move to the goods to the higher floors. The car parking would be available at the front end, while the cargo trucks would be stationed at rear end of the municipal market.



ELEVATION 3



ELEVATION 1

Figure 20.3: Side elevation of the proposed market

The picture underneath showcases the side elevations of the proposed Project facility. The customer vehicles would be tentatively on parked at the front end of the market. Adequate number of windows would facilitate sufficient ventilation.



Figure 20.4: Ground floor plan of the proposed Buguruni market

The picture underneath showcases the ground floor plan of the proposed Project facility. The ground floor of the market will have a mixture of large and small traders who would be operating out of it. The small and large traders would be judiciously placed on all the three floors. There would be connecting stairs from the ground floor to the first floor and second floor. Lifts would be installed in the market complex facility. Adequate number of shower rooms and washrooms would be also be provided.



Figure 20.5: First floor plan of the proposed Buguruni market

The picture underneath showcases the first floor plan of the proposed Project facility. The first floor of the market will be connected with the upper and lower floor of the market via staircases and ramps. The first floor would be occupied by mix of small and large traders mainly selling non-perishable goods. Adequate number of shower rooms and washrooms would be also be provided.

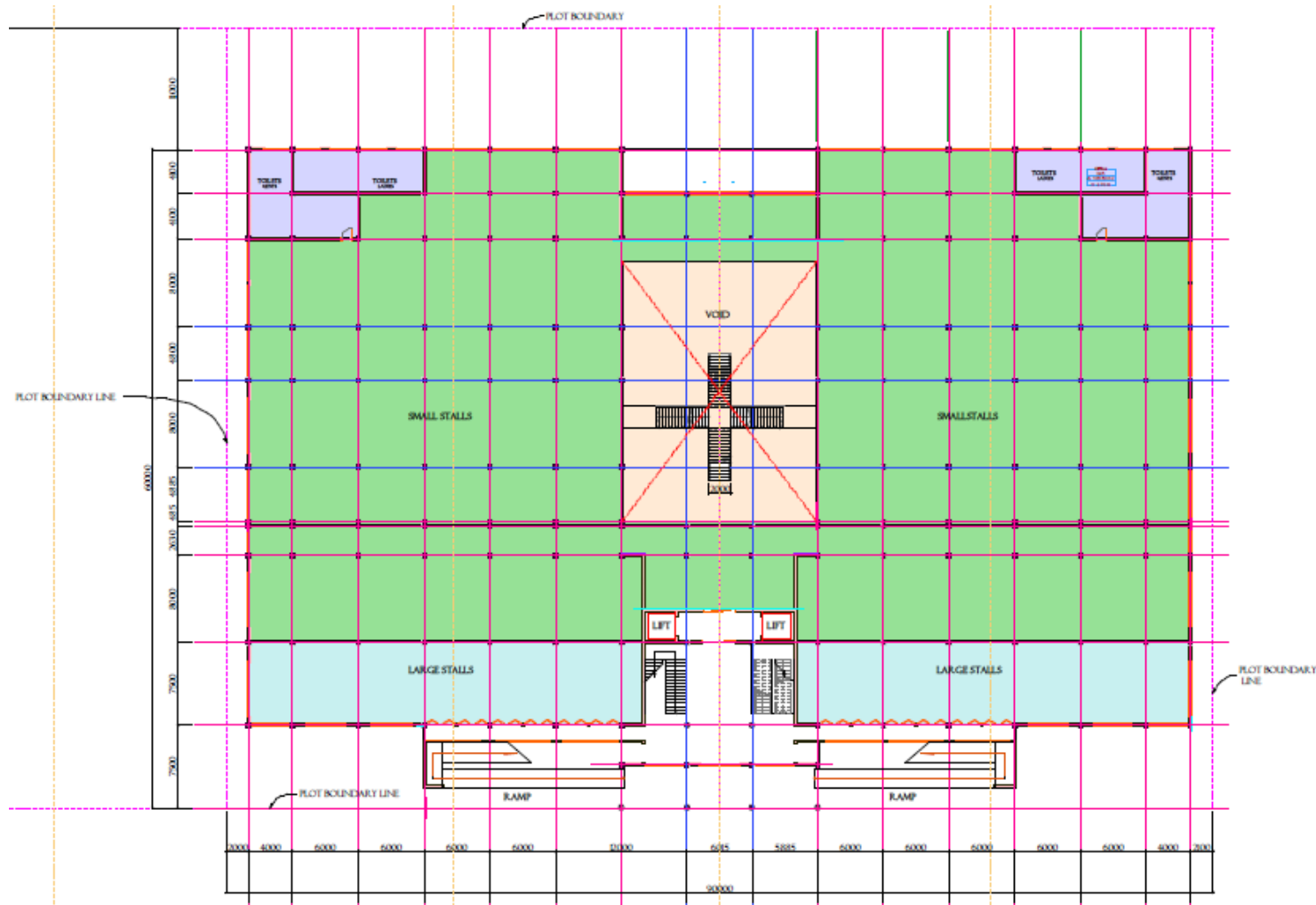
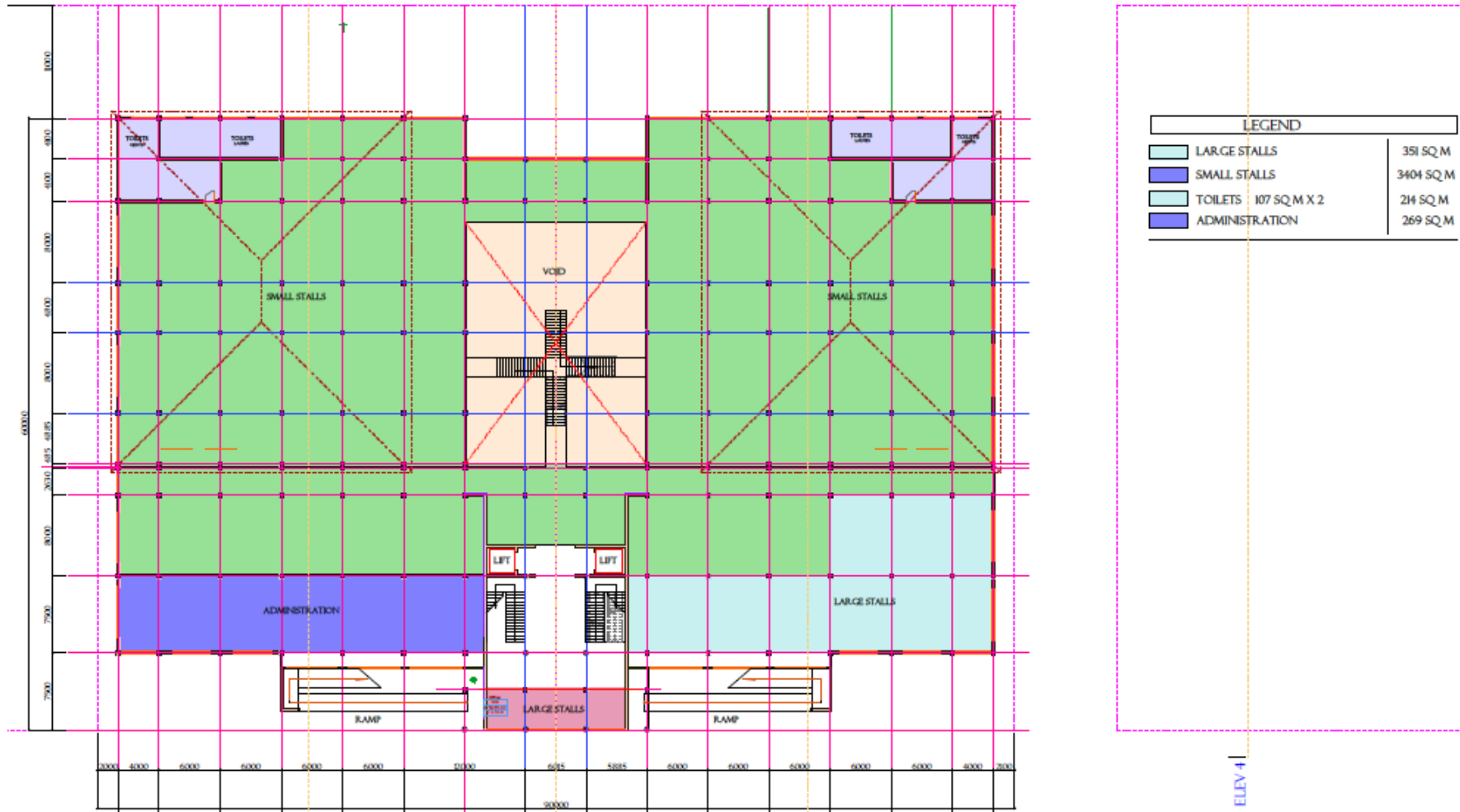


Figure 20.6: Second floor plan of the proposed Buguruni market

The second floor of the market will be connected with the upper and lower floor of the market via staircases and ramps. The second floor would mainly be occupied by mix of small and large traders mainly selling non-perishable goods. There will also be provision of two bulk storage units on this floor. Adequate number of shower rooms and wash rooms would be also be provided.



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CRISIL Risk and Infrastructure Solutions Limited (A subsidiary of CRISIL Limited)

CRISIL House, Central Avenue, Hiranandani Business Park, Powai, Mumbai – 400076. India

Phone: + 91 22 3342 3000 | Fax: + 91 22 3342 3001 | www.crisil.com

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